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ACCOUNTING

Paper 2

0452/23

October/November 2017

1 hour 45 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

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 an HB pencil for any diagrams or graphs.

Do not use staples, paper clips, 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.

This document consists of **20** printed pages.

- 1 Zodwa is a trader. She maintains a full set of accounting records. Her financial year ends on 31 July.

She provided the following information on 31 July 2017.

- 1 No entry has been made for \$720 cash received from Brian, a credit customer. The balance of his account is irrecoverable and should be written off.
- 2 A cheque for \$118 was received from AL Stores whose account was written off in 2015.
- 3 Rent prepaid amounted to \$400. One quarter of the rent for the year relates to Zodwa's flat above the business premises.
- 4 Commission receivable outstanding amounted to \$150.
- 5 The fixtures originally cost \$40 000 and are to be depreciated by 15% per annum using the reducing (diminishing) balance method.

REQUIRED

- (a) Record this information in the following accounts of Zodwa's ledger at 31 July 2017.

Close the accounts by balancing or by making a transfer to an appropriate account.

Some entries have already been made in the accounts during the year.

Brian account

| Date 2016 | Details | \$ | Date | Details | \$ |
|--------------|-------------|-------|-------|---------|-------|
| Aug 1 | Balance b/d | 1000 | ..... | ..... | ..... |
| | | | | | |
| | | | | | |
| | | | | | |

Bad debts account

| Date 2017 | Details | \$ | Date | Details | \$ |
|--------------|---------------|-------|-------|---------|-------|
| July 31 | Total to date | 990 | ..... | ..... | ..... |
| | | | | | |
| | | | | | |
| | | | | | |

Bad debts recovered account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Rent account

| Date | Details | \$ | Date | Details | \$ |
|----------------|-------------------|-------------|-------|---------|-------|
| <i>2017</i> | | | | | |
| <i>July 31</i> | <i>Total paid</i> | <i>5200</i> | ..... | ..... | ..... |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Drawings account

| Date | Details | \$ | Date | Details | \$ |
|----------------|----------------------|-------------|-------|---------|-------|
| <i>2017</i> | | | | | |
| <i>July 31</i> | <i>Total to date</i> | <i>9650</i> | ..... | ..... | ..... |
| | | | | | |
| | | | | | |
| | | | | | |

Commission receivable account

| Date | Details | \$ | Date 2017 | Details | \$ |
|-------|---------|-------|--------------|---------------|-------|
| | | | July 31 | Total to date | 890 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Provision for depreciation of fixtures account

| Date | Details | \$ | Date 2016 | Details | \$ |
|-------|---------|-------|--------------|-------------|--------|
| | | | Aug 1 | Balance b/d | 11 100 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

[15]

On 31 July 2017 Zodwa decided to create a provision for doubtful debts.

REQUIRED

(b) Explain the meaning of the term provision for doubtful debts.

.....

.....

..... [2]

(c) Suggest **one** way in which the amount of a provision for doubtful debts may be determined.

.....

..... [1]

(d) State the double entry required to create a provision for doubtful debts.

| debit | credit |
|-------|--------|
| | |

[2]

(e) State how Zodwa would be applying the principle of prudence if she maintained a provision for doubtful debts.

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

(f) State how Zodwa would be applying the principle of accruals (matching) if she maintained a provision for doubtful debts.

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

(g) Suggest **two** ways in which Zodwa could reduce the amount of bad debts.

1
.....
2
..... [2]

[Total: 26]

- 2 Mahendra’s financial year ends on 31 August. He buys and sells on both cash and credit terms and maintains a full set of accounting records.

Mahendra prepares control accounts at the end of each month.

REQUIRED

- (a) Complete the following table. Use a tick (✓) to show where **each** of the following items would appear in Mahendra’s sales ledger control account. If the item does **not** appear place a tick in the “no entry” column.

| | debit | credit | no entry |
|--|-------|--------|----------|
| opening balance owed by credit customers | | | |
| credit sales | | | |
| cash sales | | | |
| provision for doubtful debts | | | |
| bad debts written off | | | |
| cash discount allowed to credit customers | | | |
| trade discount allowed to credit customers | | | |
| contra between sales and purchases ledgers | | | |
| cash received from credit customers | | | |

[9]

- (b) Name the book of prime (original) entry which Mahendra would use to obtain the following information when preparing his purchases ledger control account.

| | book of prime (original) entry |
|--|--------------------------------|
| returns to credit suppliers | |
| discount received | |
| interest charged by credit supplier | |
| contra entry to sales ledger control account | |

[4]

- (c) (i) State the meaning of a contra entry in connection with control accounts.

