

Sole Trader Final Accounts



- 2** Danbi Wyske runs her business from rented premises. The following balances were extracted from her books on 30 April 2003.

	\$
Stock 1 May 2002	4 000
Sales	80 000
Purchases	62 000
Debtors	10 000
Creditors	9 000
Electricity paid	3 000
General expenses	7 000
Cash at bank	5 000
Drawings	8 000
Rent and insurance paid	6 000
Equipment at cost	45 000
Provision for depreciation of equipment	16 000
Capital	?

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- Danbi Wyske

Dr
\$

Cr
\$

[illegible]

-[1]

- 3 Andy Mann owns a general store. His Trading and Profit and Loss Account for the year ended 31 March 2003 is shown below. Some words and figures are missing.

(a) In each of the boxes (i) to (vi) enter the missing word(s) or figure.

Andy Mann

Trading and Profit and Loss Account for the year ended 31 March 2003

	\$	\$	\$
Sales			200 000
Less Cost of goods sold			
Opening stock		(i) <input type="text"/>	
Purchases	120 000		
Less (ii) <input type="text"/>	2 000	118 000	
		130 000	
Less (iii) <input type="text"/>		10 000	120 000
Gross Profit			80 000
Add Rent received		(iv) <input type="text"/>	
Discount (v) <input type="text"/>			3 000
			88 000
Less Wages		12 000	
Insurance		3 000	
General expenses		28 000	
Depreciation		(vi) <input type="text"/>	58 000
Net Profit			30 000

[6]

- (b) Calculate Andy's net profit as a percentage of his sales for the year. Show your workings.

.....

.....

.....[2]

- 3 (c) On 31 March 2003 Andy's capital was \$200 000. He also had a long-term loan from his bank of \$50 000.

Calculate Andy's net profit as a percentage of the capital employed in his business.

Show your workings.

.....
.....
.....[3]

- (d) Give **two** reasons why it is important for Andy to know his net profit as a percentage of the capital employed.

.....
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.....
.....
.....[4]

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- 1 The following Trial Balance was extracted from the books of Salem Ahmed at 31 July 2006.

	\$	\$
Capital		62 000
Drawings	7 200	
Premises at cost	38 000	
Fixtures at valuation	7 800	
Equipment at cost	5 000	
Provision for depreciation of equipment		950
Provision for doubtful debts		130
Debtors	9 000	
Bad debts recovered		170
Creditors		7 970
Bank		4 755
Stock 1 August 2005	10 260	
Sales		89 500
Purchases	65 700	
Sales returns	1 100	
Carriage outwards	210	
Discount allowed	600	
Discount received		610
Administration expenses	<u>21 215</u>	
	<u>166 085</u>	<u>166 085</u>

Additional information

- During the year ended 31 July 2006 Salem took goods costing \$1260 for his own use. No entries had been made in the accounting records.
- The provision for doubtful debts is to be maintained at 2 % of the debtors.
- Equipment is to be depreciated at 10 % per annum using the reducing balance method.
- Fixtures were valued at \$7250 on 31 July 2006. No fixtures were bought or sold during the year ended 31 July 2006.
- Because of illness, Salem was unable to value the stock on 31 July 2006. Salem's gross profit margin is 25 %.

REQUIRED

Prepare the Trading and Profit and Loss Account of Salem Ahmed for the year ended 31 July 2006.

The value of the stock on 31 July 2006 should be clearly shown in the Trading Account.

A Balance Sheet is **not** required.

Prepared by D. El-Hoss

Salem Ahmed

Trading and Profit and Loss Account for the year ended 31 July 2006

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Examiner's
Use

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[18]

[Total: 18]

- 2 (a) Insert the missing words and figures in the following trading and profit and loss account.

