G12 ECZ PRINCIPLES OF ACCOUNTS 2014 PAPER 2 SOLUTIONS

Grade 12 ECZ Principles of Accounts 2014 Paper 2 (7110/2)

Worked solutions — 4 structured questions

The full question paper appears first — worked answers follow.

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Candidate Name:______________________________

Centre Number.	Candidate Number

EXAMINATIONS COUNCIL OF ZAMBIA

Joint Examination for the School Certificate
and General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

PAPER 2 **7110/2**

Monday 20 OCTOBER 2014 1 hour 45 minutes

Additional materials
Answer Booklet

TIME 1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

There are **four (4)** questions in this question paper.

Answer **all** questions.

Write your name, centre number and candidate number in the spaces provided at the top of this page and on the Answer Booklet.

Questions one (1), two (2) and three (3)

Write your answers in the spaces provided on the question paper.

Question four (4)

Write your answers on the Answer Booklet provided. At the end of the examination fasten the Answer Booklet securely to the question paper.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

Non programmable calculators may be used.

Where layouts are to be completed, you may not need all the lines for your answer.

Cell phones are not allowed in the examination room.

1 (a) Write the answers in the spaces provided to complete the following sentences:

(i) A credit balance in the bank account in the Cash Book shows

(ii) The formular to find owner's capital is ______________________________

____

(iii) ____________________ is the maximum amount of capital that a company is allowed to raise.

(iv) Rent prepaid appears in the Balance Sheet under ______________________

(v) The purchase of a fixed asset to be used in the business should first be recorded in the ____________________

(vi) Subsidiary books are also called ____________________ or ______________

(vii) The purchase of fuel for use in the business is ____________________ expenditure.

(viii) The depreciation method where the depreciation is calculated on the book value is called ________________________________

(ix) ______________ is another name for the capital of the owner.

[10]

(b) State the subsidiary book prepared using each of the following documents:

(i) Duplicate invoice

(ii) Original invoice

(iii) Original credit note

(iv) Duplicate credit note [4]

(c) Fill in the missing amounts in the following table.

Assets	Liabilities	Capital
K	K	K
128 600	84 000	(i)
(ii)	56 400	28 400
250 400	(iii)	114 800
(iv)	111 500	88 500
216 500	104 300	(v)
314 100	(vi)	146 300

[Total 20 marks]

2 **(a)** Lusungu is a customer of M. Khumbo. From the following information, prepare M. Khumbo's Account in Lusungu's ledger for the month of December, 2012, paying particular attention to dates and details.

2012

December 1	Balance due to M. Khumbo K710
December 6	Lusungu bought goods from M. Khumbo valued @ K900 – less 20% trade discount
December 14	Lusungu returned some of the goods from M. Khumbo bought on 6th December with a list price of K300
December 20	Lusungu paid M. Khumbo the amount due on 1 December by cheque less 2% cash discount.

[9]

(b) Bwalya commenced trading on 1st October, 2012 and took over premises from that date at annual rental of K3 600 payable at the end of each quarter. On 1st May, 2013 he sublet part of the premises at an annual rent of K900. Bwalya's financial year ended on 30th September, 2013 and by that date he had made the following payments by cheque in respect of rent:

	K
2nd January 2013	900
28th March 2013	900
30th June 2013	900

The following amounts had also been received by cheque from sub-tenant:

	K
1st May 2013	150
1st August 2013	150

Required:

Prepare separate accounts for:

(i) Rent payable

(ii) Rent receivable

Balance them on 30th September, 2013 showing the appropriate transfers to the Profit and Loss Account, using correct dates and details.

[13]

[Total 22 marks]

3 **(a)** State **any two** types of errors that will **not** be revealed in the Trial Balance and **any one** that will make the Trial Balance disagree. [3]

(b) There are certain mistakes that have been made in drawing up the following Balance Sheet of Food Paradise Restaurant.

