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0452/23

October/November 2019

1 hour 45 minutes

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

DO **NOT** WRITE IN ANY BARCODES.

You may use a calculator.

The businesses mentioned in this Question Paper are fictitious.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **21** printed pages and **3** blank pages.

- 1 Sophie employs a book-keeper to maintain her accounting records. The book-keeper was taken ill and was unable to complete the accounting records for August 2019.

The entries the book-keeper made in the cash book for August 2019 are shown on the opposite page.

The following transactions took place on 31 August 2019.

- 1 Received a cheque from Jason to settle his debt of \$550 after deducting 2% cash discount.
- 2 Paid a cheque to Ellie for \$858 to settle her account after deducting 2½% cash discount.

Sophie received her bank statement for August and compared it with her cash book.

The following items appeared on the bank statement but had not been recorded in Sophie's accounting records.

	\$
Bank charges	53
Cheque received from Jack on 17 August dishonoured	156
Payment of insurance by direct debit	50
A credit customer, Bella, had paid her account by credit transfer	260

REQUIRED

- (a) Complete Sophie's cash book on the page opposite.

Balance the cash book and bring down the balances on 1 September 2019.

[9]

Sophie
Cash Book

Date	Details	Discount allowed \$	Cash \$	Bank \$	Date	Details	Discount received \$	Cash \$	Bank \$
2019					2019				
Aug 1	Balance		250		Aug 1	Balance			4010
17	Jack			156	2	Petty cash		94	
24	Sales		3820		30	Bank		2000	
29	Capital			5000					
30	Cash			2000					
.....									
.....									
.....									
.....									
.....									

- (b) State the meaning of the balance in the bank column in the cash book on 1 August 2019.

..... [1]

- (c) State the meaning of the entry made in the cash book on 2 August 2019.

.....
 [1]

- (d) Explain the entries made in the cash book on 30 August 2019.

.....

 [2]

The bank had not recorded transactions entered in the cash book on 30 August and 31 August 2019.

REQUIRED

- (e) Prepare a bank reconciliation statement for Sophie at 31 August 2019 to determine the balance on the bank statement.

Sophie
 Bank Reconciliation Statement at 31 August 2019

.....

 [5]

- (f) State **two** reasons for preparing a bank reconciliation statement.

1

 2
 [2]

Sophie's ledger is divided into three: the sales ledger, the purchases ledger and the nominal (general) ledger.

REQUIRED

- (g) (i) Identify **one** transaction recorded in Sophie's cash book which would also be recorded in the sales ledger.

..... [1]

- (ii) Identify **one** transaction recorded in Sophie's cash book which would also be recorded in the purchases ledger.

..... [1]

- (iii) Identify **two** transactions recorded in Sophie's cash book which would also be recorded in the nominal (general) ledger.

1

2 [2]

[Total: 24]

- 2 The financial year of CS Limited ends on 30 September.

The following information is available for the year ended 30 September 2019.

- 1 The final ordinary share dividend of \$6000 for the year ended 30 September 2018 was paid on 1 December 2018.
- 2 The profit for the year ended 30 September 2019 was \$15000.
- 3 On 30 September 2019 a transfer of \$5000 was made to general reserve.

REQUIRED

- (a) Complete the statement of changes in equity for the year ended 30 September 2019.

CS Limited
Statement of Changes in Equity for the year ended 30 September 2019

Details	Share capital \$	General reserve \$	Retained earnings \$	Total \$
On 1 October 2018	150 000	7 000	16 000	173 000
.....				
.....				
.....				
On 30 September 2019				

[4]

The following information is available at 30 September 2019.

	\$
Non-current assets at cost	
Premises	172 000
Machinery	38 000
Fixtures and fittings	19 500
Provisions for depreciation of non-current assets	
Machinery	13 680
Fixtures and fittings	3 900
Inventory	14 360
Trade payables	14 866
Trade receivables	16 800
Other payables	198
Other receivables	110
Provision for doubtful debts	504
Petty cash	200
Bank overdraft	10 822
5% Debentures (repayable 1 October 2030)	25 000
Bank loan (repayable 1 April 2020)	10 000

REQUIRED

(b) Prepare the statement of financial position at 30 September 2019.

