5 PRINCIPLES OF ACCOUNTS – PAPER 02 – GENERAL PROFICIENCY – MAY/JUNE 2012

Section I

1 (a)

Heavy Metal Enterprises
Corrected Trial Balance as at 31 December 2011

	Dr	Cr
	$	**$**
Bank Overdraft		*26,500*
Cash on hand	3,200	
Provision for bad debts		8,200
Bad debts	*5,000*	
Accounts receivable	*49,100*	
Accounts payable		54,200
Long-term loan		75,000
Carriage inwards	*3,600*	
Carriage outwards	4,500	
Commissions received		*6,200*
Rent paid	*12,000*	
Equipment at cost	90,000	
Accumulated depreciation (equipment)		*30,500*
Motor vehicle at cost	*68,000*	
Accumulated depreciation (motor vehicle)		*15,400*
Salaries	40,000	
Inventory	16,800	
Purchases	*74,600*	
Sales		*125,000*
Miscellaneous expenses	36,400	
Returns outwards		*3,600*
Returns inwards	2,800	
Capital (406,000 – 344,600)		*61,400*
	406,000	406,000

Note:

- The italic accounts show the corrections.
- The new/correct capital figure is the difference between the debit and credit columns after all corrections are made.
- Remember to show the new corrected totals as well.

(13 marks)

(b) (i) **Hint:** Look for wherever U. Plumber's name appears in the information given.

U. Plumber Account

2011		$	2011		$
Sept 1	Sales	7,200	Sept 3	Returns inwards	1,000
20	Sales	1,396	4	Discounts allowed	100
			4	Bank	5,100
			30	Balance c/d	2,396
		8,596			8,596
Oct 1	Balance b/d	2,396			

Note:

- Transactions in the account must be shown in chronological order.
- Sales are taken from the Sales Day Book.
- Returns inwards are taken from the Returns Inwards Day Book.
- Discounts allowed and the cheque paid by U. Plumber is taken from the debit side of the Cash Book.

(3 marks)

(ii) Information available to prepare the Debtors Control Account:

1. Credit sales for the month (total of Sales Day Book).
2. Returns inwards for the month (total of Returns Inwards Day Book).
3. Total discounts allowed given to debtors for the month (total of the discounts allowed column in the Cash Book; appears on the *debit* side).
4. Total of the cash and cheques received from debtors for the month (obtained from the *debit* side of the Cash Book = $5,100 + $6,040 = $11,140).

General Ledger
Debtors Control Account

2011		$	2011		$
Sept 30	Sales	14,846	Sept 30	Returns inwards	2,950
			30	Discounts allowed	160
			30	Bank	11,140
			30	Balances c/d	596
		14,846			14,846
Oct 1	Balances b/d	596			

Sales Account

			2011		$
			Sept 30	Total credit sales for the month	14,846

Note: Figure taken from the total of the Sales Day Book.

Returns Inwards Day Book

2011		$			
Sept 30	Total returns for the month	2,950			

Note: Figure taken from the total of the Returns Inwards Day Book.

(4 marks)

(Total 20 marks)

2 **(a)** (i)

JJ's Paradise
General Journal

Date	Details	Dr	Cr
2010		$	$
Dec 31	Bad Debts Expense	4,900	
	Nat Lewis		850
	Jeb Steven		3,600
	Anna Tomas		450
	To record: Debts written off as bad		

(7 marks)

(ii)

General Journal

Date	Details	Dr	Cr
2010		**$**	**$**
Dec 31	Profit and Loss	2,832	
	Provision for Doubtful Debts		2,832
	To record: The creation of the provision for doubtful debts account		

Note: The provision is calculated as 10% of $28,320.