Shin Lee
Trading and Profit and Loss Account
for the year ended 31 March 2007

			\$
Sales			130 000
Less: sales returns	(i)	<input type="text"/>	
			<u>125 000</u>
Cost of goods sold			
Stock at (ii)	<input type="text"/>	42 000	
Add: purchases	(iii)	<input type="text"/>	
carriage (iv)	<input type="text"/>	<u>2 000</u>	
		124 000	
Less: Stock at 31 March 2007		<u>36 000</u>	
			<u>88 000</u>
Gross profit	(v)	<input type="text"/>	
Rent		1 200	
Electricity		600	
Water charges		350	
Wages	(vi)	<input type="text"/>	
Provision for depreciation		<u>1 450</u>	
			<u>9 200</u>
(vii)	<input type="text"/>	(viii)	<input type="text"/>
			<u> </u>

[8]

- (b) From the information in part (a) calculate to **two** decimal places Shin Lee's rate of stock turnover for the year ended 31 March 2007.

Show your workings.

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..... [4]

- (c) Give **one** example of a business with:

- (i) A **high** rate of stock turnover;

.....

.....

.....

- (ii) A **low** rate of stock turnover

.....

.....

..... [4]

[Total: 16]

- 4 Gorman Limited has prepared the following trial balance from the company's accounting records for the year ended 30 September 2010.

For
Examiner's
Use

Gorman Limited
Trial Balance at 30 September 2010

	\$	\$
Bank (overdrawn)		2 200
Revenue (sales)		92 000
Ordinary goods purchased (purchases)	70 300	
Carriage inwards	600	
Inventory (stock) at 1 October 2009	13 900	
Rent payable	2 600	
Property tax	1 500	
Electricity	850	
Wages and salaries	5 250	
Equipment and office fittings	17 000	
Provision for depreciation on equipment and office fittings		1 700
Repairs and maintenance	1 100	
Administrative expenses	4 000	
Retained profit at 1 October 2009		28 000
Share capital		9 000
Trade receivables (debtors)	17 600	
Trade payables (creditors)		1 800
	<u>134 700</u>	<u>134 700</u>

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Additional information

- Inventory (stock) at 30 September 2010 was \$14 300.
- Wages accrued but unpaid were \$500.
- Property tax prepaid was \$300.
- The bank statement for 30 September showed bank charges of \$120. This has not been entered in the books.
- Depreciation of \$1700 is to be provided for the year.

REQUIRED

- (a) Define a trial balance.

.....
..... [3]

- (b)** Prepare Gorman Limited's income statement (trading and profit and loss account) for the year ended 30 September 2010.

For
Examiner's
Use

Gorman Limited
Income Statement (Trading and Profit and Loss Account)
for the year ended 30 September 2010

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[13]

- (c) Name the accounting principle which has been applied to the amount included in the income statement (trading and profit and loss account) for **each** of the following.

- (i) Inventory (stock)

.....

- (ii) Property tax

..... [4]

- (d) From your answer to (b) calculate Gorman Limited's rate of inventory (stock) turnover.

Show your workings.

.....

.....

.....

..... [5]

- (e) Gorman Limited had a bank overdraft at 30 September 2010. Suggest **one** way in which the company could reduce or eliminate the overdraft.

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.....

.....

..... [2]

[Total: 27]

- 3 Stella Maris started a business as a bookseller on 1 May 2008 with initial capital of \$10 000 which she deposited in a new business bank account.

For
Examiner's
Use

She is not an experienced bookkeeper but has drawn up the following trial balance at 31 October 2008. Stella has put certain balances in the wrong column and may have made other errors.

Trial Balance at 31 October 2008

	Debit \$	Credit \$
Capital		10 000
Shelving and equipment	5 000	
Purchases		24 000
Rent payable		6 000
Sales	34 900	
Stock at 31 October 2008	5 300	
General expenses	2 500	
Cash at bank		7 400
Difference		300
	<u>47 700</u>	<u>47 700</u>

REQUIRED

- (a) State which accounting principle Stella was following when she deposited her initial capital into a new business bank account.

