

- 1 Annabel is a wholesaler. She maintains a three column cash book.

The following transactions took place in April 2019.

- April 8 Received a cheque from Ellie in full settlement of her account of \$450 after deducting 2% cash discount
- 15 Paid Ed \$468 by bank transfer to settle his account after deducting $2\frac{1}{2}\%$ cash discount
- 21 Received a cheque from Caleb, \$310
- 25 Withdrew cash from bank for business use, \$200
- 27 Paid operating expenses in cash, \$296

Annabel received her bank statement for April 2019.

The following items appeared on her bank statement but had not been recorded in her accounting records.

- 1 The cheque received from Caleb on 21 April had been dishonoured.
- 2 Carly, a credit customer, had paid \$294 by credit transfer to settle her account of \$300.
- 3 Bank charges for the month amounted to \$82.

REQUIRED

- (a) Complete Annabel's cash book on the page opposite.
Balance the cash book and bring down the balances on 1 May 2019.

[13]

Annabel
Cash Book

Date	Details	Discount allowed \$	Cash \$	Bank \$	Date	Details	Discount received \$	Cash \$	Bank \$
2019					2019				
April 1	Balance		150		April 1	Balance			988

PLEASE TURN OVER

- 2 The financial year of the NS Musical Society ends on 31 January.

On 31 January 2019 it was confirmed that the treasurer had disappeared and had taken some money belonging to the NS Musical Society.

The new treasurer was able to provide the following information relating to the financial year ended 31 January 2019.

The Society has 60 members. The annual subscription is \$50.

	\$
On 1 February 2018	
Subscriptions accrued	100
Subscriptions prepaid	250
Bank overdraft	780
Musical instruments at book value	3600

During the year ended 31 January 2019

Payment of rates of premises covering 10 months to 30 November 2018	2000
Payment of insurance for 14 months to 31 March 2019	700
Receipts from sales of concert tickets	2560
Concert expenses paid	1610
Proceeds of sale of old musical instruments (book value \$120)	100
Cost of musical instruments purchased	2100
(Half of this amount was paid immediately and the balance was payable in February 2019)	

At 31 January 2019

Bank overdraft	2430
Subscriptions prepaid	200

Musical instruments are depreciated at 10% per annum based on the value of instruments owned at the end of each financial year.

REQUIRED

- (a) Prepare the subscriptions account for the year ended 31 January 2019 to show the subscriptions received during the year.
 Balance the account and bring down the balance on 1 February 2019.

NS Musical Society
 Subscriptions account

Date	Details	\$	Date	Details	\$
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[7]

(c) Complete the following table to show the amount which would appear in the income and expenditure account for the year ended 31 January 2019 for **each** item.

Item	\$
Concert	.....
Rates	.....
Insurance	.....
Depreciation of musical instruments	.....
Sale of musical instruments	.....

[6]

Workings

A member of the committee of the NS Musical Society has expressed concern about the bank overdraft and has proposed that the annual subscription should be increased by \$10.

REQUIRED

(d) Discuss the implications of increasing the annual subscription by \$10.

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[3]

[Total: 27]

3 Jamal opened a toy factory on 1 March 2018.

On that date he purchased the following non-current assets.

	\$
Premises	100 000
Factory machinery	44 000
Loose tools for factory	1 650
Office fixtures and fittings	15 450

Jamal decided on the following depreciation policy.

- 1 No depreciation would be charged on premises.
- 2 Factory machinery and office fixtures and fittings would be depreciated by 20% per annum using the straight line (equal instalment) method of depreciation.
- 3 Loose tools would be revalued at the end of each financial year.

Jamal provided the following information.

	\$
For the year ended 28 February 2019	
Purchases of raw materials	45 680
Purchases of finished goods	12 400
Purchase returns of raw materials	1 030
Carriage on raw materials	3 240
Direct factory wages	29 750
Indirect factory wages	18 750
Office and sales staff wages	25 360
Operating expenses	8 250
Insurance (for 16 months to 30 June 2019)	3 200
Sales returns	2 250
Revenue	?

At 28 February 2019

Inventory of raw materials	4 150
Inventory of work in progress	3 310
Inventory of finished goods	8 900
Loose tools at valuation	1 320
Direct factory wages accrued	3 040
Operating expenses accrued	550

The operating expenses and the insurance are to be apportioned 75% to the factory and 25% to the office.

Jamal's mark-up is 25%.

- (b) Prepare the income statement (trading section) for the year ended 28 February 2019 to show the revenue, cost of sales and gross profit for the year.

Jamal
Income Statement (Trading section) for the year ended 28 February 2019

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[7]

After the preparation of the financial statements for the year ended 28 February 2019 it was discovered that some errors had been made.

REQUIRED

- (c) Complete the following table to indicate the **effect** of **each** of the errors. The first one has been completed as an example.