Balance Sheet for the year ended 31/12/11

	K	K		K
Capital	6 000		Freehold premises	3 000
Add loan	1 000	7 000	Stock 31/12/11	2 845
Net Profit		1 368	Plant and Machinery	2 560
Sundry Debtors		1 412	Cash in hand	78
Stock 01/01/11		1 634	Drawings	702
			Bank overdraft	349
			Sundry creditors	1 880
		11 414		11 414

Required:

Prepare the Balance Sheet as it should be after the corrections. [11]

(c) The records of Yohane Mufuma disclose the following details:

Year	**Sales**	**Cost of goods sold**	**Net Profit**
	K	**K**	**K**
2009	250 000	150 000	50 000
2010	200 000	140 000	40 000
2011	400 000	250 000	80 000

Required:

Calculate the percentages of Gross Profit, Overhead Expenses and Net Profit for each year based on Turnover.

Year	**Gross Profit %**	**Overhead Expenses %**	**Net Profit %**
2009			
2010			
2011			

[9]

[Total 23 marks]

4 Lusaka Youth Recreation Club had the following Ledger balances on 1st January, 2012:

	K
Games Equipment	15 000
Furniture and Fittings	10 000
Subscriptions in Arrears	350
Insurance prepaid	270
Cash at Bank	8 900
Subscriptions in advance	480
General Expenses owing	140

For the year ended 31st December, 2012 the Treasurer of the Club produced the following summary of Receipts and Payments:

Receipts	K	**Payments**	K
Subscriptions	5 600	Water & Electricity	3 750
Donations	5 000	Dance Expenses	1 350
Sponsored walk	8 000	Insurance	505
Proceeds from walk	12 400	New Games Equipment	9 480
		General Expenses	15 025

Additional information:

(i) Subscriptions of K5 600 include K240 for the following financial year. Subscriptions owing for the current year are K620.

(ii) General expenses outstanding on 31st December, 2012 amount to K575.

(iii) Fixed Assets are to be depreciated as follows:
Furniture and Fittings K800
Games Equipment at the rate of 10% per annum on the closing balance.

You are required to:

(a) **Calculate** the Accumulated Fund showing your workings clearly, as at 1 January, 2012 and the Subscriptions Account, showing clearly the transfer to the Income and Expenditure Account at 31st December, 2012. [13½]

(b) **Prepare** the Income and Expenditure Account for the year ended 31st December, 2012. [9½]

(c) **Draw up** a Balance Sheet as at 31st December, 2012. [12]

[Total 35 marks]

Question 1(a). Write the correct accounting term or phrase to complete each sentence below.

(i) A credit balance in the bank account in the Cash Book shows ...

A CREDIT balance in the Cash Book bank column means more cash has gone OUT than came in — the bank has lent the business money. This is an OVERDRAFT (also acceptable: 'the business owes the bank money').

Answer: (i) ... an overdraft (the business owes the bank money).

(ii) The formula to find the owner's capital is ...

The fundamental accounting equation is Assets = Capital + Liabilities. Rearranging to find Capital: Capital = Assets – Liabilities.

Answer: (ii) Capital = Assets – Liabilities.

(iii) ___ is the maximum amount of capital a company is allowed to raise.

The AUTHORISED SHARE CAPITAL (also called Registered Capital or Nominal Capital) is the maximum value of shares a company is legally permitted to issue, as stated in its Memorandum of Association.

Answer: (iii) Authorised Share Capital.

(iv) Rent prepaid appears in the Balance Sheet under ...

Prepaid rent is rent paid in advance — the payment has been made but the benefit has not yet been received. It is a SHORT-TERM ASSET classified under CURRENT ASSETS on the Balance Sheet.

Answer: (iv) Current Assets.

(v) The purchase of a fixed asset for use in the business should first be recorded in the ...

Transactions that do not fit into any of the specialist day books (Sales Day Book, Purchases Day Book, etc.) are first recorded in the JOURNAL (General Journal). The purchase of a fixed asset is a capital expenditure transaction that is journalised before being posted to the ledger.

Answer: (v) Journal (General Journal).

(vi) Subsidiary books are also called ___ or ___.

Subsidiary books (Day Books) are the first point of entry for transactions. They are also known as BOOKS OF PRIME ENTRY or DAY BOOKS — both terms are acceptable.