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..... [2]

- (b) Name the account in which an unexplained difference on a trial balance should be entered.

..... [1]

Prepared by D. El-Hoss

(c) Prepare a corrected trial balance at 31 October 2008.

For
Examiner's
Use

Stella Maris
Trial Balance at 31 October 2008

Debit
\$

Credit
\$

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[10]

- (d) Using the information above, complete Stella's trading and profit and loss account for the six months ended 31 October 2008.

For
Examiner's
Use

Stella Maris
Trading and Profit and Loss Account for the six months ended 31 October 2008

	\$	\$
Sales		<input type="text"/>
Stock at 1 May 2008	<input type="text" value="nil"/>	
Purchases	<input type="text"/>	
	<hr/>	
	<input type="text"/>	
Stock at 31 October 2008	<input type="text"/>	
	<hr/>	
Cost of sales		<input type="text"/>
Gross profit		<input type="text"/>
Expenses		
Rent	<input type="text"/>	
General expenses	<input type="text"/>	
	<hr/>	
		<input type="text"/>
		<hr/>
Net profit		<input type="text"/>
		<hr/>

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[9]

[Total: 22]

- 5 Gordon has prepared the following trial balance after calculating his net profit for the year ended 31 March 2009.

For
Examiner's
Use

Gordon
Trial balance at 31 March 2009

	\$	\$
Bank	700	
Bank loan repayable 2011		6 000
Capital at 1 April 2008		6 400
Creditors		2 100
Debtors	3 400	
Drawings	12 000	
Motor vehicles	4 000	
Net profit for the year		12 900
Plant and equipment	8 000	
Provision for depreciation		
Plant and equipment		1 600
Motor vehicles		1 000
Stock at 31 March 2009	<u>1 900</u>	
	<u>30 000</u>	<u>30 000</u>

REQUIRED

- (a) Prepare Gordon's capital account for the year ended 31 March 2009.

Gordon
Capital account
www.igcseaccounts.com

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..... [4]

Prepared by D. El-Hoss

(b) Prepare Gordon's balance sheet at 31 March 2009.

Gordon
Balance sheet at 31 March 2009

For
Examiner's
Use

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[8]

- (c) From Gordon's balance sheet, calculate **each** of the following ratios to **two** decimal places. Show your workings.

For
Examiner's
Use

- (i) Current ratio

.....

.....

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- (ii) Quick ratio

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..... [6]

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- (d) Place a tick (✓) in **one** of the boxes below to show which of these two ratios Gordon should use to decide if he can afford to pay his creditors.

current ratio	
quick ratio	

[2]

[Total: 20]

- 4 Timpani Ltd makes machine parts and their financial year ends on 31 March. After preparing the income statement (trading and profit and loss account) for the year ended 31 March 2010 the trial balance showed the following items.

For
Examiner's
Use

	\$
Bank	500 Dr
Bank loan (repayable 2011)	2 800
Trade payables (creditors)	700
Trade receivables (debtors)	1 000
Plant and equipment	20 000
Provision for depreciation	12 000
Inventory (stock) at cost	3 000
Share capital	5 000
Profit for the year	4 000

Timpani Ltd found that the inventory (stock) could be sold for only \$2700.

REQUIRED

- (a) (i) State the basis on which inventory (stock) should be valued at the end of a financial year.

.....
[3]

- (ii) State the value that Timpani Ltd should use for inventory (stock) in the balance sheet at 31 March 2010.

..... [1]

- (iii) State the effect on the company's profit for the year of adjusting the value of inventory (stock).

..... [2]

REQUIRED

For
Examiner's
Use

- (b)** Prepare Timpani Ltd's balance sheet at 31 March 2010.

Timpani Ltd
Balance Sheet at 31 March 2010

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[11]

Timpani Ltd must repay its bank loan by 31 March 2011. The company is not sure if it will be able to repay the loan.