(4 marks)

(iii)

Year	Accounts Receivable	Provision for Doubtful Debts (10% of Receivables)	Change in Provision (Between Years)	Treatment in Provision
2010	$28,320	$2,832	–	Credit the provision with the full amount of the provision calculated as it is the first year created
2011	$25,000	$2,500	Decrease of $332 (2,832 – 2,500)	Debit the provision with the decrease

Provision for Doubtful Debts Account

2010		**$**	**2010**		**$**
Dec 31	Balance c/d	2,832	Dec 31	Profit and Loss	2,832
2011			**2011**		
Dec 31	Profit and Loss	332	Jan 1	Balance b/d	2,832
31	Balance c/d	2,500			
		2,832			2,832
			2012		
			Jan 1	Balance b/d	2,500

(5 marks)

(b) (i) Adjustments are made to financial statements to ensure that income, expense, asset and liability accounts are shown at their true values.

(1 mark)

(ii) One concept which guides adjustments to financial statements is the *prudence concept.*

(1 mark)

(iii) The *prudence concept* advocates that accountants should take the figure that will understate rather than overstate profit. As such, anticipated losses should be recorded, but profits should not be recorded until they are realised. An example of this is the calculation of the provision for doubtful debts, which reduces the debtors figure in the balance sheet to reflect what debtors may actually pay in the upcoming period.

(2 marks)

(Total 20 marks)

3 **(a)** (i)

V. Cheeseman
General Journal

Date	Details	Dr	Cr
2011		$	$
Aug 31	Bank	27	
	Purchases		27
31	Suspense	467	
	Bank		467
31	Bank	580	
	C. Samnah		580

(7 marks)

Note: Error 1:

- Bank is debited (increases Bank) as the error caused Bank to be understated.
- Purchases is credited (reduces Purchases) as the error caused Purchases to be overstated.

Error 2:

- The Suspense Account is debited as the error affects the trial balance agreement (the initial double entry was incomplete).
- Bank is credited to complete the initial double entry, reflecting the payment to the creditor.

Error 3:

- The error involved a complete reversal of entries.
- To correct the error, Bank now has to be debited and C. Samnah's Account credited with $580.
- The initial amount of $290 is doubled. The first $290 removes the error (which appears on the opposite side of the account) and the second $290 records the amount on the correct side of the account.

(ii)

**Corrected Summarised Cash Book (bank columns only)
for the month ended 31 August 2011**

		$
Opening Balance		2,570
Add:	Purchases	27
	Credit to C. Samnah's account	580
		3,177
Less: Suspense figure		467
Closing Balance		2,710

Item	Will Appear In:	Used to:
Bank charges	Bank Statement	Update Cash Book (Credit)
Standing Order for vehicle insurance	Bank Statement	Update Cash Book (Credit)
Cheque dated 30th August 2010 sent to supplier (Unpresented Cheque)	Cash Book	Prepare Bank Reconciliation Statement
Cheque returned stamped 'Insufficient Funds' (i.e. dishonoured cheque)	Bank Statement	Update Cash Book (Credit)
Direct deposits from debtors	Bank Statement	Update Cash Book (Debit)
Deposit to bank on 31 August 2011 (Bank lodgements not credited)	Cash Book	Prepare Bank Reconciliation Statement

(4 marks)

(b) (i)

Cash Book

2011		$	2011		$
Aug 31	Balance	2,710	Aug 31	Bank charges	120
31	Debtors		31	Vehicle insurance	
	(Direct deposits)	4,500		(Standing order)	600
			31	Dishonoured cheque	390
			31	Balance c/d	6,100
		7,210			7,210
Sept 1	Balance b/d	6,100			

(5 marks)

(ii)

V. Cheeseman
Bank Reconciliation Statement as at 31st August 2011

	$
Updated Cash Book balance	6,100
Add: Unpresented cheques	570
	6,670
Less: Bank lodgements not credited	(990)
Balance as per bank statement	5,680

(3 marks)

(Total 20 marks)

Section II

4 **(a)** (i)

PG Enterprises
General Journal

Date	Details	Dr	Cr
2012		$	$
May 1	Equipment	14,000	
	Inventory	12,600	
	Receivables	3,400	
	Cash	10,000	
	Tools	1,800	
	Payables		6,000
	Bank overdraft		5,800
	Capital		30,000
	To record: P's contribution of assets, liabilities and capital to the partnership		
1	Motor vehicle	8,000	
	Stationery	700	
	Premises	60,000	
	Cash	1,300	
	Mortgage		34,000
	Capital		36,000
	To record: G's contribution of assets, liabilities and capital to the partnership		

Note: The capital figure for each partner will be the difference between the assets and liabilities each contributed.