Answer: (vi) Books of Prime Entry or Day Books.

(vii) The purchase of fuel for use in the business is ___ expenditure.

Fuel purchased for daily business operations (e.g., running vehicles) is a RECURRING, day-to-day operating cost that does not create a lasting asset. It is REVENUE EXPENDITURE.

Answer: (vii) Revenue expenditure.

(viii) The depreciation method where depreciation is calculated on the book value is called ...

In the REDUCING BALANCE METHOD (also called Diminishing Balance), depreciation is calculated as a fixed percentage of the NET BOOK VALUE (carrying amount) at the start of each year — not on the original cost. This produces a higher charge early in the asset's life and a lower charge in later years.

Answer: (viii) The Reducing Balance Method (Diminishing Balance Method).

(ix) ___ is another name for the capital of the owner.

The owner's capital — Assets minus Liabilities — is also called NET WORTH, EQUITY, or PROPRIETORSHIP. All three terms express the residual interest of the owner in the business.

Answer: (ix) Net Worth (also: Equity / Proprietorship).

Question 1(b). State which subsidiary book is prepared using each of the following documents.

(i) Duplicate invoice — The seller issues the invoice for goods sold on credit. The seller retains the DUPLICATE copy as the source for recording the sale. Duplicate invoice → records a credit SALE.

Answer: (i) Duplicate invoice → Sales Day Book (Sales Journal).

(ii) Original invoice — The buyer receives the ORIGINAL invoice from the supplier for goods bought on credit. This is the buyer's source document for recording the purchase.

Answer: (ii) Original invoice → Purchases Day Book (Purchases Journal).

(iii) Original credit note — The seller issues a credit note when goods are returned by the customer. The customer receives the ORIGINAL credit note. From the customer's perspective, this records a purchase return (goods sent back).

Answer: (iii) Original credit note → Purchases Returns Day Book (Returns Outwards Book).

(iv) Duplicate credit note — The seller retains the DUPLICATE of the credit note issued. From the seller's perspective, this records a sales return (goods received back from the customer).

Answer: (iv) Duplicate credit note → Sales Returns Day Book (Returns Inwards Book).

Question 1(c). Using the accounting equation (Assets = Liabilities + Capital), calculate the six missing values.

Accounting equation: Assets = Liabilities + Capital. → Capital = Assets – Liabilities. → Assets = Liabilities + Capital.

(i) Assets K128,600; Liabilities K84,000; Capital = K128,600 – K84,000 = K44,600.

Answer: (i) Capital = K44,600.

(ii) Liabilities K56,400; Capital K28,400; Assets = K56,400 + K28,400 = K84,800.

Answer: (ii) Assets = K84,800.

(iii) Assets K250,400; Capital K114,800; Liabilities = K250,400 – K114,800 = K135,600.

Answer: (iii) Liabilities = K135,600.

(iv) Liabilities K111,500; Capital K88,500; Assets = K111,500 + K88,500 = K200,000.

Answer: (iv) Assets = K200,000.

(v) Assets K216,500; Liabilities K104,300; Capital = K216,500 – K104,300 = K112,200.

Answer: (v) Capital = K112,200.

(vi) Assets K314,100; Capital K146,300; Liabilities = K314,100 – K146,300 = K167,800.

Answer: (vi) Liabilities = K167,800.

Question 2(a). Lusungu buys goods from M. Khumbo (a supplier). From the December 2012 transactions, prepare M. Khumbo's account in Lusungu's Purchases Ledger.

M. Khumbo is a supplier — a CREDITOR of Lusungu. The account appears in Lusungu's PURCHASES LEDGER (Creditors Ledger). Credit balances = amounts owed to M. Khumbo.

Dec 1: Balance b/f K710 (Cr) — amount owed to M. Khumbo from before December.

Dec 6: Lusungu bought goods list price K900 less 20% trade discount. Invoice value = K900 × 0.80 = K720. Entry: Cr M. Khumbo K720; Dr Purchases K720.