Timpani Ltd decides to take some action to enable it to repay the bank loan when it becomes due.

For
Examiner's
Use

REQUIRED

- (c) For **each** proposed action place a tick (✓) under the correct heading to show if it might be successful.

	Successful	Not successful
Reduce dividend paid		
Reduce depreciation		
Reduce trade payables (creditors)		

[6]

- (d) (i) Name the accounting principle which states that a business is assumed to continue to operate indefinitely.

..... [1]

- (ii) If a business is not expected to continue, state the value at which its assets should be valued in the balance sheet.

..... [2]

[Total: 26]

- 4 The following summary list of balances was taken from the books of Deali, a sole trader, on 31 March 2010.

For
Examiner's
Use

	\$	
Revenue (sales)	125 000	
Inventory (stock)	14 500	
Ordinary goods purchased (Purchases)	76 000	
Bank (overdraft)	2 300	Cr
Equipment	9 000	
Trade receivables (debtors)	1 700	
Trade payables (creditors)	2 800	
Expenses	37 500	
Capital	15 500	
Drawings	8 000	

REQUIRED

- (a) Give **one** reason for preparing a trial balance.

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.....

..... [1]

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- Show any difference you find as a balance on a suspense account.

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REQUIRED

- | Date | | Dr
\$ | Cr
\$ |
|------|--|----------|----------|
| | | | |
| | | | |
| | | | |

- (d) Deali had inventory (stock) of \$18 000 at 31 March 2010.

Assuming that the journal entry in part (c) has been posted, complete Deali's summary income statement (trading and profit and loss account) for the year ended 31 March 2010.

For
Examiner's
Use

Deali
Summary Income Statement (Trading and Profit and Loss Account)
for the year ended 31 March 2010

	\$	\$
Revenue (sales)		(i) <input type="text"/>
Inventory (stock) at 1 April 2009	(ii) <input type="text"/>	
Ordinary goods purchased (Purchases)	(iii) <input type="text"/>	
	<input type="text"/>	
Inventory (stock) at 31 March 2010	(iv) <input type="text"/>	
Cost of sales		(v) <input type="text"/>
Gross profit		(vi) <input type="text"/>
Expenses		(vii) <input type="text"/>
Net profit		(viii) <input type="text"/>

[8]

[Total: 25]

Prepared by D. El-Hoss

- 1 The following trial balance was extracted from the books of Robbie McDonald at 30 September 2010.

*For
Examiner's
Use*

	Dr \$	Cr \$
Capital		85 000
Drawings	5 100	
Premises at cost	58 000	
Motor vehicle at cost	6 000	
Equipment at valuation	3 000	
Provision for depreciation of motor vehicle		1 200
Provision for doubtful debts		372
Trade receivables (debtors)	17 600	
Bad debts recovered		160
Trade payables (creditors)		16 250
Bank overdraft		7 728
Inventory (stock) 1 October 2009	19 500	
Revenue (sales)		216 000
Purchases	176 000	
Wages	28 200	
Property tax and insurance	8 900	
Administration expenses	4 410	
	<u>326 710</u>	<u>326 710</u>

Additional information

- 1 Because of an oversight the inventory (stock) on 30 September 2010 was not valued. Robbie marks up all his stock by 25%.
- 2 During the year ended 30 September 2010 Robbie took goods costing \$1900 for his own use. No entries have been made in the accounting records.
- 3 The motor vehicle is being depreciated at 20% per annum using the reducing balance method.
- 4 Equipment was valued at \$2340 on 30 September 2010. There were no sales or purchases of equipment during the year.
- 5 The provision for doubtful debts is to be maintained at 2% of the trade receivables (debtors).
- 6 A bank statement received on 30 September 2010 included an entry for bank interest of \$1550. No entries have been made in the accounting records.
- 7 The property tax and insurance includes \$2400 for insurance of the premises. This represents insurance cover for the sixteen months to 31 January 2011.

