Jolindi is a trader who maintains a full set of accounting records including a three column cash book.

Her transactions for September 2016 included the following.

- **September 5**: Cash sales, $515, of which $400 was paid directly into the bank
- **9**: A cheque received in August for $190 from C Barnes was dishonoured
- **15**: Received a cheque from H Magagula to settle her debt of $480, less 2½% cash discount
- **21**: Paid $324 by cheque, for new office equipment, $280, and repairs to existing office equipment, $44
- **28**: Paid all the cash into the bank except $50

**REQUIRED**

(a) Complete Jolindi’s cash book on the page opposite.

Balance the cash book and bring down the balances on 1 October 2016.
<table>
<thead>
<tr>
<th>Date</th>
<th>2016 Sept 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>$1560</td>
</tr>
<tr>
<td>Cash</td>
<td>$193</td>
</tr>
<tr>
<td>Discount received</td>
<td>$</td>
</tr>
<tr>
<td>Details</td>
<td>b/d</td>
</tr>
<tr>
<td>Date</td>
<td>2016 Sept 1</td>
</tr>
<tr>
<td>Bank</td>
<td>$1560</td>
</tr>
<tr>
<td>Cash</td>
<td>$193</td>
</tr>
<tr>
<td>Discount received</td>
<td>$</td>
</tr>
<tr>
<td>Details</td>
<td>b/d</td>
</tr>
</tbody>
</table>
(b) State why it is not possible for Jolindi to have a credit balance in the cash column of her cash book.

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

Jolindi decided to compare the bank column of her cash book with her bank statement and to prepare a bank reconciliation statement.

REQUIRED

(c) State two reasons for preparing a bank reconciliation statement.

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

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

(d) Suggest two items which may appear in the cash book but not on the bank statement.

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

2 ...................................................................................................................................................
................................................................................................................................................... [2]
Jolindi believes that her working capital could be improved. She is considering five courses of action.

**REQUIRED**

(e) State whether each of the following courses of action would increase, decrease or have no effect on the working capital. Give a reason for your answer in each case.

The first one has been completed as an example.

<table>
<thead>
<tr>
<th>Effect on working capital</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce credit sales and increase cash sales</td>
<td>No effect</td>
</tr>
<tr>
<td>Create a provision for doubtful debts</td>
<td></td>
</tr>
<tr>
<td>Take a long-term bank loan</td>
<td></td>
</tr>
<tr>
<td>Take a short-term bank loan</td>
<td></td>
</tr>
<tr>
<td>Pay credit suppliers early to earn cash discount</td>
<td></td>
</tr>
</tbody>
</table>

[Total: 23]
2 The financial year of Crossroads Limited ends on 31 October.

The partially completed statement of changes in equity for the year ended 31 October 2016 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Ordinary share capital $</th>
<th>General reserve $</th>
<th>Retained earnings $</th>
<th>Total $</th>
</tr>
</thead>
<tbody>
<tr>
<td>On 1 November 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share issue</td>
<td>350000</td>
<td>16000</td>
<td>46000</td>
<td>412000</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final dividend paid (for year</td>
<td>50000</td>
<td>72000</td>
<td>72000</td>
<td>72000</td>
</tr>
<tr>
<td>ended 31 October 2015)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interim dividend paid (for year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ended 31 October 2016)</td>
<td></td>
<td>(17500)</td>
<td>(17500)</td>
<td>(17500)</td>
</tr>
<tr>
<td>Transfer to general reserve</td>
<td></td>
<td>15000</td>
<td>(10500)</td>
<td>(10500)</td>
</tr>
<tr>
<td>On 31 October 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The following additional information was also available on 31 October 2016.

$  

- Premises at cost 363,000
- Machinery and equipment at cost 185,000
- Fixtures and fittings at cost 70,000
- Provision for depreciation – machinery and equipment fixtures and fittings 83,250
- Inventory 30,853
- Trade receivables 28,000
- Trade payables 31,600
- Rates paid in advance 1,340
- Debenture interest accrued 800
- Wages accrued 320
- Bank 11,400 credit
- Provision for doubtful debts 750
- 4% debentures (repayable 2026) 20,000
REQUIRED

(a) Prepare the statement of financial position on 31 October 2016.

Crossroads Limited
Statement of Financial Position at 31 October 2016

<table>
<thead>
<tr>
<th>$</th>
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</thead>
<tbody>
<tr>
<td>......................................</td>
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<tr>
<td>......................................</td>
<td>..................</td>
<td>..................</td>
</tr>
</tbody>
</table>
(b) State the meaning of each of the following terms.