Error	effect on cost of production	effect on gross profit	effect on profit for the year
Returns of finished goods to the supplier, \$1200, were omitted	<i>no effect</i>	<i>understated</i>	<i>understated</i>
Operating expenses accrued were \$850 not \$550	.....	.....	.....
Salesman’s commission, \$1850, had been included in indirect factory wages	.....	.....	.....

[6]

[Total: 28]

PLEASE TURN OVER

4 Shen is a retailer of men’s clothes. His financial year ends on 31 January.

The annual rates of Shen’s shop are \$960. On 1 February 2018 Shen owed rates, \$240. He paid rates by bank transfer on the following dates.

		\$
2018		
March	31	640
October	31	720

Shen receives a commission from Wang, who owns a shoe shop, on goods purchased by Shen’s customers.

Shen provided the following information.

		\$	
2018			
February	1	Commission outstanding	210
March	1	Commission received by bank transfer	210
August	31	Commission received in cash	95
2019			
January	31	Commission outstanding	114

REQUIRED

(a) Prepare the following accounts in the ledger of Shen for the year ended 31 January 2019. Balance the accounts and bring down the balances on 1 February 2019.

Shen
Rates account

Date	Details	\$	Date	Details	\$
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Commission receivable account

Date	Details	\$	Date	Details	\$
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[9]

Shen’s rate of inventory turnover for the year ended 31 January 2018 was 11.50 times.

He provided the following information for the year ended 31 January 2019.

	\$
Revenue	25 850
Gross profit	5 150
Inventory 1 February 2018	1 890
Inventory 31 January 2019	2 040

REQUIRED

(b) Calculate the rate of inventory turnover for the year ended 31 January 2019. The calculation should be correct to **two** decimal places.

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..... [3]

- (c) State whether Shen would be satisfied with the change in the rate of inventory turnover. Give a reason for your answer.

Satisfied?

Reason

.....[2]

- (d) Suggest **two** ways in which Shen could improve the rate of inventory turnover.

1.....

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2.....

.....[2]

- (e) Suggest **two** reasons why Shen always values his inventory at the lower of cost and net realisable value.

1.....

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2.....

.....[2]

After the preparation of the income statement for the year ended 31 January 2019 Shen discovered that the inventory at 31 January 2019 had been overstated.

REQUIRED

- (f) Complete the table by placing a tick (✓) in the correct column to indicate whether **each** item would be overstated or understated as a result of the error.

The first one has been completed as an example.

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

[4]

[Total: 22]

5 Myra is a trader. Her financial year ends on 31 December.

Myra provided the following information.

	\$
For the year ended 31 December 2018	
Sales (all on credit)	118 000
Purchases (all on credit)	94 000
Cost of sales	94 350
Profit for the year before interest	14 100
Profit for the year after interest	9 900

At 31 December 2018

Non-current assets at book value	266 000
Inventory	8 500
Trade receivables	7 250
Bank overdraft	4 150
Trade payables	6 600

Myra allows her credit customers 14 days credit. The trade receivables collection period calculated at 31 December 2017 was 18 days.

Myra is allowed 28 days credit by her credit suppliers. The trade payables payment period calculated at 31 December 2017 was 30 days.

REQUIRED

(a) (i) Calculate the trade receivables collection period for the year ended 31 December 2018. Round up your answer to the next whole day.

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.....[2]

(ii) Suggest **two** ways in which the trade receivables collection period may be improved.

1

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2

.....[2]

- (b) (i) Calculate the trade payables payment period for the year ended 31 December 2018. Round up your answer to the next whole day.

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..... [2]

- (ii) Suggest **two** ways in which the change in the trade payables payment period may affect Myra.

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- (c) Calculate the following to **two** decimal places.

- (i) Percentage of gross profit to revenue (gross profit margin)

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- (ii) Profit for the year to revenue (net profit margin)

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- (iii) Return on capital employed (ROCE)

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Myra's brother, Raj, also has a business.

After he prepared his draft financial statements for the year ended 31 March 2019 the following errors were discovered.

- 1 The total cost of an advertising campaign, \$900, which covered a period of 15 months to 30 June 2019, had been charged to the income statement.
- 2 Discount allowed, \$1200, had been recorded as discount received.
- 3 Depreciation on office equipment for the year ended 31 March 2019 had been calculated at 10% per annum using the reducing (diminishing) balance method instead of the straight line (equal instalment) method. On 1 April 2018 the cost of the office equipment was \$15 000 and the accumulated depreciation was \$3000.

REQUIRED

- (d) Complete the following statement to show the effect on the draft profit for the year of **correcting** errors 1–3. Calculate the corrected profit for the year.

Raj			
Statement of corrected profit for the year ended 31 March 2019			
	Increase in profit \$	Decrease in profit \$	\$
Draft profit for the year before corrections			8550
Error 1	
Error 2	
Error 3	
	_____	_____	_____
Corrected profit for the year			_____
			[7]
			[Total: 21]

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