REQUIRED

Prepare the income statement (trading and profit and loss account) of Robbie McDonald for the year ended 30 September 2010.

The value of the inventory (stock) on 30 September 2010 should be clearly shown in the income statement (trading and profit and loss account).

Prepared by D. El-Hoss

Robbie McDonald
Income Statement (Trading and Profit and Loss Account) for the
year ended 30 September 2010

For
Examiner's
Use

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[20]

[Total: 20]

- 2 The following trial balance was extracted from the books of Sabena Khan at 31 January 2011.

For
Examiner's
Use

	\$	\$
Capital 1 February 2010		55 686
Drawings	4 800	
Premises at cost	30 000	
Equipment at valuation	4 500	
Fixtures and fittings at cost	5 400	
Provision for depreciation of fixtures and fittings		1 080
Inventory 1 February 2010	7 500	
Trade receivables	4 900	
Bad debts	50	
Bad debts recovered		150
Provision for doubtful debts		116
Carriage outwards	700	
Revenue		58 200
Purchases	51 400	
Purchases returns		2 300
Trade payables		5 100
Bank	5 240	
Administration expenses	7 960	
Discount allowed	182	
	<u>122 632</u>	<u>122 632</u>

Additional information:

- Sabena Khan did not value her inventory on 31 January 2011 due to an oversight. Her gross profit margin is 20%.
- The provision for doubtful debts is to be maintained at 2% of trade receivables.
- Equipment was valued at \$3800 on 31 January 2011. No equipment was bought or sold during the year ended 31 January 2011.
- Fixtures and fittings are to be depreciated by 10% per annum on cost.

REQUIRED

Prepare the income statement of Sabena Khan for the year ended 31 January 2011.

The income statement should clearly show the gross and net profits for the year and the value of the inventory on 31 January 2011.

You may use the space below for your workings.

Prepared by D. El-Hoss

Sabena Khan
Income Statement for the year ended 31 January 2011

For
Examiner's
Use

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[18]

[Total: 18]

- 2 The following trial balance was extracted from the books of Amir Sadiq as at 31 March 2003.

	\$	\$
Capital		33 000
Drawings	2 500	
Buildings at cost	20 000	
Fixtures and equipment at valuation	3 400	
Motor vehicles at cost	8 000	
Provision for depreciation of motor vehicles		3 250
Provision for doubtful debts		200
Debtors	7 500	
Creditors		6 700
Bank overdraft		2 880
Motor vehicle expenses	1 240	
General expenses	2 030	
Wages	11 940	
Insurance	1 470	
Carriage inwards	700	
Discount received		250
Sales		92 100
Purchases	68 500	
Sales returns	1 200	
Stock 1 April 2002	9 900	
	<u>138 380</u>	<u>138 380</u>

Additional information www.igcseaccounts.com

- At 31 March 2003:
Stock was valued at \$10 200.
Wages outstanding amounted to \$1 080.
Insurance prepaid amounted to \$210.
- During the year ended 31 March 2003 Amir took goods costing \$300 for his own use. No entries had been made in the accounting records.
- The provision for doubtful debts is to be maintained at 2% of the debtors.
- Motor vehicles are to be depreciated at 20% per annum using the reducing balance method.
- Fixtures and equipment were valued at \$2 800 on 31 March 2003. No fixtures and equipment were bought or sold during the year ended 31 March 2003.

Trading and Profit and Loss Account for the year ended 30 September 2003

(b) (i) State what is meant by the accounting concept of matching.

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.....[2]

(ii) Explain how the matching principle is applied to insurance in Elmer's Profit and Loss Account.

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.....[2]

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- 2 Martha Adebuyo owns a retail shop. Her financial year ends on 31 August. Her Trading and Profit and Loss Account for the year ended 31 August 2004 is shown below. Some words and figures are missing.

(a) In each of the boxes (i) to (vii) enter the missing word(s) or figures.

