MASTER PRINCIPLES of ACCOUNTS

2016 GCE O LEVEL PAPER

SUGGESTED SOLUTIONS

7175 Paper 2

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Paper 2

Q1

Azman Ltd

Income statement for the year ended 31 July 2016

	$	$
Sales Revenue		325000
Less: Sales returns		2400
Net sales revenue		322600 ✔
Less: Cost of sales		94300
Gross Profit		228300 ✔
Add: Other income		
Interest Income (10% x 15000)		1500
		229800
Less: Expenses		
General expenses (39700+560-350)	39910	
Salaries expenses	78960	
Machine repairs (5600+3000)	8600 ✔	
Depreciation on plant and machinery (20% x (193000 - 68000))	25000 ✔	
Depreciation on motor vehicles (25% x 84000)	21000 ✔	
Impairment loss on trade receivables (800-600)	200 ✔	173670
Profit for the year		56130 ✔

Caleb says…. Very strange right… Azman has plant and machinery yet no rent nor premises. Can't be online mah. We don't know where or how he operates without a physical space. Salaries expense so high some more… it means there's workers.

Azman Ltd

Balance sheet as at 31 July 2016

	$	$	$
Assets			
Non-current assets	Cost	Accumulated depreciation	Net book value
	(196000-3000)	*(68000+25000)*	
Plant and machinery	193000	93000 ✔	100000 ✔
		(32000+21000)	
Motor Vehicles	84000	53000 ✔	31000 ✔
Total non-current assets	277000	146000	131000 ✔
Current assets			
Inventory		36320 ✔	
Trade receivables	18500 ✔		
Less: Allowance for impairment of TR	(800) ✔		
Net trade receivables		17700 ✔	
Interest income receivables (1500-1000)		500 ✔	
Prepaid general expense		350	
Cash at bank		14300	
10% bank deposit		15000	
Total current assets			84170 ✔
Total assets			215170
Equity and liabilities			
Shareholders' equity			
Issued share capital, 100 000 ordinary shares	✔		100000
Retained earnings (45000+56130 -12000)			89,130 ✔
Total equity			189130
Current liability			
Trade payables		13480	
Accrued general expense		560 ✔	
Dividends payable (0.12 x 100000)		12000 ✔	26040 ✔
Total equity and liabilities			215170

12m

2a)

Reasons why business needs to be profitable:
- To remain as a going concern/ so it can continue operating
- To reward its owners for their contribution
- To attract investors (think Carousell/ Facebook)
- To reward employees and keep staff loyal
- To be able to expand (more stores)

Any two or other suitable points

b) Return on Equity

	2014	2015
Return on Equity	= (17.1%* 90,000) / 85000 * 100% = 18.1%	= (17.9%*130000) / 100 000* 100% = 23.3%

c) Vicky's sales revenue increased by $40 000 from 2014 to 2015 and gross profit increased by $9000 from 2014 to 2015, seemingly implying an improvement in profitability.

However, his gross profit margin has worsen from 38.9% in 2014 to 33.9% in 2015. This suggests that his mark up has fallen.

This can be seen from the percentage of his cost of sales to his sales revenue increasing from 2014 to 2015 from 61% (55000/90000) to 66% (86/130).

Vicky had reduced his selling price in order to attract more customers and this strategy is working.

This is supported by the improvement in the profit margin from 17.1%% in 2014 to 17.9% in 2015, indicating that the business now earns more profit for each dollar of sales revenue earned.

The increased amount of gross profit earned in 2014 did not incur additional similar proportion in the increase in operating expense.

The percentage of expenses to turnover is 21.8% in 2014 dropped significantly to 16% in 2015. This shows that Vicky has been able to be very efficient with managing his resources and improving overall profitability.

Vicky has also been able to deliver to investors returns that has increased from 18.1% in 2014 to 2015. If there are no areas of concern regarding Vicky’s liquidity position or other variables, Rachel should invest in Vicky’s business.

5a)

. To check the arithmetical accuracy of the entries made in the accounts i.e whether total debits equal total credits in the ledger.

. To facilitate the preparation of the Income Statement and Balance Sheet

(b)	General Journal		
	Details	Dr ($)	Cr ($)
1	Trade receivable – Li Tham	740	
	Trade receivable – Lee Sun		740
2	Fixtures and fittings	1500	
	Maintenance expense		1500
3	Drawings	200	
	Capital		200
4	Trade payable – Chan Yin	920	
	Cash at bank		920

c) 1. Error of commission
2. Error of principle

3a) To deter fraud. ✔
To determine that the difference between the cash book and bank statement balances are due to timing only.

b) Cash at bank A/C

2016		Debit ($)	Credit ($)	Balance ($)		
Aug-31	Balance b/d			663	Dr	✔
	Utilities expense		250 ✔			
	Bank charges		60 ✔			
	B Ling	1,460 ✔		1,813	Dr	
Sep-01	Balance b/d			1,813	Dr	✔

4m

c) Bank reconciliation statement as at 31 August 2016 ✔

	$	$	
Balance as per bank statement (Debit)		3404	✔
Add: Cheques yet to be credited			✔
Teo	253 ✔		
	✔	253	
Less: Cheques yet to be deposited			
Adi (cheque no. 82)	1214		✔
Insurance (cheque no. 83)	350		✔
Yee (cheque no 84)	280	1844	
Balance as per updated cash at bank account (Debit)		1813	✔

OR

Bank reconciliation statement as at 31 March 2015 ✔

	$	$	
Balance as per adjusted cash at bank (Debit)		1813	✔
Add: Cheques yet to be deposited			✔
Adi (cheque no. 82)	1214		
Insurance (cheque no. 83)	350		
Yee (cheque no 84)	280	1844	
Less: Cheques yet to be credited			✔
Teo	253 ✔	253	✔
Balance as per bank statement (Debit)		3404	✔

d) i) Current liabilities
ii) Current assets

MASTER PRINCIPLES of ACCOUNTS

4a)

		Capital	Revenue
1	Purchase price of delivery van	✔	
2	Special shelves fitted into the van	✔	
3	Annual insurance premium		✔
4	Replacement of damaged tyre		✔

b)

Caleb says….

The key line in this question is: .. a full year's depreciation is charged in the year of purchase **and in the year of sale. Accumulated depreciation has to be calculated for 3 years. NOT 2.**

Accumulated depreciation of motor vehicle A/C

		Debit ($)	Credit ($)		Balance ($)	
2015						
Nov-01	Balance b/d				5,600	Cr
2016						
Oct-31	Depreciation of motor vehicle		1,800	✔	7,400	Cr
Oct-31	Sale of non-current asset	7,400		✔	0	

c)

Sale of non-current asset A/C

			Debit ($)		Credit ($)		Balance ($)	
2016								
Oct-16	Equipment		12,800				12,800	Dr
Oct-16	Accumulated depreciation				7,400		5,400	
Oct-16	Cash at bank	✔			4,500	✔	900	Dr
Oct-16	Profit and loss	✔		✔	900		0	Dr

Working		
Cost of asset		12800
Yr 1		3200
Yr 2		2400
Yr 3		1800
Accumulated depreciation of disposed equipment		7400

5a)

. To check the arithmetical accuracy of the entries made in the accounts i.e whether total debits equal total credits in the ledger.

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	Details	Dr ($)	Cr ($)
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2	Fixtures and fittings	1500	
	Maintenance expense		1500
3	Drawings	200	
	Capital		200
4	Trade payable – Chan Yin	920	
	Cash at bank		920

c) 1. Error of commission
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