ACCOUNTING

Paper 1

Candidates answer on the Question Paper.
No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

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

Answer all questions.
You may use a calculator.

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

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.
There are 10 parts to Question 1.

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

1 (a) In which book of prime (original) entry are invoices issued by a trader recorded?
   A purchases journal
   B purchases returns journal
   C sales journal
   D sales returns journal  [1]

(b) Where are the personal accounts of customers who buy goods on credit found?
   A purchases journal
   B purchases ledger
   C sales journal
   D sales ledger  [1]

(c) A trader has received a bank statement and brought his cash book up to date. Which item will be included in the trader’s bank reconciliation statement?
   A bank charges
   B bank interest
   C direct debits
   D unpresented cheques  [1]
(d) K Lain owns a bakery shop. Which of the following are capital expenditure?

1 motor vehicle
2 petrol for motor vehicle
3 shop fixtures
4 wages of bakers

A 1 and 3
B 1, 2 and 3
C 2 and 4
D 2, 3 and 4

(e) What is the effect of providing for depreciation?

A It increases profit.
B It reduces profit.
C It extends the life of non-current assets.
D It increases the cash balance.

(f) On which basis should inventory be valued?

A the higher of cost and net realisable value
B the lower of cost and net realisable value
C the higher of selling price and net realisable value
D the lower of selling price and net realisable value
(g) In December 2010 Imran wrote off Ahmed’s debt of $50. On 30 April 2012 Ahmed sent a cheque for $50.
Which journal entry would Imran make on 30 April 2012?

<table>
<thead>
<tr>
<th></th>
<th>debit $</th>
<th>credit $</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Ahmed</td>
<td>50</td>
</tr>
<tr>
<td>B</td>
<td>bad debts recovered</td>
<td>50</td>
</tr>
<tr>
<td>C</td>
<td>bad debts recovered</td>
<td>50</td>
</tr>
<tr>
<td>D</td>
<td>bank</td>
<td>50</td>
</tr>
</tbody>
</table>

(h) Which would appear in an income statement?

- A bank overdraft
- B capital introduced
- C motor vehicle expenses
- D trade receivables

(i) Which is a current liability for a business?

- A accrued interest charges on loan from bank
- B provision for depreciation of non-current assets
- C five-year loan from bank
- D insurance premium prepaid

(j) Paul is preparing his financial statements. What should he do to observe the principle of prudence?

- A include all foreseeable losses
- B include all foreseeable revenue
- C show expenses as low as possible
- D show prepayments as expenses

[Total: 10]
2 (a) Name the document issued by a supplier of goods on credit to the customer.

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

(b) State the purpose of preparing a balance sheet.

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

(c) In the table below, place a tick (√) under the correct heading to show whether the item is an asset or a liability.

<table>
<thead>
<tr>
<th></th>
<th>Asset</th>
<th>Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent receivable prepaid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

(d) Explain why it is necessary for a manufacturing business to prepare a manufacturing account at the end of the financial year.

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

(e) (i) Name the accounting principle which states that transactions must be expressed in terms of money.

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

(ii) Which accounting policy requires that financial information should be included only if it affects business decisions?

........................................................................................................................................... [1]
(f) Smart ordered 300 computer components from Raj. The price of each component was $10.30. Raj allowed a trade discount of 4%.

Calculate the total of the invoice Smart received. Show your workings.

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

(g) Give two examples of a non-current asset.

(i) ........................................................................................................................................[2]

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

(h) Explain the business entity principle.

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

(i) Tapac Limited has issued 200 debentures of $100 each. Interest at the rate of 3% per annum is payable in two equal instalments on 30 June and 31 December each year.

Calculate the amount of interest to be paid on the debentures on 30 June 2012. Show your workings.

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..................................................................................................................................................
..................................................................................................................................................
..................................................................................................................................................
..................................................................................................................................................
................................................................................................................................................. [2]
(j) On 1 April 2011 Parmi had an unpaid electricity bill of $350. In the year ended 31 March 2012 he paid a total of $2100 for electricity. On 31 March 2012 he received an electricity bill for $470 which he paid in April.