Trading and Profit and Loss Account for the year ended 31 August 2004

	\$	\$	\$
Sales		106 000	
Less Sales returns		(i) <input type="text"/>	100 000
		<hr/>	
Less Cost of goods sold			
Opening (ii) <input type="text"/>		12 000	
Purchases	(iii) <input type="text"/>		
Less Purchase returns	4 000		
	<hr/>		
	67 000		
Plus Carriage (iv) <input type="text"/>	5 000	72 000	
	<hr/>	<hr/>	
		84 000	
Less Closing stock		(v) <input type="text"/>	70 000
		<hr/>	<hr/>
Gross profit			30 000
Add Rent (vi) <input type="text"/>			6 000
			<hr/>
			36 000
Less Wages		14 000	
Insurance		3 000	
General expenses	(vii) <input type="text"/>		24 000
		<hr/>	<hr/>
Net profit			12 000
			<hr/>

[7]

(b) Calculate, showing your workings, Martha's

- (i) gross profit as a percentage of her sales for the year;

.....

[2]

- (ii) net profit as a percentage of her sales for the year.

.....

[2]

	\$
Bank	500 Dr
Bank loan repayable 2008	2 800
Creditors	700
Debtors	1 000
Machinery	20 000
Provision for depreciation on machinery	12 000
Stock	3 000
Drawings	4 500
Capital account at 1 April 2004	6 000
Profit for the year	7 500

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.....[12]

(b) (i) Define working capital.

.....[1]

(ii) From your answer to (a) above, calculate Bonnie's working capital at 31 March 2005.

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.....[3]

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[Total: 16]

- 3 Smith has a business selling washing machines. He buys the goods from the manufacturers and sells them to stores and other suppliers.

He keeps full accounting records and his trial balance at 30 June 2005 is shown below.

Smith
Trial balance at 30 June 2005

	Dr. \$	Cr. \$
Advertising	400	
Bank	3 200	
Carriage inwards	700	
Creditors		8 600
Debtors	14 800	
Provision for depreciation of fixed assets		2 800
Drawings	24 000	
Fixtures & Fittings	5 600	
General expenses	390	
Insurance	420	
Lighting and heating	600	
Motor car	12 000	
Motor expenses	860	
Office expenses	280	
Rent	720	
Postage and stationery	180	
Purchases	75 600	
Sales		102 000
Capital		40 000
Stock at 1 July 2004	8 400	
Wages and salaries	5 250	
	<u>153 400</u>	<u>153,400</u>

The following additional information is available.

- 1 Stock at 30 June 2005 was valued at \$7 100.
- 2 Motor expenses of \$350 are to be accrued.
- 3 Depreciation of \$700 for the year is to be charged.
- 4 Purchase invoices of \$4 000 have not been included but the goods are included in the closing stock valuation.

- Smith
- Trading and Profit and Loss Account for the year ended 30 June 2005

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- (b) (i) Calculate to **two** decimal places Smith's gross profit percentage for the year. Show your workings.

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

- (ii) Calculate to **two** decimal places Smith's net profit percentage for the year. Show your workings.

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

- (c) Jones has a similar business and his gross profit percentage is higher than Smith's. Suggest **two** reasons for this difference.

(i)
.....

(ii)
.....[4]

[Total: 24]

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5 Anvil has prepared the following trial balance (after calculating net profit) for the year ended 31 August 2005.

Anvil		
Trial Balance at 31 August 2005		
	\$	\$
Plant and equipment	45 000	
Motor cars	22 000	
Provision for depreciation		
Plant and equipment		12 000
Motor cars		5 400
Accruals		3 300
Bank and cash	22 400	
Bank loan repayable 2009		15 000
Creditors		32 000
Debtors	52 000	
Prepayments	1 800	
Stock at 31 August 2005	16 000	
Capital		91 000
Drawings	30 000	
Net profit		30 500
	<u>189 200</u>	<u>189 200</u>

(a) Prepare Anvil's Balance Sheet at 31 August 2005.

