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7110/02

October/November 2009

2 hours

Candidates answer on the Question Paper.

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.

For Examiner's Use	
1	
2	
3	
4	
5	
Total	

This document consists of **22** printed pages and **2** blank pages.

- 1 The following balances were taken from the books of Salim Electrical Supplies on 15 September 2009.

	\$
Sales	14 950 Cr
Stock	1 800 Dr
Eastern Retailers	1 200 Dr
Khan Ltd	2 150 Dr

The following transactions took place:

- September 16 Sold goods, list price \$500 less 20 % discount, on credit to Khan Ltd
 18 Received a cheque from Eastern Retailers in full settlement of their account less 5 % cash discount
 24 Khan Ltd returned goods, list price \$50, purchased on 16 September
 25 Sold goods, \$250, on credit to Eastern Retailers
 26 Sold goods, \$500, to Khan Ltd for cash
 30 Khan Ltd ceased trading. Salim Electrical Supplies decided to write off the balance of Khan Ltd as a bad debt.

Additional information

- 1 The stock was valued at \$1470 on 30 September 2009.
- 2 The financial year of Salim Electrical Supplies ends on 30 September 2009.

REQUIRED

- (a) Name the type of discount that was deducted on 16 September 2009.

..... [1]

- (b) (i) Name the document issued to Khan Ltd on 24 September 2009.

..... [1]

- (ii) Name the document issued to Eastern Retailers on 25 September 2009.

..... [1]

(c) Prepare the following ledger accounts.

Close the accounts at 30 September 2009 either by balancing the account or by transfer to the trading account, as appropriate.

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Sales account

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Stock account

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Eastern Retailers account

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Khan account

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..... [3]

[Total: 17]

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Question 2 is on the next page.

2 Universal Industries provided the following information:

- 1 Purchased a machine for \$8 000 on 1 October 2007.
- 2 Sold the machine for cash, \$7000, on 31 March 2009.
- 3 The policy of Universal Industries is to charge depreciation at the rate of 10 % per annum on cost using the straight line method. Depreciation on machinery is charged from the date of purchase and up to the date of sale.
- 4 All sales of fixed assets are recorded in a disposal account.
- 5 Universal Industries prepares final accounts on 31 March each year.

REQUIRED

(a) Explain the term depreciation.

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..... [2]

(b) State **two** reasons why fixed assets depreciate.

1

2 [2]

- (c) Prepare the journal entries to record the sale of the machine. Show the transfer of any profit or loss on the sale to the final accounts on 31 March 2009. Narratives are **not** required.

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Dr	Cr
\$	\$

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..... [8]

- (d) Explain why depreciation is an application of the accruals concept.

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..... [2]

- (e) Complete the table below for items (i) to (iii). State in each case the most appropriate method of depreciation and give **one** reason for your answer.

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Use

Asset	
(i) Buildings	Method of depreciation
	Reason
(ii) Computers	Method of depreciation
	Reason
(iii) Loose tools	Method of depreciation
	Reason

[6]

Universal Industries has one employee who worked a total of 170 hours in March 2009 of which

160 hours were paid at \$6 per hour
10 hours were paid at time and a half

Tax and social security of \$150 was deducted from the employee's gross pay.

The net payment has been made to the employee in cash.

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Use*

REQUIRED

- (f) Calculate the employee's net pay for March 2009.

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..... [4]

Universal Industries must also pay an additional 10 % of the employee's gross pay for their share of tax and social security contributions.

The total tax and social security is due to be paid to the tax authorities on 31 March 2009.

REQUIRED

- (g) Calculate the total tax and social security payment to be made to the tax authorities on 31 March 2009.

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..... [3]

[Total: 27]

- 3 Loxton Ltd had the following capital structure on 1 September 2008.

Authorised and issued share capital	\$
50 000 ordinary shares of \$0.50 each	25 000
100 000 10 % preference shares of \$1 each	100 000
Reserves	
General reserve	80 000
Profit and loss	25 000
Debentures	
5 % Debenture repayable 31 December 2015	80 000

REQUIRED

- (a) State **one** similarity and **one** difference between preference shares and debentures.