Calculate the amount Parmi charged for electricity in his income statement for the year ended 31 March 2012. Show your workings.

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

[Total: 20]
The following balances were taken from the books of Hans Lee, a sole trader, at 30 April 2012.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>110 000</td>
</tr>
<tr>
<td>Purchases</td>
<td>65 000</td>
</tr>
<tr>
<td>Inventory 1 May 2011</td>
<td>11 500</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>1 300</td>
</tr>
<tr>
<td>Trade payables</td>
<td>1 900</td>
</tr>
<tr>
<td>Machinery</td>
<td>7 400</td>
</tr>
<tr>
<td>Expenses</td>
<td>31 600</td>
</tr>
<tr>
<td>Bank (overdraft)</td>
<td>3 100</td>
</tr>
<tr>
<td>Capital</td>
<td>11 500</td>
</tr>
<tr>
<td>Drawings</td>
<td>7 600</td>
</tr>
</tbody>
</table>

Hans Lee's inventory at 30 April 2012 was $12 100.

**REQUIRED**

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

(b) Complete the following trial balance for Hans Lee at 30 April 2012. Show any difference you find as a balance in an appropriate account.

<table>
<thead>
<tr>
<th></th>
<th>Dr $</th>
<th>Cr $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank (overdraft)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drawings</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[7]
After the trial balance had been prepared, the following errors were discovered.

1. The purchases journal had been undercast by $1600.
2. $150 received from John Tan, a credit customer, had been debited to his account.
3. No entry had been made in the drawings account for $200 cash taken by Hans Lee.

REQUIRED

(c) Prepare the entries in Hans Lee’s journal to correct the above errors. Narratives are not required.

Hans Lee
Journal

<table>
<thead>
<tr>
<th></th>
<th>Debit $</th>
<th>Credit $</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>..........................................................</td>
<td>...........</td>
</tr>
<tr>
<td></td>
<td>..........................................................</td>
<td>...........</td>
</tr>
<tr>
<td>2</td>
<td>..........................................................</td>
<td>...........</td>
</tr>
<tr>
<td></td>
<td>..........................................................</td>
<td>...........</td>
</tr>
<tr>
<td>3</td>
<td>..........................................................</td>
<td>...........</td>
</tr>
<tr>
<td></td>
<td>..........................................................</td>
<td>...........</td>
</tr>
</tbody>
</table>

(d) In the following table place a tick (✓) under the correct heading to show how correcting each of the above errors would change the profit for the year.

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>Decrease</th>
<th>No effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Error 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Error 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Error 3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(e) Using your answer to (b), state whether you consider that all the errors on Hans Lee’s books have been discovered. Give a reason for your answer.

[2]

[Total: 19]
Question 4 is on the next page.
4 Theba maintains a petty cash book using the imprest system.

REQUIRED

(a) State one reason why Theba maintains a petty cash book in addition to her main cash book.

[2]

(b) Explain what is meant by the imprest system of petty cash.

[2]

Theba’s imprest amount is $200.

On 1 April 2012 she had $97 in the petty cash box. On the same day she made a transfer from the business bank account to restore the petty cash to the imprest amount.

On 30 April 2012 Theba had the following petty cash vouchers.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Postage stamps</td>
<td>$24</td>
</tr>
<tr>
<td>12</td>
<td>Stationery</td>
<td>$36</td>
</tr>
<tr>
<td>17</td>
<td>Fuel for motor vehicle</td>
<td>$38</td>
</tr>
<tr>
<td>21</td>
<td>Refund from stationery supplier</td>
<td>$4</td>
</tr>
<tr>
<td>24</td>
<td>Catering supplies</td>
<td>$12</td>
</tr>
<tr>
<td>29</td>
<td>Cleaning</td>
<td>$70</td>
</tr>
</tbody>
</table>

REQUIRED

(c) Prepare Theba’s petty cash book for the month of April 2012.