CS Limited
Statement of Financial Position at 30 September 2019

[illegible]

[illegible]

[14]

The directors were disappointed that the profit for the current year was not as good as that of previous years.

REQUIRED

- (c)** Explain why the difference between the gross profit percentage and the percentage of profit to revenue is an indication of the efficiency of the company.

..... [2]

The directors were also disappointed with the return on capital employed (ROCE). They decided to ask the bank to extend the repayment date of the bank loan to 1 April 2025.

REQUIRED

- (d) State what is measured by the return on capital employed (ROCE).

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

- (e) Explain the effect on the return on capital employed (ROCE) of extending the loan repayment date.

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

[Total: 23]

- 3 Yabani is a manufacturer. His financial year ends on 30 September.

Goods which Yabani is unable to manufacture himself are purchased from other manufacturers.

Yabani provided the following information for the year ended 30 September 2019.

	\$
At 1 October 2018	
Inventory of finished goods	21 340
Delivery vehicle at cost	19 500
Provision for depreciation of delivery vehicle	3 900
Office fixtures and fittings at cost	14 100
Provision for depreciation of office fixtures and fittings	5 640

For the year ended 30 September 2019

Cost of production	141 220
Revenue	205 000
Purchases of finished goods	?
Carriage inwards on finished goods	2 000
Administration and selling expenses (excluding depreciation)	22 120

At 30 September 2019

Inventory of finished goods	22 560
-----------------------------	--------

Additional information

- 1 The delivery vehicle is to be depreciated at 20% per annum using the reducing (diminishing) balance method.
- 2 The office fixtures and fittings are to be depreciated at 10% per annum using the straight line (equal instalment) method.
- 3 The percentage of gross profit to revenue (gross profit margin) is 20%.

REQUIRED

- (a)** Prepare an income statement for the year ended 30 September 2019. Insert the missing figure for purchases of finished goods.

Yabani
Income Statement for the year ended 30 September 2019

[illegible]

[12]

Yabani is looking for ways to increase his gross profit.

REQUIRED

(b) Discuss the possible effects on the gross profit of **each** of the following proposals.

(i) Purchase lower-quality raw materials

.....

.....

.....

..... [2]

(ii) Do **not** purchase finished goods from other manufacturers

.....

.....

.....

..... [2]

(iii) Reduce the number of sales staff

.....

.....

.....

..... [2]

(iv) Reduce the rate of pay for the machine operators in the factory

.....

.....

.....

..... [2]

[Total: 20]

- 4 Ishaq started a business on 1 August 2018. He did not maintain a full set of accounting records.

All purchases were made on credit terms. Some goods were sold on credit terms and some were sold for cash.

All payments were made through the bank and all money received was banked.

Ishaq was able to provide the following information.

	\$
On 1 August 2018	
Capital deposited in business bank account	95 000
Purchase of non-current assets by bank transfer	70 000

During the year ended 31 July 2019

Amount received from credit customers	47 385
Cash discount allowed	1 215
Cash discount received	981
Credit purchases	38 450
Returns to credit suppliers	1 980
Bad debts written off	150
Operating expenses paid	21 451

At 31 July 2019

Amount owed by credit customers	7 650
Amount owed to credit suppliers	3 770
Cash at bank	21 315

REQUIRED

- (a) Calculate the amount paid to credit suppliers during the year ended 31 July 2019.

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

(b) Calculate the credit sales for the year ended 31 July 2019.

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

Ishaq's cash sales were equal to one quarter of his credit sales.

He kept \$3000 of the money received from cash sales for personal use and banked the remainder.

REQUIRED

(c) Calculate the amount paid into the bank from cash sales.

	\$
Amount of cash sales	
Less Cash kept for personal use	<u>.....</u>
Amount paid into bank for cash sales	<u>.....</u>

[2]

- (d) Prepare the bank account for the year ended 31 July 2019.
Insert the missing figure which represents the amount Ishaq withdrew from the bank for personal use.

