



2017 GCE N LEVEL PAPER SUGGESTED SOLUTIONS 7088 Paper 1 & 2 9 & 13 Oct 2017

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2017 7088 GCE N LEVEL Paper 2 SUGGESTED SOLUTIONS

1a) Bookkeeping is the recording of business transactions and is a part of the accounting process while accounting is the process of recording, summarising, analysing, interpreting and reporting of a business' financial information

b) The going concern concept assumes that the business will continue indefinitely.

c)

	Transaction	Source document	Journal*
i)	Cash Sales	Receipt	Cash book
ii)	Credit sales	Invoice	Sales Journal
iii)	Purchase of nca on credit	Invoice	General Journal
iv)	Returns of credit sales	Credit note	Sales returns Journal
v)	Cheque payments for credit purchases	Payment voucher/ receipts/ bank statement/ cheque counterfoil	Cash book

*must include Journal. E.g: Sales Returns Journal, Sales Returns will not be correct

2.

Umar

Trial Balance as at 30 June 2017

	Dr (\$)	Cr (\$)
Capital		
Drawings	7 225	
Fixtures and fittings	5 650	
Accumulated depreciation of fixtures and fittings		1450
Cash in hand	25	
Cash at bank (overdraft)		375
Trade payable		3750
General expenses	4 955	
Inventory	470	
Cost of sales	11805	
Sales revenue		15 600
Sales returns	595	
	30725	30725

- b) To check for arithmetical accuracy in the recording of transactions in accounts
- c) To aid/help in the preparation of the financial statements (income statement and balance sheet)

3a)

	Method	Workings	Depreciation	
			2016 (4)	2017 (\$)
i)	Straight line	$\frac{20\,000 - 4\,000}{4}$ $= \$4,000$	\$4,000	\$4,000
ii)	Reducing balance (25%)	2016: $20,000 \times 25\% = \$5,000$ 2017: $(20,000 - 5\,000) \times 25\%$ $= \$3\,750$	\$5,000	\$3750

b) Straight line method

c) - Wear and tear

- Obsolescenes

- Legal limits (any 2)

d) Consistency theory states that a business should use the same accounting treatment/methods from year to year so that the financial performance can be meaningfully compared.

If there are any mistakes you find in this solution set, remember:

Any one or all:

- It's just a suggestion
- Your got it free.
- You can always feedback at thepoatutor@gmail.com - happy to include your contribution!
- If you can do better, share your work 😊

4a) Reasons for trade discount:

- Encourage bulk purchases
- Encourage customers' loyalty
- Clear stock for cash/ replace with new stock

b) $\$3,200 \times 80\% = \2560

c) Debit Inventory 14800

Credit Total trade payables/ Trade payable control account 14800

d) Journal entry:

Dr Cash at bank (+CA)
 Dr Discount allowed (+Exp)
 Cr Trade receivables (- CA)

	Overstated	Understated	No effect
Gross profit			✓
Profit for the year	✓		
Trade receivables	✓		
Cash at bank		✓	

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Malik

Income Statement for the year ended 31 May 2017

	\$	\$
Fee Income		30 245
<u>Less: Expenses</u>		
General expense (8860 -320)	8 540	
Impairment loss on trade receivables (1000, - 975)	125	
Insurance expense	2 650	
Rent expense (5950 – 550)	5 400	
Printing and stationery (295 +66)	361	
Motor vehicle expenses	1 200	
Depreciation of fixtures and fittings	2 450	
Depreciation of motor vehicles	2 344	
		54 872
Profit for the year		6 700