Dec 14: Lusungu returned goods with LIST PRICE K300. Return at same trade discount = K300 × 0.80 = K240. Entry: Dr M. Khumbo K240; Cr Returns Outwards K240.

Dec 20: Lusungu pays the Dec 1 OPENING balance K710. Cash discount 2% × K710 = K14.20. Cheque paid = K710 – K14.20 = K695.80. Entry: Dr M. Khumbo K710; Cr Bank K695.80; Cr Discount Received K14.20.

M. KHUMBO ACCOUNT (Purchases Ledger):

Dr: Returns Outwards K240 | Bank K695.80 | Discount Received K14.20 | Balance c/d K480 = K1,430.

Cr: Balance b/f K710 | Purchases K720 = K1,430.

Verification: Cr K710 + K720 = K1,430. Dr K240 + K695.80 + K14.20 = K950. Balance c/d = K1,430 – K950 = K480 Cr. ✓

Answer: Closing balance: K480 Cr (amount still owed by Lusungu to M. Khumbo for the December 6 purchase net of returns).

Question 2(b). Bwalya rented premises from 1 October 2012 at K3,600 per year (K900/quarter), financial year ending 30 September 2013. He sublet part from 1 May 2013. Prepare separate Rent Payable and Rent Receivable accounts.

Annual rent K3,600 → quarterly rent = K3,600 ÷ 4 = K900, payable at the end of each quarter.

Year: 1 Oct 2012 to 30 Sep 2013 covers 4 quarters:

Q1 (Oct–Dec 2012): K900 due 31 Dec, PAID 2 Jan 2013 (1 day late). ✓

Q2 (Jan–Mar 2013): K900 due 31 Mar, PAID 28 Mar 2013. ✓

Q3 (Apr–Jun 2013): K900 due 30 Jun, PAID 30 Jun 2013. ✓

Q4 (Jul–Sep 2013): K900 due 30 Sep 2013 — NOT YET PAID at year end → ACCRUED EXPENSE.

RENT PAYABLE ACCOUNT:

Dr: Bank (2 Jan 2013) K900 | Bank (28 Mar 2013) K900 | Bank (30 Jun 2013) K900 | Accrual c/d (30 Sep 2013) K900 = K3,600.

Cr: Profit and Loss Account (full year rent expense) K3,600.

Answer: (i) Rent Payable Account — Dr total K3,600; Cr: Transfer to P&L; K3,600. Accrual c/d K900 (Q4 rent payable but not yet paid at 30 September 2013).

RENT RECEIVABLE ACCOUNT:

Sub-tenant paid K150 on 1 May 2013 and K150 on 1 August 2013 = K300 total received. No closing accrual (next payment due November, after year end).

Dr: Profit and Loss Account K300 (income for the year).

Cr: Bank (1 May 2013) K150 | Bank (1 Aug 2013) K150 = K300.

Answer: (ii) Rent Receivable Account — Cr: Bank receipts K300; Dr: Transfer to P&L; K300. Sub-tenancy income for the year = K300.

Question 3(a). State any TWO types of errors that will NOT be revealed by the Trial Balance.

The Trial Balance only checks that total debits = total credits. Errors where BOTH sides are equally affected (or not affected at all) will not show up.

Answer: (i) Error of Omission — a transaction is completely left out of both sides of the books. Total Dr still equals total Cr because neither side was entered.

Answer: (ii) Error of Commission — a transaction is posted to the correct side but to the wrong PERSON'S account (e.g., debiting Mutale's account instead of Mubita's account). Both sides are posted, so the totals still balance.

Other valid answers include: Error of Original Entry, Error of Complete Reversal, Error of Principle, Compensating Errors.

Question 3(b). The Balance Sheet of Food Paradise Restaurant at 31/12/11 contains several errors. Identify the errors and prepare a corrected Balance Sheet.

ERRORS IN THE GIVEN BALANCE SHEET:

1. SUNDRY DEBTORS K1,412 appears on the LEFT (liabilities) side — WRONG. Debtors are assets; they should appear on the RIGHT (assets) side.

