**NOVEMBER 2012**

**SUGGESTED SOLUTIONS**

**SECTION A**

1. B
2. B
3. B
4. B
5. A
6. A
7. D
8. A
9. C
10. C
11. D
12. C
13. D
14. A
15. C
16. B
17. C
18. D
19. B
20. D

**SECTION B**

**Question 1**

1. Purchases Ledger Control

|  |  |
| --- | --- |
| K  Bank 20,420  c/d 31st March 5,330  27,750 | K  b/d 1st March 8,900  Suppliers (March) 16,850  27,750  b/d 5,330 |

Sales Ledger Control

|  |  |
| --- | --- |
| K  b/d 1st March 11,680  Credit Sales (March) 30,980  42,660  b/d 26,920 | Bank/Cash (March) 15,740  c/d 31 March 26,920  42,660 |

B) (1) Return outwards represents an organization returning goods, previously purchased, to a supplier. It would feature in the Purchases Ledger Control Account as a debit entry.

(2) Return inwards represents an organization receiving goods back which had previously been sold, because they were faulty or inappropriate for some reason. It would feature in the Sales Ledger Control Account as a credit entry.

C) i) They provide an answer or alternative to detailed individual account checking

ii) Makes reconciliation of all the accounts easier and quicker.

**Question 2:**

1. Purchases (Payable) Ledger

Sales (Receivables) Ledger

General (Nominal) Ledger

Cash Book

Personal Ledger

Private Ledger

Stock Ledger

1. A business owner normally runs a business to make money or more precisely make profits. He or She needs information to tell them whether the business is doing well and they would need to consider questions such as:

* How much profit or loss has the company made/
* How munch money does the company owe?
* Will the company have sufficient funds to meet its commitments?
* What is the value of the business and what is its net asset value?
* What is the stock market value of our shares and do they represent good value for investors and potential investors?
* Is the business financially stable?
* What is the growth potential for the business?

The main purpose of providing financial and accounting information is to provide answers to such questions by presenting a summary of the transactions of the business in a standard.

1. i) Managers

Shareholders of the company

Trade payables

Providers of finance to the company

The Tax Authority

Employees

Financial analysts and advisors

Government and their agencies

The public

Debt holders

Trade unions

ii) Managers of the company: People appointed by the company owners to supervise the daily activities if the company need information about the company’s current and expected future financial situation. This helps efficient management and effective control and planning decisions.

Shareholders: Want to assess how effectively management is performing and how much profit they can withdraw from the business for their own use. Shareholders of the company need information to assess that they are receiving adequate returns for their investments. Customers might be interested in the accounts of a company in order to ensure continuity of service and advice for any product purchased.

Trade Payables: Suppliers want to know about the company ability to pay its debts. Customers need to know that a company is a secure source of supply and is in no danger of closing down.

Providers of Finance to The Company: Might include a Bank which allows the company an overdraft facility or provides longer term finance by way of loan. Will want to ensure that the company is able to meet its interest payments and eventually to repay the capital originally advanced.

Tax Authority: Wants to know about business profits in order to assess the tax liability of the company.

Employees: Need to know about the company’s Financial Position because their future careers and level of their salaries, wages and general working conditions depend on it.

Financial Analysts and Advisers: Need information for their clients, for example stockbrokers need information to advise potential investors, credit agencies need information to advise potential suppliers of goods and services, journalists need information for their reading public.

Government and their Agencies: Interested in the allocation of resources and in the activities of enterprises and they would also require information in order to provide a basis for national statistics.

The Public: Want information because enterprises affect tem in many ways, e.g. providing jobs and using local suppliers, or by affecting the environment .g. pollution levels.

Debt Holders: Need information to be able to asses that the business will be able to repay any outstanding or intended debts.

Trade Unions: Will use the financial information as a basis for negotiations with employers for pay and benefits purposes.

* How much profit or loss has the company made?
* How much money does the company owe?
* Will the company have sufficient funds to meet its commitments?
* What is the value of the business and what are its net assets?
* What is the stock market value of its shares and do they represent good value for investors and potential investors?
* Is the business financially stable?
* What is the growth potential for the business?