(7 marks)

(ii)

PG Enterprises
Balance Sheet as at 1 May 2012

Fixed Assets	**$**	**$**	**$**
Premises			60,000
Motor Vehicles			8,000
Equipment			14,000
Tools			1,800
			83,800
Current Assets			
Inventory	12,600		
Stationery	700		
Receivables	3,400		
Cash ($10,000+ $1,300)	11,300	28,000	
Less: **Current Liabilities**			
Payables	6,000		
Bank Overdraft	5,800	(11,800)	
Working Capital			16,200
			100,000
Less: **Long-Term Liabilities**			
Mortgage			(34,000)
			66,000
Financed By:			
Capital			
P			30,000
G			36,000
			66,000

(7 marks)

(b) (i) The capital sharing ratio will be:
P : G → $30,000 : $36,000
5 : 6

Share of profit:
- $P = 5/11 \times \$99,000 = \$45,000$
- $G = 6/11 \times \$99,000 = \$54,000$

(2 marks)

(ii) Share of profit using the ratio 3 : 7 (P : G)
- $P = 3/10 \times \$99,000 = \$29,700$
- $G = 7/10 \times \$99,000 = \$69,300$

(2 marks)

(c) Other features to be included in the partnership agreement:
- Salaries to be paid to partners
- Capital to be contributed by each partner

(2 marks)

(Total 20 marks)

5 **(a)** (i) *Limited liability* means that an owner is only liable for the business's debts up to the amount he has invested.

(ii) The *Board of Directors* is appointed by the shareholders to manage/run the company on their behalf.

(iii) This means that the Registrar of Companies has received the *Memorandum of Association* and the *Articles of Association.*

(3 marks)

(b) Note:
- Balances at 1 April 2011 are the issued share capital and debentures.
- The remaining shares available for sale = Authorized Capital – Capital already issued
  (i) Ordinary Shares available = 200,000 – 165,000 = 35,000 shares
  (ii) Preference Share available = 100,000 – 83,000 = 17,000 shares
- The *new* Ordinary Shares are issued at $1.50/share, above the par value of $1/share. As such, a *share premium* of $0.50/share is earned.
- The *new* Preference Shares are issued at their par value of $1/share.

Aries Limited
General Journal

Date	Details	Dr	Cr
2011		$	$
Apr 1	Cash	52,500	
	Ordinary Share Capital (35,000 shares × $1/share)		35,000
	Share Premium (35,000 shares × $0.50/share)		17,500
1	Cash	17,000	
	Preference Share Capital (17,000 shares × $1/share)		17,000
1	10% Debentures	21,000	
	Cash		21,000

(10 marks)

(c)

Aries Limited
Appropriation Account for the year ended 31 May 2011

	$	$
Profit before interest on debentures		90,000
Less: Debenture interest ((10% of $20,000)		(2,000)
Net Profit		88,000
Add: Retained earnings b/f		40,100
		128,100
Less: Appropriations		
Transfer to General Reserve	51,500	
Proposed Dividends:		
Preference Shares (8% of 100,000)	8,000	
Ordinary Shares (12% of 200,000)	24,000	(83,500)
Retained earnings c/f to next year		44,600

(7 marks)

Note:

- Remaining debentures = $41,000 – $21,000 = $20,000
- The 10% *in front* of the word 'Debentures' is the *Rate of Interest* to be paid on Debentures.
- *All* authorised share capital has now been issued. Therefore, dividends will be calculated on the value of *all* the authorised capital.
- Ordinary Shares = 200,000 shares × $1/share
- Preference Shares = 100,000 shares × $1/share
- The 8% *in front* of the words 'Preference Shares' is the *Rate of Dividend* to be paid on the Preference Shares.