2. STOCK 01/01/11 K1,634 (opening stock) appears on the Balance Sheet — WRONG. Opening stock belongs in the Trading Account, not the Balance Sheet. Only CLOSING stock (31/12/11) appears on the Balance Sheet.

3. DRAWINGS K762 appears on the RIGHT (assets) side — WRONG. Drawings reduce the owner's capital and should be DEDUCTED from Capital on the left side.

4. BANK OVERDRAFT K349 appears on the RIGHT (assets) side — WRONG. An overdraft is a LIABILITY (the business owes the bank). It belongs on the LEFT (liabilities) side.

5. SUNDRY CREDITORS K1,880 appears on the RIGHT (assets) side — WRONG. Creditors are liabilities; they belong on the LEFT side.

CORRECTED BALANCE SHEET — Food Paradise Restaurant — as at 31 December 2011:

CAPITAL & LIABILITIES side:

Capital K6,000 | Less Drawings (K762) = K5,238 | Add Net Profit K1,368 = K6,606 | Add Loan K1,000 = K7,606.

Current Liabilities: Bank Overdraft K349; Sundry Creditors K1,880 = K2,229.

TOTAL LIABILITIES: K9,835.

ASSETS side:

Fixed Assets: Freehold Premises K3,000; Plant & Machinery K2,500 = K5,500.

Current Assets: Stock 31/12/11 K2,845; Sundry Debtors K1,412; Cash in hand K78 = K4,335.

TOTAL ASSETS: K9,835. ✓

Answer: Corrected Balance Sheet balances at K9,835. The five corrections: move Debtors to assets; remove opening stock; deduct Drawings from Capital; move Bank Overdraft to liabilities; move Creditors to liabilities.

Question 3(c). From Yohane Mufuma's records, calculate Gross Profit %, Overhead Expenses % and Net Profit % based on turnover for each year.

Formulas (all based on TURNOVER = Sales):

Gross Profit = Sales – Cost of Goods Sold.

Overhead Expenses = Gross Profit – Net Profit.

Gross Profit % = (Gross Profit ÷ Sales) × 100.

Overhead Expenses % = (Overhead Expenses ÷ Sales) × 100.

Net Profit % = (Net Profit ÷ Sales) × 100.

YEAR 2009: Sales K250,000; COGS K150,000; Net Profit K50,000.

GP = K250,000 – K150,000 = K100,000. Overhead = K100,000 – K50,000 = K50,000.

Answer: 2009: Gross Profit % = 40%; Overhead Expenses % = 20%; Net Profit % = 20%.

YEAR 2010: Sales K200,000; COGS K140,000; Net Profit K40,000.

GP = K200,000 – K140,000 = K60,000. Overhead = K60,000 – K40,000 = K20,000.

Answer: 2010: Gross Profit % = 30%; Overhead Expenses % = 10%; Net Profit % = 20%.

YEAR 2011: Sales K400,000; COGS K250,000; Net Profit K80,000.

GP = K400,000 – K250,000 = K150,000. Overhead = K150,000 – K80,000 = K70,000.

Answer: 2011: Gross Profit % = 37.5%; Overhead Expenses % = 17.5%; Net Profit % = 20%.

Note: Net Profit % was constant at 20% across all three years despite changing Sales and GP ratios — the overhead ratio adjusted to absorb the change in gross margin.

Question 4(a). Calculate the Accumulated Fund for Lusaka Youth Recreation Club as at 1 January 2012, and prepare the Subscriptions Account for the year ended 31 December 2012.

ACCUMULATED FUND at 1 January 2012 = Net Assets (Assets minus Liabilities):

Assets: Games Equipment K15,000 + Furniture & Fittings K10,000 + Subscriptions in Arrears K350 + Insurance Prepaid K270 + Cash at Bank K8,900 = K34,520.

Liabilities: Subscriptions in Advance K480 + General Expenses owing K140 = K620.

Accumulated Fund = K34,520 – K620 = K33,900.

Answer: ACCUMULATED FUND at 1 January 2012 = K33,900.