**Question 3:**

1. **Archie and Harold**

Trading, Profit and Loss and Appropriation Account for the Year ended 31st December 2010

K K

Sales 373,550

Less: Cost of Sales

Opening Stock 12,690

Purchases 245,700

258,390

Closing Stocks 9,320

249,070

Gross Profit 124,480

Less: Expenses

Heat and Light 14,328

Wages (40,570 + 300) 40,870

Sundry Expenses (9,212 -500) 8,712

Depreciation (90,000 – 26,200) x 10% 6,380

70,290

Net Profit 54,190

Less:

Archie’s Salary 12,000

Interest on Capital:

Archie (120,000 x 15%) 18,000

Harold (70,000 x 15%) 10,500

40,500

13,690

Share of Profit:

Archie 6,845

Harold 6,845 13,690

1. Current Accounts

|  |  |
| --- | --- |
| Archie Harold  K K  Balance b/d 0 1,110  Drawings 10,000 7,750  Balance c/d 62,945 8,485  \_\_\_\_\_ \_\_\_\_\_\_  72,945 17,345 | Archie Harold  K K  Balance b/d 36,100 0  Salary 12,000 0  Interest 18,000 10,500  Profit 6,845 6,845  72,945 72,945  Balance b/d 62,945 8,485 |

1. **Archie and Harold**

**Statement of Financial position as at 31st December 2010**

K K K

Non-Current Assets Cost Depn. NBV

Premises 180,000 0 180,000

Plant and Equipment 90,000 32,580 57,420

270,000 32,580 237,420

Current Assets

Sock 9,320

Receivables 34,000

Prepayments 500

Bank 4,000

47,820

Current Liabilities

Payables 23,510

Accruals 300 23,810

Net Current Assets 24,010

**261,430**

Archie Harold

Capital Accounts 120,000 70,000 190,000

Current Accounts 62,945 8,485 71,430

182,945 78,485  **261,430**

**Question 4**

1. i) FIFO

Date Purchases Unit Unit Stock

Value Value Sale Value Value Value

K K K K K

1 May 65 10 650 650

5 May 80 11 880 1,530

8May 60 10 600 930

10 May 20 12 240 1,170

12 May 5 10 55 1,120

12 May 5 11 55 1,065

15 May 30 13 390 1,455

ii) AVCO

Date Purchases Sale In Stock Cost Value Av. Cost

K K K

1 May 65 65 10.00 650.00

5 May 80 80 11.00 880.00

145 1,530.00 10.55

8 May 60 85 10.55 896.75

10 May 20 20 12.00 240.00

105 1,136.75 10.83

12 May 10 95 10.83 1,028.85

15 May 30 30 13.00 390.00

125 1,418.85 11.35

1. **Advantage:** Closing stock is always at current prices

**Disadvantage:** Tends to overstate profits at times of rising buying prices

1. i) Trade discounts are deductions allowed from the price of goods sold to special customers. They are allowed a specific percentage discount from the price.

ii) Cash Discounts are offered to customers for prompt payment usually less than one month.

iii) Credit Notes are used in business for recording refunds to credit customers instead of giving them cash refunds.

iv) Debit Notes are additional invoices sent by a supplier when a business transaction has been undercharged, so the Debit Note is issued to correct the error.

Question 5:

1. **Louise Park**

**Income Statement for the Year Ended 31st December 2009**

K K

Sales 37,500

Cost of Goods Sold

Opening Stock 2,190

Purchases 14,030

16,220

Closing Stock 3,680

12,540

Gross Profit 24,960

Add: Discount received 680

25,640

Less: Expenses

Discount Allowed 720

Heating Costs 8,680

Advertising 1,810

Insurance (1,070 – 710) 360

Wages and Salaries (1,290 – 1,310) 2,600

Depreciation:

Buildings (11,420 x 5%) 571

Shop Fittings (2,640 x 7.5%) 198

Motor Vehicles (6,000 – 3,380) x 25% 655

15,594

**Net Profit 10,046**

1. **Louise Park**

**Statement of Financial Position as at 31 December 2009**

K K K

Non-Current Assets

Buildings 11,420 1,713 9,707

Shop Fittings 2,640 594 2,046

Motor Vehicles 6,000 4,035 1,965

20,060 6,342 13,718

Current Assets

Stocks 3,680

Receivables 430

Pre-payments 710

Cash in Hand 880

5700

Current Liabilities

Payables 610

Accruals 1,310

Bank Overdraft 932

2,852

Working Capital 2,848

**16,566**

Presented by:

Capital (Opening Balance) 16,520

Add: Net Profit 10,046

26,566

Less: Drawings 10,000

**16,566**

1. Errors not affecting the balancing of Trial Balance:
2. Error of Omission

This is where a transaction has been completely omitted from the books

1. Compensating Error

This is where two errors occur on both sides of the ledger account cancel each other

1. Error of Commission

This error occurs when a transaction is entered in a wrong personal account

1. Error of Principle

This error occurs when a transaction is entered in the wrong class of account

1. Complete Reversal of Entries

This error occurs when a transaction is debited and credited on wrong sides of the Ledger account