(b) Malik
Balance Sheet as at 31 May 2017

	\$	\$	\$	\$
Assets				
<u>Non-current assets</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	
Fixtures & fittings	18 500	9 800 (7 350 + 2450)	8 700	
Motor vehicles	14 650	5 274 (2930 + 2344)	9 376	
Total non-current assets	33 150	15 074		18 076
<u>Current assets</u>				
Trade receivables		2 680		
Less: Allowance for Impairment of trade receivables		1 000		
Net trade receivables			1 680	
Prepaid rent expense			550	
Cash in hand			85	
Total current assets				2 315
Total assets				20 391
Equity and Liabilities				
<u>Shareholders' equity</u>				
Capital, 1 June 2016			25 500	
Add: Profit for the year			6 700	
Less: Drawings (14 380 + 320)			(14 700)	
Total equity				17 500
<u>Current liabilities</u>				
Trade payables			1 580	
Accrued stationery			66	
Short-term borrowings/ bank overdraft			1 245	
Total current liabilities				2 891
Total equity and liabilities				20 391

[12]

2a) For every debit entry recording of a transaction, there must be a corresponding credit entry of the same.

b)

Transaction	Debit	Credit
1	Cash at bank	Capital
2	Rent expense	Cash at bank
3	Inventory	Trade payable - Yin
4	Fixtures and fittings	Cash in hand

c) Any two from:

- Government
- Suppliers
- Customers
- Investors

[11]



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3. Capital

2016		Dr \$	Cr \$	Bal \$
July 1	Balance b/d			35 500 Cr
	Office Equipment		125	35 625 Cr
2017				
Jun 30	Drawings*	13 580		22 045 Cr
30	Profit and loss		6 025	28 070 Cr
Jul 1	Bal b/d			28 070 Cr

Caleb says:

- Total drawings is transferred to the capital account at the end of the year. Drawings of the motor vehicle is part of the total of \$13 850.
- \$6 170 is a derived figure from Capital

b) Drawings is the withdrawal of business resources/assets for owner's personal use.

- c) 1 – Compensating error
2 – Error of omission

d) General Journal

2017		Dr \$	Cr \$
Jun 30	Discount allowed		55
	Cost of sales		55
	Advertising expense	265	
	Cash at bank		265

4a)

Motor Vehicle

2016		Dr \$	Cr \$	Bal \$
Jan 1	Capital	8 500		8 500 Dr
	Other payable – Ty Motors	16 800		25 300 Dr
	Cash at bank*	150		25 450 Dr
2017				
Jan 1	Bal b/d			25 450 Dr

Caleb says:

*\$150 is part of cost to put motor vehicle in usable condition, therefore it is a capital expenditure. You will need to add this value into the cost of motor vehicle. "Delivery charges" is not a correct account.

b) Motor Vehicles expense

2016		Dr \$	Cr \$	Bal \$
Jan 1	Cash at bank	825		825 Dr
Dec 31	Cash in hand	253		1078 Dr
	Cash at bank	1589		2667 Dr
	Accrued motor vehicle expense	94		2761 Dr
	Prepaid motor vehicle expense (825/15 * 3)		165	2596 Dr
	Profit and loss		2596	0

c) Requires the disclosure of information which is deemed to be material in accounting reports.

- Information is deemed to be material if it has a serious effect on the decision-making of those who use it.

5. a

Sales revenue

2017		Dr \$	Cr \$	Bal \$
Jul 31	Trade receivable		81 414	81 414 Cr
	Transfer to trading account	81 414		-

b

Sales return

2017		Dr \$	Cr \$	Bal \$
Jul 31	Trade receivable	13 480		13 480 Dr
	Transfer to trading account		13 480	-

c

Cost of sales

2017		Dr \$	Cr \$	Bal \$
Jul 31	Inventory	42 235		42 235 Dr
	Inventory (sales returns)		2 576	39 659 Dr
	Transfer to trading account		39 659	-

d) Sales revenue – Sales returns - Cost of sales = Gross Profit
 $\$81\,414 - \$13\,480 - \$39\,659 = \underline{\$28\,275}$

e) The income statement summarises the total income earned and expenses incurred in the same accounting period to derive a business profit for the year.

f) The business and its owners are separate legal entity