Ishaq
Bank account

Date	Details	\$	Date	Details	\$
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					

[8]

Ishaq knows that he must place a value on his inventory at the end of his financial year.

REQUIRED

- (e) (i) State the basis on which Ishaq should value his inventory.

..... [1]

- (ii) Name the accounting principle which Ishaq would be applying by valuing his inventory on this basis.

..... [1]

- (f) Complete the table by placing a tick (✓) in the correct column to indicate the effect of Ishaq undervaluing his inventory at 31 July 2019.

	overstated	understated
gross profit for the year ended 31 July 2019		
current assets at 31 July 2019		
cost of sales for the year ending 31 July 2020		
profit for the year ending 31 July 2020		

[4]

[Total: 26]

PLEASE TURN OVER

- 5 Lili is a clothing wholesaler. Her financial year ends on 31 July.

Lili purchases most of her stationery on credit from SS Limited, but also purchases a few items from a local store for cash.

Her transactions for the year ended 31 July 2019 included the following.

2018

September 3 Paid the amount owed to SS Limited by bank transfer after deducting 2½% cash discount

2019

March 30 Purchased stationery, \$45, and paid in cash

July 6 Purchased stationery on credit from SS Limited, \$322

On 31 July 2019 Lili's inventory of stationery was valued at \$96.

REQUIRED

- (a) Complete the following accounts in Lili's ledger for the year ended 31 July 2019.

Close the accounts by balancing, and make a transfer to the income statement if appropriate.

Lili SS Limited account

Date	Details	\$	Date	Details	\$
.....			2018 Aug 1	Balance b/d	440
.....					
.....					
.....					
.....					
.....					
.....					
.....					

Stationery account

Date 2018	Details	\$	Date	Details	\$
Aug 1	Balance b/d	85			
.....					
.....					
.....					
.....					
.....					
.....					
.....					

[9]

Lili trades on credit terms.

If Lili's credit customers pay their accounts within 30 days they are entitled to a cash discount. If Lili pays her credit suppliers within 40 days she is entitled to a cash discount.

Lili provided the following information.

	31 July 2018	31 July 2019
Trade receivables collection period	33 days	29 days
Trade payables payment period	38 days	44 days

REQUIRED

(b) Suggest **two** reasons for the change in the trade receivables collection period.

- 1
-
- 2
- [2]

(c) State **one** disadvantage to the credit suppliers of the change in the payment period.

-
- [1]

Lili's credit suppliers are proposing to reduce the credit period to 30 days and increase the cash discount to 3%.

REQUIRED

(d) Discuss how this may affect Lili.

.....

.....

.....

.....

.....

..... [2]

Lili's receipts and payments during the financial year ended 31 July 2019 included both capital and revenue items.

REQUIRED

(e) State the meaning of **each** of the following terms.

Capital expenditure

.....

.....

Capital receipt

.....

.....

Revenue expenditure

.....

.....

Revenue receipt

.....

..... [4]

After the preparation of the draft financial statements for the year ended 31 July 2019 the following errors were discovered.

- Error 1 Rent received, \$3000, had been debited to the cash book and credited to the premises account.
- Error 2 Repairs to premises, \$1630, had been credited to the cash book and debited to the premises account.
- Error 3 The total of the discount allowed column in the cash book, \$640, had been credited to the discount received account.
- Error 4 The purchase of office furniture, \$1500, had been debited to the purchases account and credited to the supplier's account.
Office furniture is depreciated at 10% per annum calculated on the cost of office furniture owned at the end of each financial year.

REQUIRED

- (f) Complete the table to indicate the **effect** of **each** of the errors.
Where there is no effect on the non-current assets place a tick (✓) in the 'No effect' column.

The first one has been completed as an example.

You may use the space provided for your workings.

	effect in non-current assets			effect on profit for the year	
	overstated \$	understated \$	no effect	overstated \$	understated \$
error 1		3000			3000
error 2					
error 3					
error 4					

[9]

Workings

[Total: 27]

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