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[16]

- (b)** From Anvil's Balance Sheet, calculate the following ratios to **two** decimal places.

- (i) Current ratio www.igcseaccounts.com

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.....

..... [3]

- (ii) Quick ratio

.....[3]

[Total: 22]

REQUIRED

- Hilota
Trading Account for the year ended 31 March 2006

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[7]

- [3]

- (ii) On the basis that Hilota had no sales returns in the period, calculate his revised gross profit percentage to **two** decimal places.

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.....

.....

..... [3]

[Total: 25]

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- 3 Morgan is in business as a printer. He has prepared the following Trial Balance (after calculating net profit) from his accounting records for the year ended 31 August 2006.

Morgan		
Trial Balance at 31 August 2006		
	\$	\$
Machinery at cost	7 000	
Office equipment at cost	2 500	
Provision for depreciation		
Machinery		1 400
Office equipment		1 000
Accrued expenses		300
Bank		2 200
Cash	200	
Creditors		1 800
Debtors	3 500	
Loan from Nicola repayable 2011		5 000
Prepayments	600	
Stock at 31 August 2006	3 900	
Capital		9 000
Drawings	21 000	
Profit for the year		18 000
	<u>38 700</u>	<u>38 700</u>

REQUIRED

- (a) State which accounting principle has been applied in the treatment of **each** of the following items: www.igcseaccounts.com

- (i) Profit for the year;

.....

- (ii) Stock.

..... [4]

- Morgan
Balance Sheet at 31 August 2006

www.igcseaccounts.com

[13]

- (c) Morgan's business has a bank overdraft at 31 August 2006. Suggest **one** way in which he could reduce or eliminate the overdraft.

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

- (d) Nicola has given Morgan an additional long term loan of \$2000 paid into the bank on 1 September 2006.

In the table below, place a tick (✓) under the correct heading to indicate the effect of the additional loan on the following items in Morgan's Balance Sheet:

Effect of additional loan

		Increase	Decrease	No effect
(i)	Bank overdraft			
(ii)	Loan account			
(iii)	Working capital			
(iv)	Profit for the year			
(v)	Capital			

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[5]

[Total: 24]

- 5 The following is the trial balance of Rachel Smith at 31 March 2012.

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	\$	\$
Bank	5280	
Cash	160	
Purchases	42 500	
Revenue		63 100
Inventory at 1 April 2011	3 100	
Carriage inwards	1 050	
Carriage outwards	540	
Purchase returns		1 900
Premises	38 600	
Equipment	9 600	
Provision for depreciation of equipment		3 840
Trade receivables	5 000	
Trade payables		3 900
Bad debts	190	
General expenses	1 620	
Property tax	6 000	
Wages	7 100	
Capital		48 000
	<u>120 740</u>	<u>120 740</u>

The following additional information is available at 31 March 2012.

- 1 Inventory was valued at \$3750.
- 2 A bonus of \$180 is to be accrued in the wages account.
- 3 Property tax includes \$1200 paid in advance.
- 4 Depreciation of \$1920 is to be provided for the year.
- 5 A provision for doubtful debts of 3% of the trade receivables is to be created.

REQUIRED

- (a) Prepare the income statement for the year ended 31 March 2012.

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Use

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[16]

- (b) (i) From your answer to (a), calculate the percentage of gross profit to revenue. Show your workings and give your answer to **two** decimal places.

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.....

.....

..... [2]

- (ii) Suggest **one** way in which Rachel Smith could improve this percentage.

.....

.....

..... [2]

- (c) (i) From your answer to (a), calculate the percentage of profit for the year to revenue. Show your workings and give your answer to **two** decimal places.

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..... [2]

- (ii) Suggest **one** way in which Rachel Smith could improve this percentage.

.....

.....

..... [2]

[Total: 24]

- 3 Mark Mutanda is a business consultant. His financial year ends on 31 January. He provided the following information on 31 January 2012.