Issued share capital

- 
  - 

Called-up share capital

- 
  - 

Paid-up share capital

- [3]

[Total: 18]
The financial year of Kristy ends on 31 October. She maintains a provision for doubtful debts. The following account appeared in her ledger.

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>$</th>
<th>Date</th>
<th>Details</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Oct 31</td>
<td>Income statement</td>
<td>75</td>
<td>2015 Nov 1</td>
<td>Balance b/d</td>
<td>525</td>
</tr>
<tr>
<td></td>
<td>Balance c/d</td>
<td>450</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>525</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**REQUIRED**

(a) Explain the following entries in the above account. Name the account in which the double entry would be made for **each** item. State whether the account would be debited or credited.

1 November 2015 Balance b/d

Explanation................................................................................................................................
...................................................................................................................................................
...................................................................................................................................................
Double entry ............................................................................................................................

31 October 2016 Income statement

Explanation................................................................................................................................
...................................................................................................................................................
...................................................................................................................................................
Double entry ............................................................................................................................

31 October 2016 Balance c/d

Explanation................................................................................................................................
...................................................................................................................................................
...................................................................................................................................................
Double entry ............................................................................................................................ [6]

(b) State the entry for provision for doubtful debts that would appear in the statement of financial position on 31 October 2016.

...................................................................................................................................................
...................................................................................................................................................
...................................................................................................................................................
................................................................................................................................................... [2]
On 31 October 2016 the following transactions took place.

1. Kristy transferred her personal computer system to the business. When purchased it cost $1200 and was now valued at $740.

2. An invoice was received from Comp4u for $266, consisting of $40 for repairs to the computer system and $226 for a new printer.

**REQUIRED**

(c) Prepare journal entries to record the transactions which took place on 31 October 2016.

Narratives are required.

<table>
<thead>
<tr>
<th>Kristy Journal</th>
<th>Debit $</th>
<th>Credit $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[7]
During the year ended 31 October 2016 the payments made by Kristy included both capital and revenue expenditure.

**REQUIRED**

(d) Complete the following table by placing a tick (✓) in the correct column to show whether each payment is capital expenditure or revenue expenditure.

<table>
<thead>
<tr>
<th></th>
<th>Capital expenditure</th>
<th>Revenue expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages paid to employees to build new office block</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance premium for new office block</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of painting new office block</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of moving furniture into new office block</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[4]

On 31 October 2016 it was found that two receipts had been incorrectly classified.

**REQUIRED**

(e) Complete the following table by placing a tick (✓) in the correct column to indicate the effect of each error on the profit for the year.

<table>
<thead>
<tr>
<th></th>
<th>Effect of error on profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>overstated</td>
</tr>
<tr>
<td>Proceeds of sale of old fixtures (at book value) included in income statement</td>
<td></td>
</tr>
<tr>
<td>Interest received on loan to employee recorded as part repayment of loan</td>
<td></td>
</tr>
</tbody>
</table>

[2]

[Total: 21]
Hamza is a trader who does not maintain a full set of accounting records. His financial year ends on 31 August.

In December 2015 it was discovered that some errors had been made in the financial statements for the year ended 31 August 2015.

**REQUIRED**

**(a)** Complete the following table to indicate the effect of correcting each error on the profit for the year.

The first one has been completed as an example.

<table>
<thead>
<tr>
<th>Effect on profit of correcting error</th>
<th>increase $</th>
<th>decrease $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases returns, $2000, had not been recorded.</td>
<td>2000</td>
<td></td>
</tr>
<tr>
<td>Wages owing at 31 August 2015, $450, were not recorded.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount allowed, $115, had been recorded as discount received.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The provision for doubtful debts, $950, should have been adjusted to 2½% of trade receivables, who owed $36 000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory at 1 September 2014 had been valued at net realisable value, $16 700, instead of at cost, $15 300.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Hamza had no record of the purchases for the year ended 31 August 2016, but the following information was available.

<table>
<thead>
<tr>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory 1 September 2015</td>
</tr>
<tr>
<td>Inventory 31 August 2016</td>
</tr>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Returns from customers</td>
</tr>
<tr>
<td>Carriage inwards</td>
</tr>
<tr>
<td>General expenses</td>
</tr>
<tr>
<td>Wages and salaries</td>
</tr>
<tr>
<td>Rates and insurance</td>
</tr>
<tr>
<td>Depreciation of non-current assets</td>
</tr>
<tr>
<td>Mark-up on cost</td>
</tr>
</tbody>
</table>
REQUIRED

(b) Prepare the income statement for the year ended 31 August 2016 showing the purchases for the year.

