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7110/22

October/November 2011

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.

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1	
2	
3	
4	
5	
Total	

This document consists of **14** printed pages, **1** blank page and **5** lined pages.

- 1 Savvas is a supplier of goods to Akmal. Savvas allows 15% trade discount on all purchases made by Akmal.

The following transactions took place in September 2011.

September 1	Akmal owed \$1500 to Savvas.
September 8	Akmal purchased goods from Savvas with a list price of \$800.
September 10	Akmal returned some of the goods purchased on 8 September with a list price of \$240.
September 25	Akmal sent a cheque in full settlement for the amount owing on 1 September, less 4% cash discount.

REQUIRED

- (a) Write up the account of Savvas in the ledger of Akmal. Bring down the balance on 1 October 2011.

Akmal
Savvas account

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..... [7]

- (b) State **one** reason why Savvas offers Akmal a trade discount.

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..... [2]

- (c) State the name of the document that Savvas would send to Akmal for the return of goods on 10 September 2011.

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..... [1]

- (d) Place a tick (✓) under the correct heading to show the ledger in which Akmal would record **each** of the following accounts.

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Item (i) has been completed as an example.

	Account	Sales Ledger	Purchase Ledger	Nominal/general Ledger
(i)	Sales			✓
(ii)	Savvas (Supplier)			
(iii)	Heat & light			
(iv)	Capital			
(v)	G.R.G. Ltd (Customer)			

[4]

- (e) Complete the table below to show the effect of each transaction on the assets, liabilities and capital of Akmal.

The first transaction has been completed as an example.

		Assets	Liabilities	Capital
(i)	Purchased goods on credit \$130	+\$130	+\$130	No effect
(ii)	Goods costing \$800, sold on credit for \$1130.			
(iii)	Paid creditor \$500 by cheque, less 3% cash discount.			

[6]

[Total: 20]

- 2 Andrea prepares a sales ledger control account. At 30 September 2011 the following information is available:

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	\$
Trade receivables at 1 October 2010	25 000
Credit sales for year	80 000
Receipts from credit customers for year	75 000
Trade receivables at 30 September 2011	30 000

REQUIRED

- (a) Prepare the sales ledger control account for the year ended 30 September 2011.

Andrea Sales Ledger Control account

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..... [4]

- (b) State **two** reasons why Andrea prepares a sales ledger control account.

1

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2

..... [4]

On 30 September 2011, after preparing the sales ledger control account Andrea was advised that Keira is unable to pay the whole of her debt, \$2500.

Andrea accepted \$500 in full settlement and the balance of the debt was written off.

(c) Prepare the journal entry to record the transactions on 30 September 2011. A narrative is **not** required.

Andrea carried out a review of her remaining trade receivables before preparing her financial statements. The following information relating to her debtors was available:

Andrea has the following policy for calculating the provision for doubtful debts:

REQUIRED

- [4]

- (e) On 1 October 2010 the balance of the provision for doubtful debts account was \$1300.

Prepare the provision for doubtful debts account for the year ended 30 September 2011.
Bring down the balance on 1 October 2011.

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Use

Andrea
Provision for doubtful debts account

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..... [3]

- (f) Name **two** accounting principles which Andrea is applying by maintaining a provision for doubtful debts.

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2

..... [2]

[Total: 20]

	Authorised share capital	Issued share capital
	\$	\$
Ordinary shares of \$1	100 000	50 000
5% Preference shares of \$1	100 000	80 000

The retained earnings brought forward on 1 May 2010 was \$8000.

On 30 April 2011 it was agreed to:

- 1 Transfer \$20 000 to the general reserve
- 2 Pay the preference share dividend
- 3 Pay a final dividend of \$0.05 per share on the ordinary shares.

REQUIRED

Paulton Ltd

Profit and Loss Appropriation Account for the year ended 30 April 2011

..... [8

(b) Distinguish between authorised share capital and paid up share capital.

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(c) Explain the term reserve.

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(d) Suggest **one** reason why a limited company might **not** distribute all of the profit for the year as dividend.

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..... [2]

The sales director of Paulton Ltd made the following proposals to increase the profit of the company:

- 1 To include in the accounts \$25 000 for the increased skill of the workforce.
- 2 To change the depreciation method on non-current assets from diminishing balance to straight line.