For
Examiner's
Use

	\$
Income from clients	82 100
Insurance	5 630
Wages and salaries	33 000
Rent received	2 600
Rates paid	5 200
Provision for doubtful debts 1 February 2011	154
Loan interest paid	900
Office expenses	17 177
Cash drawings	16 000
Capital 1 February 2011	200 000

Additional information

- On 31 January 2012 insurance prepaid amounted to \$2320 and wages of \$3200 are to be accrued.
- The rent received covers a period of 13 months to 28 February 2012.
- The office expenses includes \$214 for Mark Mutanda's home telephone bill.
- A 10-year loan of \$20 000 was received on 1 February 2011. Interest is charged at 6% per annum.
- The provision for doubtful debts is maintained at 2% of the trade receivables. On 31 January 2012 the trade receivables totalled \$6800.
- Fixtures and fittings cost \$5250. They are depreciated at 10% per annum on the straight line method.
- Office equipment was valued at \$1900 on 1 February 2011. Additional office equipment costing \$600 was purchased during the year. There were no sales of office equipment during the year. On 31 January 2012 the office equipment was valued at \$2100.

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Examiner's
Use

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[18]

- (b) Write up the capital account of Mark Mutanda for the year ended 31 January 2012.

Where a traditional “T” account is used it should be balanced and the balance brought down on 1 May 2012.

Where a three-column running balance account is used the balance column should be updated after each entry.

Mark Mutanda
Capital account

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..... [6]

- (c) Calculate the return on capital employed (ROCE) for Mark Mutanda.

Use the total capital employed on 1 February 2011.

Show your workings and give your answer to **two** decimal places.

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..... [3]

- (d) Explain the importance of the return on capital employed (ROCE).

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..... [2]

For
Examiner's
Use

- (e) The return on capital employed (ROCE) is lower than it was in the previous year. Suggest **one** reason for this.

For
Examiner's
Use

.....

.....

..... [2]

[Total: 31]

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Use

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[12]

- 5 Tania Yousaf sells office equipment. She values her inventory at the lower of cost and net realisable value.

For
Examiner's
Use

REQUIRED

- (a) Explain the meaning of the term “cost”.

.....

.....

..... [2]

- (b) Explain the meaning of the term “net realisable value”.

.....

.....

..... [2]

- (c) Explain how valuing inventory at the lower of cost and net realisable value is an application of the principle of prudence.

.....

.....

..... [2]

- (d) After the preparation of her financial statements for the year ended 31 December 2011, Tania Yousaf discovered that the closing inventory had been overvalued by \$400.

Complete the table below to show the effect of this.

The first one has been completed as an example.

		overstated	understated	no effect
(i)	gross profit for the year ended 31 December 2011	✓		
(ii)	profit for the year ended 31 December 2012			
(iii)	credit balance on capital account on 1 January 2013			

[4]

After correcting the financial statements, Tania Yousaf provided the following information:

For
Examiner's
Use

	\$
Revenue for the year ended 31 December 2011	87 000
Inventory at 1 January 2011	6 000
Inventory at 31 December 2011	7 400
Gross profit margin	20%

REQUIRED

- (e) Calculate the rate of inventory turnover.

Show your workings and give your answer to **two** decimal places.

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..... [3]

- (f) The rate of inventory turnover was better in 2011 than in 2010. Suggest **one** reason for this.

.....

..... [2]

- (g) State **one** factor that Tania Yousaf should consider before comparing the results of her business with those of another business.

.....

..... [1]

- (h) State **two** reasons why Tania Yousaf is interested in the financial statements of her credit customers.

(i)

.....

(ii)

..... [2]

- (i) State **one** reason why **each** of the following business people are interested in Tania Yousaf's financial statements.

(i) Employee

.....

.....

(ii) Bank manager

.....

..... [2]

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[Total: 20]

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