Hamza
Income Statement for the year ended 31 August 2016

<table>
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<tr>
<th></th>
<th>$</th>
<th>$</th>
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</tbody>
</table>
|                                                             |         |         | [14]
|                                                             |         |         | [Total: 22]

© UCLES 2016
5 Tom's financial year ends on 31 July. He depreciates his non-current assets using the reducing (diminishing) balance method.

REQUIRED

(a) Name one other method of depreciation which Tom could apply.

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

(b) Explain how providing for depreciation of non-current assets is an application of the principle of accruals (matching).

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

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

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

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

(c) Name one other accounting principle which is applied when providing for depreciation of non-current assets.

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

Tom depreciates his machinery using the reducing (diminishing) balance method at 20% per annum on all machinery held at the end of the year. No depreciation is charged in the year of disposal.

On 1 August 2014 he owned one machine (Machine A) which had cost $3000, and which had been depreciated by $600.

On 1 January 2015 Tom purchased another machine (Machine B) for $3500, paying by cheque.

REQUIRED

(d) (i) Calculate the depreciation of Machine A for each of the years ended 31 July 2015 and 31 July 2016.

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

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

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

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

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

..................................................................................................................................... [2]
(ii) Calculate the depreciation of Machine B for each of the years ended 31 July 2015 and 31 July 2016.

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

(e) Prepare the following accounts in the ledger of Tom.

(i) Machinery account

Balance the account on 31 July 2015 and bring down the balance on 1 August 2015.

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>$</th>
<th>Date</th>
<th>Details</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Aug 1</td>
<td>Balance (A) b/d</td>
<td>3000</td>
<td>........</td>
<td>................</td>
<td>.........</td>
</tr>
</tbody>
</table>
(ii) Provision for depreciation of machinery account

Balance the account at the end of each year and bring down the balance on 1 August 2015 and 1 August 2016.

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>$</th>
<th>Date</th>
<th>Details</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2014 Aug 1</td>
<td>Balance</td>
<td>b/d</td>
</tr>
</tbody>
</table>

On 1 October 2016 Tom sold Machine A for $1640.

REQUIRED

(f) Calculate the profit or loss on the disposal of Machine A.

--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------  [4]

[Total: 19]
Joey is a trader. His financial year ends on 30 September. He provided the following information for the year ended 30 September 2016.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>290 000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>224 025</td>
</tr>
<tr>
<td>Expenses</td>
<td>38 860</td>
</tr>
</tbody>
</table>

Joey obtained the trading results of DT Traders, another business in the same town, and decided to compare the profitability of the two businesses.

REQUIRED

(a) Complete the following table to show the ratios for Joey’s business.

The calculations should be to two decimal places.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Joey</th>
<th>DT Traders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of gross profit to revenue (gross profit margin)</td>
<td>...............%</td>
<td>18.50%</td>
</tr>
<tr>
<td>Percentage of profit for the year to revenue (net profit margin)</td>
<td>...............%</td>
<td>10.25%</td>
</tr>
</tbody>
</table>

You may use the space below for your workings. [4]
(b) Suggest two reasons for the difference in the percentage of gross profit to revenue (gross profit margin).

1 ........................................................................................................................................................
........................................................................................................................................................
2 ........................................................................................................................................................
........................................................................................................................................................ [2]

(c) Suggest two reasons for the difference in the percentage of profit for the year to revenue (net profit margin).

1 ........................................................................................................................................................
........................................................................................................................................................
2 ........................................................................................................................................................
........................................................................................................................................................ [2]

(d) State which business had better control on its expenses.
.............................................................................................................................................................. [1]

Joey is hoping to increase the percentage of profit for the year to revenue (net profit margin) in the following financial year. He is considering four courses of action.

REQUIRED

(e) Complete the following table by placing a tick (✓) in the correct column to show how each course of action would affect Joey’s percentage of profit for the year to revenue (net profit margin).

<table>
<thead>
<tr>
<th></th>
<th>increase</th>
<th>decrease</th>
<th>no effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy in bulk from suppliers to obtain trade discount</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offer cash discount to encourage credit customers to pay early</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay employees monthly instead of weekly</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Write off damaged inventory at the year end</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(f) State how each of the following may be regarded as a limitation of financial statements.

Historical cost
...................................................................................................................................................
...................................................................................................................................................
...................................................................................................................................................
...................................................................................................................................................

Non-financial factors
...................................................................................................................................................
...................................................................................................................................................
...................................................................................................................................................
............................................................................................................................................. [4]

[Total: 17]