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- (e) State the accounting principle which prevents the company from adopting these proposals. Give a reason for your answer.

1 Accounting principle

Reason

..... [3]

2 Accounting principle

Reason

..... [3]

[Total: 20]

- 4 The following information was extracted from the books of Anika.

	\$
Revenue (sales) for the year ended 30 September 2011	80 000
Purchases for the year ended 30 September 2011	58 000
Inventory at 1 October 2010	6 000
Inventory at 30 September 2011	8 000
Bank overdraft at 30 September 2011	2 000
Trade payables at 30 September 2011	14 000
Trade receivables at 30 September 2011	16 000

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REQUIRED

- (a) Calculate the following:

- (i) cost of sales

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..... [3]

- (ii) rate of inventory turnover.

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..... [3]

- (b) (i) Calculate the gross profit/ sales percentage.

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..... [3]

- (ii) Anika's gross profit/sales percentage for the year ended 30 September 2010 was 40%.

Suggest **two** possible reasons for the change in the gross profit/sales percentage between 30 September 2010 and 30 September 2011.

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-
- 2
- [2]

- (c) Calculate the working capital (current) ratio correct to **one** decimal place.

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..... [3]

Anika is considering taking the following actions to improve her working capital.

- 1 Obtain a long-term loan of \$10 000.
- 2 Hold a sale of 'slow moving' inventory with an original cost of \$4000, the sale to raise \$3200 in cash.
- 3 Purchase non-current assets of \$8000 and additional inventory of \$2000.
- 4 Pay accounts payable of \$5000, taking a cash discount of 4%.

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- (d) Complete the following table showing the changes to working capital. The first transaction has been completed as an example.

Action	Working capital (Increase, decrease, unchanged)	Amount of change (\$)
1 Obtain a long term loan, \$10 000.	<i>Increased</i>	<i>\$10,000</i>
2 Sale of inventory (cost \$4000) for \$3200 cash.		
3 Purchase non-current assets \$8000 and inventory \$2000, on credit.		
4 Pay accounts payable, \$5000, taking cash discount of 4%.		

[6]

[Total: 20]

Answer Question 5 on the following pages.For
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- 5 Jasmine is a retailer of fashion goods. The following balances were extracted from her books on 30 September 2011.

	\$
Revenue (sales)	210 000
Purchases	113 500
Goods returned by customers	8 120
Goods returned to suppliers	3 400
Inventory at 1 October 2010	9 430
Carriage	1 700
Insurance	5 600
Light and heat	6 300
Staff wages	27 000
Advertising	10 600
General expenses	15 850
Discount received	1 750
Building costs	20 100
Land and buildings at cost	100 000
Fixtures and fittings at cost	18 000
Computer equipment at cost	12 000
Provisions for depreciation:	
Fixtures and fittings	7 200
Computer equipment	3 600
Disposal account	200 Cr
7% Bank loan repayable 30 March 2014	20 000
Bank overdraft	18 500
Trade receivables	8 200
Trade payables	26 750
Provision for doubtful debts	500
Drawings	15 500
Capital at 1 October 2010	80 000

Additional information:

- Inventory at 30 September 2011 was valued at \$11 780.
- The cost of carriage from suppliers was \$500, the remainder of the cost related to the delivery of goods to customers.
- At 30 September 2011:
Heating expenses, \$375, were accrued.
Insurance, \$1120, is prepaid.
- The 7% bank loan was received on 1 April 2011. Interest is payable on each anniversary of the loan.
- Buildings costs consists of \$16 000 to build an extension to the building and \$4100 to repair the heating system.

- 6 Depreciation is charged on:
 Fixtures and fittings at the rate of 20% per annum on cost using the straight line method.
 Computer equipment at the rate of 30% per annum using the diminishing (reducing) balance method.
- 7 A provision for doubtful debts is to be maintained at 5% of trade receivables.

REQUIRED

- (a) Prepare the income statement for Jasmine for the year ended 30 September 2011. [24]
- (b) Prepare the balance sheet of Jasmine at 30 September 2011. [16]

[Total: 40]

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[illegible]

[illegible]

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