(Total 20 marks)

6 **(a)** Note:

- Transportation cost on materials (i.e. Carriage Inwards) = $1,000
- Transportation cost on:
  - Direct materials = 90% of $1,000 = $900
  - Indirect materials = 10% of $1,000 = $100

(i) Cost of direct materials consumed (using only costs related to direct materials)

= Opening Inventory + Purchases + Transportation Cost – Returns Outwards – Closing Inventory

= $6,500 + $70,100 + $900 – $2,500 – $8,000

= $67,000

(4 marks)

(ii) Cost of indirect materials used (using only costs related to indirect materials)

= Opening Inventory + Purchases + Transportation Cost

= $400 + $6,200 + $100

= $6,700

(3 marks)

(b)

Simon Long
Manufacturing Account for the year ended 31 December 2011

	$	$
Cost of direct material consumed		67,000
Direct labour (factory wages)		59,000
Direct expenses		6,800
Prime cost		132,800
Factory overheads		
Cost of indirect materials used	6,700	
Supervisors' salaries	12,600	
Factory power	5,700	
General factory expenses	13,000	
Annual depreciation: Factory equipment and building	3,500	41,500
		174,300
Add: Opening Work-in-Progress		12,500
		186,800
Less: Closing Work-in-Progress		(15,100)
Total Cost of production		171,700

(11 marks)

(c) Cost of goods sold

= Opening Inventory of Finished Goods + Total Cost of Production – Closing Inventory of Finished Goods

= $45,000 + $171,700 – $38,400

= $178,300

(2 marks)

(Total 20 marks)

7 (a)

Liontown Co-operative
Income Statement for the year ended 31 December 2010

	$
Sales	70,000
Less: Cost of sales	(38,000)
Gross Profit	32,000
Less: Expenses	(21,000)
Surplus	11,000

Liontown Co-operative
Appropriation Account for the year ended 31 December 2010

	$	$
Surplus		11,000
Less: Appropriations		
Proposed dividends (55,000 shares × $0.10)	5,500	
Transfer to Members' Education Fund ($11,000 – $5,500)	5,500	(11,000)
Undistributed surplus c/f to next year		0

Note: The transfer to the Member's Education Fund
= the surplus $11,000 – proposed dividends $5,500 = $5,500
(as the remainder is transferred)

(6 marks)

(b) (i) a) In the first year Liontown would have been classified as a production co-operative as it is providing goods to the public.

b) In the second year Liontown would have been classified as a service co-operative as it was providing credit facilities to its members.

(ii) One committee which Liontown is likely to use to carry out its business could be a Credit Assessment Committee.

(iii) The Members' Education Fund could be used to fund the training and further education of its members.

(4 marks)

(c) Note: Undistributed profits for the year ended 31 December 2011

= Surplus for the year – (Transfer to Members' Education Fund + Proposed Dividends)

= $157,500 – ($32,600 + $27,500)

= $97,400

Liontown Co-operative
Balance Sheet as at 31 December 2011

Fixed Assets	**$**	**$**	**$**
Equipment			40,000
Portable stalls			4,500
			44,500
Loans to Members			120,300
Current Assets			
Inventory	29,300		
Accrued revenue (Interest)	2,100		
Bank	126,400	157,800	
Less: **Current Liabilities**			
Creditors	4,600		
Proposed dividends	27,500	32,100	
Working Capital			125,700
			290,500
Less: **Long-Term Liabilities**			
Loan (from Co-operative Union Bank)			(100,000)
			190,500
Financed By:			
Share Capital			55,000
Reserves			
Members' Education Fund (5,500 + 32,600)		38,100	
Undistributed profits		97,400	135,500
			190,500

(10 marks)

(Total 20 marks)