.....
 [1]

- (ii) State why such an entry may be necessary.

.....
 [1]

(d) Suggest **two** reasons why it is possible to have a debit balance on a purchases ledger control account.

- 1
-
- 2
- [2]

On 31 August 2017 Mahendra’s trade receivables amounted to \$20 520. He allows his credit customers 30 days credit.

The sales for the year ended 31 August 2017 were \$229 000, of which \$42 300 represented cash sales.

REQUIRED

(e) (i) State the formula for the calculation of the trade receivables collection period.

-
- [1]

(ii) Calculate the trade receivables collection period. Round up your answer to the next whole day.

-
-
-
- [2]

(f) Suggest **two** ways in which Mahendra could improve the trade receivables collection period.

- 1
-
- 2
- [2]

Mahendra is allowed 21 days credit by his credit suppliers. His trade payables payment period was calculated at 20 days at 31 August 2016 and 30 days at 31 August 2017.

REQUIRED

(g) State the formula for the calculation of the trade payables payment period.

.....
..... [1]

(h) Comment on the possible reaction of Mahendra's credit suppliers to the change in the ratio.

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

[Total: 25]

Question 3 is on the next page.

- 3 The financial year of the AS Sports Club ends on 30 September.

In addition to providing sporting facilities, the club also sells sportswear to members. No inventory is held as all goods are bought and sold to order, on a cash basis.

The treasurer provided the following information.

At 1 October 2016

| | |
|---|--------|
| | \$ |
| Equipment at cost | 22 000 |
| Provision for depreciation of equipment | 4 400 |
| Subscriptions owing by members | 600 |
| Cash at bank | 610 |
| Insurance prepaid | 60 |
| Bank loan (repayable 2020) | 7 000 |
| Accumulated fund | ? |

The receipts and payments account for the year ended 30 September 2017 was as follows.

| Receipts | \$ | Payments | \$ |
|---------------------------|---------------|------------------------|---------------|
| Balance 1 October 2016 | 610 | Equipment | 8 000 |
| Sale of sportswear | 3 510 | Purchase of sportswear | 2 410 |
| Subscriptions | 12 540 | Rates and insurance | 1 500 |
| Receipts from open day | 4 180 | Expenses of open day | 5 250 |
| Balance 30 September 2017 | 760 | Rent of sports ground | 1 800 |
| | | General expenses | 2 640 |
| | <u>21 600</u> | | <u>21 600</u> |

At 30 September 2017

- 1 Subscriptions owing by members amounted to \$240 and subscriptions prepaid by members amounted to \$180.
- 2 Loan interest at 5% per annum was outstanding.
- 3 The equipment is depreciated at 20% per annum based on the cost of equipment held at the end of each financial year.

REQUIRED

- (a) Calculate the subscriptions for the year ended 30 September 2017.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

(b) Prepare the income and expenditure account for the year ended 30 September 2017.

AS Sports Club
Income and Expenditure Account for the year ended 30 September 2017

| | \$ | \$ |
|-------|-------|-------|
| | | |
| | | |
| | | |
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[9]

(d) Explain why the outstanding loan interest should **not** be credited to the loan account.

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

[Total: 25]

4 Hanif's financial year ends on 31 July. He provided the following information on 31 July 2017.

| | |
|-------------------|--------|
| | \$ |
| Inventory | 87 500 |
| Trade payables | 81 500 |
| Trade receivables | 56 200 |
| Petty cash | 100 |
| Bank overdraft | 17 100 |

REQUIRED

(a) Calculate the current ratio. The calculation should be correct to **two** decimal places.

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

(b) Comment on your answer to (a).

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

(c) Calculate the quick ratio. The calculation should be correct to **two** decimal places.

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

(d) Suggest **two** reasons why the quick ratio is lower than it was at the end of the previous financial year.

1

.....