Balance the book on 30 April 2012 and carry down the balance.

Make the entry on 1 May 2012 to restore the petty cash to the imprest amount.

[12]
<table>
<thead>
<tr>
<th>Total Received</th>
<th>Date</th>
<th>Details</th>
<th>Total Paid</th>
<th>Postages &amp; Stationery</th>
<th>Motor expenses</th>
<th>Catering supplies</th>
<th>Cleaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(d) From the entries in the petty cash book, record the transactions for the month in Theba's ledger.

Postage and Stationery account

Motor expenses account

Catering supplies account

Cleaning account

[e] State the amount of petty cash which would be included in Theba's balance sheet prepared on 30 April 2012.

[Total: 22]
5 Raoul and Hassan agreed to form a partnership from 1 April 2011 to sell mobile telephones.

(a) State two advantages of trading in partnership.

(i) ........................................................................................................................................ [2]

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

(b) State two disadvantages of trading in partnership.

(i) ........................................................................................................................................ [2]

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

On 1 April 2011, Raoul introduced capital of $6000 which was paid into the partnership bank account. Hassan introduced inventory valued at $4000.

On the same day, the partnership paid rent on a shop of $600 and bought shop fittings for $750. Both payments were made by cheque.

REQUIRED

(c) Prepare journal entries to record the setting up of the partnership. Narratives are not required.

Raoul and Hassan

Journal

<table>
<thead>
<tr>
<th>Debit $</th>
<th>Credit $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[8]
Raoul and Hassan agreed that they would allow interest on capital at 3% per annum and that Raoul would have a partnership salary of $3000 per annum. It was agreed that they would share profits and losses in the ratio Raoul 2/5 and Hassan 3/5.

In the year ended 31 March 2012 the partnership made a profit of $8800.

REQUIRED

(d) Prepare the profit and loss appropriation account of the partnership for the year ended 31 March 2012.

Raoul and Hassan
Profit and Loss Appropriation Account for the year ended 31 March 2012

(e) Prepare Raoul’s current account for the year ended 31 March 2012.

Raoul
Current account

(f) State one way in which the partnership agreement could be changed to recognise the fact that Raoul makes more sales than Hassan.

[Total: 26]
Question 6 is on the next page.
6 Cole Limited and Fanza Limited are both electrical wholesalers. They provided the following information at 31 March 2012.

<table>
<thead>
<tr>
<th></th>
<th>Cole Limited</th>
<th>Fanza Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$18,000</td>
<td>$36,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>$36,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Trade payables</td>
<td>$21,000</td>
<td>$63,000</td>
</tr>
<tr>
<td>Cash at bank</td>
<td>$4,800</td>
<td></td>
</tr>
<tr>
<td>Bank overdraft</td>
<td></td>
<td>$17,000</td>
</tr>
</tbody>
</table>

**REQUIRED**

(a) Complete the following table to show the figures for Fanza Limited. In each case, state the formula and show your workings.

<table>
<thead>
<tr>
<th></th>
<th>Cole Limited</th>
<th>Fanza Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Working capital</td>
<td>$37,800</td>
<td></td>
</tr>
<tr>
<td>(ii) Current ratio</td>
<td>2.8:1</td>
<td></td>
</tr>
<tr>
<td>(iii) Quick (acid test) ratio</td>
<td>1.9:1</td>
<td></td>
</tr>
</tbody>
</table>

**Calculation**
(b) (i) State which company has the better current ratio. Give a reason for your answer.

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

(ii) State which company has the better quick (acid test) ratio. Give a reason for your answer.

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

Fanza Limited wishes to expand its business and needs to raise extra finance. It is considering issuing either preference shares or debentures.

REQUIRED

(c) State two features of preference shares.

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

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

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

(d) State two features of debentures.

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

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

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

[Total: 23]