Similarity

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Difference

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..... [4]

For the year ended 31 August 2009 Loxton Ltd made a net profit of \$60 000 before calculating the debenture interest. The directors made the following decisions:

- On 1 March 2009 to make an interim dividend payment of
 - \$0.10 on each ordinary share
 - \$0.05 on each preference share
- On 31 August 2009 to
 - make a final dividend payment of \$0.20 on each ordinary share
 - pay the remainder of the preference dividend
 - transfer \$20 000 to the general reserve

(b) Prepare the profit and loss appropriation account of Loxton Ltd for the year ended 31 August 2009.

[9]

[9]

1

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[4]

[4]

Elodie has the following investments in Loxton Ltd:

1500 ordinary shares of \$0.50
\$2000 5 % debenture

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Use*

REQUIRED

(d) Calculate Elodie's total income from Loxton Ltd for the year ended 31 August 2009.

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..... [4]

[Total: 21]

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Question 4 is on the next page.

- 4 Jamal Mohsin has been provided with some information about a general trading business, Easisell, which buys and sells goods on credit. The following information relates to the year ended 30 September 2009.

	\$
Sales	120 000
Stock at 1 October 2008	12 000
Purchases	91 000
Stock at 30 September 2009	28 000
Expenses	15 000
Debtors	30 000
Creditors	43 000
Bank overdraft	15 000
Capital	150 000

REQUIRED

- (a) Calculate, to **two** decimal places, the following ratios. Show your workings.

- (i) Gross profit to sales percentage

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..... [3]

- (ii) Rate of stock turnover

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(iii) Net profit to capital percentage

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(iv) Working capital ratio (current ratio)

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..... [3]

Jamal Mohsin obtained the following ratios for a similar business:

- | | | |
|---|---------------------------------------|---------|
| 1 | Gross profit to sales percentage | 40 % |
| 2 | Rate of stock turnover | 6 times |
| 3 | Net profit to capital percentage | 12 % |
| 4 | Working capital ratio (current ratio) | 1.8 : 1 |

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REQUIRED

(b) Using the information above and your answer to (a) compare and comment upon the performance of Easisell under the following headings.

(i) Controlling stock

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..... [4]

(ii) Net profit to capital percentage

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..... [4]

(iii) Ability to pay creditors

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..... [4]

[Total: 24]

Answer Question 5 on the following pages.For
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- 5 Paul and Judi are partners in a retail business. The partnership agreement states that they share profits and losses in the ratio 3 : 2, after allowing interest on capital at the rate of 4 % per annum. The following balances were extracted from the books on 30 September 2009.

	\$
Capital accounts	
Paul	30 000
Judi	20 000
Current accounts	
Paul	2 300 Cr
Judi	650 Dr
Drawings	
Paul	11 000
Judi	10 000
Purchases	139 750
Sales	210 000
Returns inward	4 500
Stock at 1 October 2008	12 650
Staff wages	18 000
General expenses	9 650
Rent receivable	6 000
Advertising expenses	10 000
Rent	17 500
Fixtures and fittings (cost)	24 000
Provision for depreciation of fixtures and fittings	12 600
Creditors	8 900
Debtors	16 000
Provision for doubtful debts	550
Bank	16 650 Dr

Additional information

- 1 Stock at 30 September 2009 was valued at \$15 400.
- 2 Paul withdrew goods costing \$4000 from the partnership business during the year. This had not been recorded in the books.
- 3 At 30 September 2009:

Advertising expenses, \$2850, were prepaid.

Rent receivable, \$2000, was due.
- 4 Depreciation is charged on fixtures and fittings at 15 % per annum on cost using the straight line method.
- 5 Additional fixtures and fittings, \$4000, were purchased on 31 January 2009. These are included in the balance at 30 September 2009. No other changes in fixed assets occurred during the year. Depreciation is calculated from the date of purchase.
- 6 The provision for doubtful debts is to be maintained at 5 % of debtors.

REQUIRED

- (a) Prepare the trading and profit and loss and appropriation accounts of Paul and Judi for the year ended 30 September 2009. [19]
- (b) Prepare the balance sheet of Paul and Judi at 30 September 2009. [12]

The current accounts details may be included within the balance sheet **or** in account format outside the balance sheet.

[Total: 31]

*For
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Use*

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

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