2

..... [2]

(e) Suggest **two** problems Hanif may encounter if his working capital is inadequate.

1

.....

2

..... [2]

(f) Complete the table by placing a tick (✓) in the correct column to show how **each** of the following transactions would affect the current ratio and the quick ratio.

The first one has been completed as an example.

| | current ratio | | | quick ratio | | |
|---------------------------------------|---------------|----------|-----------|-------------|----------|-----------|
| | increase | decrease | no effect | increase | decrease | no effect |
| introduce \$20 000 additional capital | ✓ | | | ✓ | | |
| obtain short-term bank loan \$10 000 | | | | | | |
| sell half the inventory at cost price | | | | | | |

[4]

Hanif provided the following information for the year ended 31 July 2017.

| | |
|---------------|---------|
| | \$ |
| Revenue | 999 750 |
| Cost of sales | 765 990 |

Inventory at 31 July 2017 was \$15 500 more than the inventory at 1 August 2016.

REQUIRED

(g) State the formula for the calculation of the rate of inventory turnover (in times).

.....

..... [1]

(h) Calculate the rate of inventory turnover (in times). The calculation should be correct to **two** decimal places.

.....

.....

.....

..... [2]

(i) Suggest **two** reasons why the rate of inventory turnover is lower than it was in the previous year.

1

.....

2

..... [2]

[Total: 19]

Question 5 is on the next page.

5 The financial year of CP Limited ends on 30 September.

The following information is available.

| | |
|--------------------------------|---------|
| On 1 October 2016 | \$ |
| Ordinary shares of \$1 each | 500 000 |
| General reserve | 11 000 |
| Retained earnings | 14 000 |
| 3% Debentures (repayable 2031) | 75 000 |

REQUIRED

(a) Calculate the return on capital employed (ROCE) at 1 October 2016. Use a profit of \$43 000. The calculation should be correct to **two** decimal places.

.....

.....

..... [3]

On 2 October 2016 an additional 100 000 ordinary shares of \$1 were issued. These shares qualified for dividends relating to the financial year ended 30 September 2017.

The following dividends were paid.

| | | |
|-------------|---|--------|
| 2016 | | \$ |
| December 31 | Payment of final ordinary share dividend for the year ended 30 September 2016 | 25 000 |
| 2017 | | |
| June 30 | Payment of interim ordinary share dividend for the year ended 30 September 2017 | 15 000 |

The profit for the year ended 30 September 2017 before debenture interest was \$71 000.

On 30 September 2017 a transfer was made of \$5 000 to general reserve. On that date a final ordinary share dividend for the year ended 30 September 2017 of \$30 000 was proposed.

REQUIRED

(b) Calculate the percentage (%) final ordinary share dividend for the year ended 30 September 2016.

.....

.....

..... [1]

(c) Calculate the percentage (%) total ordinary share dividend for the year ended 30 September 2017.

.....

 [3]

(d) Calculate the profit for the year ended 30 September 2017 **after** debenture interest.

.....
 [2]

(e) Prepare the statement of changes in equity for the year ended 30 September 2017.

CP Limited
 Statement of Changes in Equity for the year ended 30 September 2017

| | Ordinary share capital \$ | General reserve \$ | Retained earnings \$ | Total \$ |
|-----------------------------|------------------------------------|--------------------------|----------------------------|-------------|
| <i>On 1 October 2016</i> | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| <i>On 30 September 2017</i> | | | | |
| | | | | |

[7]

CP Limited wants to expand and requires \$300 000. It is considering raising the funds from either issuing additional 3% debentures or issuing 4% preference shares.

REQUIRED

(f) State **two** features of debentures.

1

.....

2

..... [2]

(g) State **two** features of preference shares.

1

.....

2

..... [2]

(h) Complete the following table to indicate the effect of issuing debentures. Where there is no effect, place a tick (✓) in the column headed “no effect”.

The first item has been completed as an example.

| | increase \$ | decrease \$ | no effect |
|--|----------------|----------------|-----------|
| effect on current assets | 300 000 | | |
| effect on non-current liabilities | | | |
| effect on profit for the year | | | |
| effect on profit available for ordinary shareholders | | | |
| effect on equity | | | |

[5]

[Total: 25]

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