SUBSCRIPTIONS ACCOUNT for year ended 31 December 2012:

Opening items on Cr side: Advance b/d K480 (2011 advance now earned as 2012 income). Opening items on Dr side: Arrears b/d K350 (2011 arrears owed to club).

Cash received during 2012: K5,600 (Cr).

Closing items: Arrears c/d K620 (2012 subscriptions still owed at year end — Cr side because it's income earned; the debtor account holds this as an asset). Advance c/d K240 (received for 2013 — Dr side because it's deferred income).

I&E; transfer (balancing figure): Total Cr = K480 + K5,600 + K620 = K6,700. Total Dr = K350 + K240 + I&E; = K590 + I&E.; So I&E; = K6,700 – K590 = K6,110.

SUBSCRIPTIONS ACCOUNT: Dr: Arrears b/d K350 | Advance c/d K240 | I&E; A/c K6,110 = K6,700. || Cr: Advance b/d K480 | Cash K5,600 | Arrears c/d K620 = K6,700.

Answer: Transfer to Income and Expenditure Account: Subscriptions income = K6,110.

Question 4(b). Prepare the Income and Expenditure Account for Lusaka Youth Recreation Club for the year ended 31 December 2012.

INCOME:

Subscriptions (adjusted, from Subscriptions Account): K6,110.

Donations: K5,000.

Sponsored walk: K8,000.

Proceeds from walk: K12,400.

Total Income: K31,510.

EXPENDITURE:

Water & Electricity: K3,750.

Dance Expenses: K1,350.

Insurance: Opening prepaid b/d K270 + Cash paid K505 = K775 (no closing prepaid indicated).

General Expenses (adjusted): Cash paid K15,025 – Opening accrual K140 (paid in 2012 for 2011) + Closing accrual K575 = K15,460.

Depreciation — Furniture & Fittings: K800.

Depreciation — Games Equipment: Opening K15,000 + Additions K9,480 = K24,480 (closing balance). 10% × K24,480 = K2,448.

Total Expenditure: K3,750 + K1,350 + K775 + K15,460 + K800 + K2,448 = K24,583.

SURPLUS for year = K31,510 – K24,583 = K6,927.

Answer: INCOME AND EXPENDITURE ACCOUNT — year ended 31 Dec 2012:

Answer: Income: Subscriptions K6,110; Donations K5,000; Sponsored walk K8,000; Proceeds from walk K12,400 — Total K31,510.

Answer: Expenditure: Water & Electricity K3,750; Dance Expenses K1,350; Insurance K775; General Expenses K15,460; Dep'n F&F; K800; Dep'n Games Equipment K2,448 — Total K24,583.

Answer: SURPLUS for year = K6,927.

Question 4(c). Draw up a Balance Sheet for Lusaka Youth Recreation Club as at 31 December 2012.

FIXED ASSETS:

Games Equipment: Cost K24,480 (K15,000 + K9,480 new) less Dep'n K2,448 = K22,032.

Furniture & Fittings: K10,000 less Dep'n K800 = K9,200.

Total Fixed Assets: K31,232.

CURRENT ASSETS:

Subscriptions in Arrears (2012): K620.

Cash at Bank: Opening K8,900 + Receipts K31,000 – Payments K30,110 = K9,790.

Total Current Assets: K10,410.

CURRENT LIABILITIES:

Subscriptions in Advance (2013): K240.

General Expenses accrual: K575.

Total Current Liabilities: K815.

NET CURRENT ASSETS: K10,410 – K815 = K9,595.

TOTAL NET ASSETS: K31,232 + K9,595 = K40,827.

ACCUMULATED FUND:

Opening (1 Jan 2012): K33,900.

Add Surplus for year: K6,927.

Closing (31 Dec 2012): K40,827. ✓

Answer: BALANCE SHEET at 31 December 2012:

Answer: Fixed Assets: Games Equipment K22,032; F&F; K9,200 — Total K31,232.

Answer: Current Assets: Subscriptions Arrears K620; Bank K9,790 — Total K10,410.

Answer: Current Liabilities: Advance K240; GE Accrual K575 — Total K815.

Answer: Net Assets: K40,827 = Accumulated Fund K40,827.

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