# G12 ECZ PRINCIPLES OF ACCOUNTS 2015 PAPER 2 SOLUTIONS

**Grade 12 ECZ Principles of Accounts 2015 Paper 2 (7110/2)**

Worked solutions — 4 structured questions

*The full question paper appears first — worked answers follow.*

| Centre Number | Candidate Number |
| --- | --- |
| | |

Candidate Name: ____________________

**EXAMINATIONS COUNCIL OF ZAMBIA**

**Examination for School Certificate Ordinary Level**

# Principles of Accounts 7110/2

**PAPER 2**

**Monday 19 OCTOBER 2015**

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.

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)** You are required to show the source documents used to record transactions in the following books of prime entry.

**(i)** Cash Book ..........................................................................................

**(ii)** Petty Cash Book ..................................................................................

**(iii)** Purchases Day Book.............................................................................

**(iv)** Sales Returns Day Book.........................................................................

[4]

**(b)** State any **five** uses of the General Journal

**(i)** ..........................................................................................

**(ii)** ..........................................................................................

**(iii)** ..........................................................................................

**(iv)** ..........................................................................................

**(v)** ..........................................................................................

[5]

**(c)** Show the separate effect on the Balance Sheet of Pakati for each of the following transactions;

**(i)** Purchased goods on credit K4 000.

**(ii)** Sabi a debtor sends the firm K 5 000 by cheque.

**(iii)** We return goods K500 – to a supplier whose account was still outstanding.

**(iv)** We pay a creditor K3 000 – by cheque.

**(v)** Pakati (owner of the business) introduces K10 000 into the business by cheque.

**(vi)** Bought computer K8 000 for office use paying by cheque.

**(vii)** Sold goods for cash K4 500.

**(viii)** A debtor pays Pakati in cash K7 700.

Copy the table below and complete with your answers (e.g. increase by K150, decrease by K150 or no effect)

| Transaction | Assets | Capital | Liabilities |
|---|---|---|---|
| (i) | | | |
| (ii) | | | |
| (iii) | | | |
| (iv) | | | |
| (v) | | | |
| (vi) | | | |
| (vii) | | | |
| (viii) | | | |

[13]



**[Total: 22 marks]**

2 **(a)** State **three** methods of depreciation

(i) ..................................................................................................

(ii) ..................................................................................................

(iii) .................................................................................................. [3]

**(b)** M. Mwila's rent and rates expenses were kept in one Ledger Account. On 1 January 2013, rent accrued was K900.00 and rates prepaid were K700.00. On 31 December, 2013 the end of the financial year, rates prepaid were K700.00 and accrued rent was K1 100. During the year, K4 800 was paid for rent and K3 100 was paid for rates.

**Write** the Rent and Rates Account in M. Mwila's General Ledger to show how the account stood at the end of the financial year, 31 December 2013, showing the amount to be transferred to the Profit and Loss Account.

[8]

| | | | | |
|---|---|---|---|---|
| | | | | |





[Turn over

**(c)** G. Keelo was a customer of J. Nyangu. From the following information, **prepare** J. Nyangu's Account in G. Keelo's Ledger for the month of May 2013 and balance it.

| | | |
|---|---|---|
| 2013 | | |
| May | 1 | Balance due to J. Nyangu K6 000.00 |
| | 8 | G. Keelo bought goods from J. Nyangu, with a list price of K10 000 less 20% trade discount. |
| | 16 | G. Keelo returned some of the goods bought on 8 May with a list price of K2 000.00 |
| | 20 | G. Keelo paid his debt owing on 1 May by cheque less 2½% discount |
| | 30 | G. Keelo purchased more goods from J Nyangu K3 000 net. |

[10]

**[Total: 21 marks]**

3 (a) State whether each of the following expenses of Buleya Cheelo is Capital Expenditure or Revenue Expenditure.

(i) Purchase of Shop Fixtures and Fittings

(ii) Purchase of Motor Vehicles for resale

(iii) Painting of old business buildings

(iv) Paying builder for extension of the shop

(v) Purchase of delivery vehicle for business by Buleya Cheelo

(vi) Paying for repairs to business Motor Vehicles

[6]

(i) ..........................................................................................

(ii) ..........................................................................................

(iii) ..........................................................................................

(iv) ..........................................................................................

(v) ..........................................................................................

(vi) ..........................................................................................

(b) Malikana Chewe is a manufacturer who keeps her books on the single entry system. The position of her business at 31 December 2013 revealed the following;

| | K |
|---|---|
| Land and Buildings | 10 000 |
| Computers | 6 000 |
| Stock in Trade | 13 000 |
| Trade Debtors | 17 500 |
| Bank Balance | 3 000 |
| Trade Creditors | 18 750 |

Additional information;

(i) At 1 January 2013 capital was K55 000

(ii) During the year, Malikana Chewe withdrew goods worth K5 000 from business for personal use and deposited in the business Bank Current Account K2 000 realised from the sale of her private motor car.

(iii) No other transactions took place.

**Required;**

**(i)** to prepare a Statement of Profit and Loss for the year ended 31 December 2013 [6]

**(ii)** to prepare a Statement of Affairs as at 31 December 2013 [10]

**[Total: 22 marks]**

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |

4 The Chingola Recreation Club had the following details during the year ended 31 March 2014.

**RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR ENDED 31 March 2014**

| | | K | | K |
|---|---|---|---|---|
| Bank balance | b/f | 40 000 | Payments for refreshments | 230 500 |
| Sales of refreshments | | 525 000 | Stationery | 62 700 |
| Subscriptions | | 250 000 | Rent | 55 000 |
| Donations | | 702 000 | Prizes for competitions | 82 000 |
| Balance | c/d | 513 200 | Purchase of a computer | 1 600 000 |
| | | 2 030 200 | | 2 030 200 |
| Balance b/d | | | | 513 200 |

The following information is also available;

| | 31/03/13 | 31/03/14 |
|---|---|---|
| Subscriptions in advance | 78 000 | 21 200 |
| Subscriptions in arrears | 56 400 | 49 000 |
| Stock of refreshments | 27 000 | 32 500 |
| Arrears on suppliers of refreshments | 10 000 | 15 000 |
| Printing machine (cost K500 000) | 370 000 | 320 000 |

**Required:**

**(i)** Prepare the Trading Account for Refreshments with the correct heading. [5½]

**(ii)** Prepare the Subscriptions Account. [6½]

**(iii)** Prepare the Income and Expenditure Account for the year ended 31 March 2014 and the Balance Sheet as at that date (show the calculation of the Accumulated Fund as at 1 April 2014). [23]

**[Total: 35 marks]**

## Question 1(a). State the source documents used to record transactions in each of the following books of prime entry.

(i) Cash Book: The Cash Book records all cash and bank receipts and payments. Source documents include bank paying-in slips (for receipts), cheque counterfoils/stubs (for cheque payments), and cash receipts/petty cash vouchers.

**Answer: (i) Cash Book → Bank paying-in slips / Cheque stubs / Receipts.**

(ii) Petty Cash Book: The Petty Cash Book records small cash expenses. Source documents are PETTY CASH VOUCHERS signed by the person receiving the cash, along with attached receipts.

**Answer: (ii) Petty Cash Book → Petty cash vouchers / Receipts for small expenses.**

(iii) Purchases Day Book: Records credit purchases from suppliers. The source document is the ORIGINAL INVOICE received from the supplier (the buyer receives the original; the supplier retains the duplicate).

**Answer: (iii) Purchases Day Book → Original invoice (received from supplier).**

(iv) Sales Returns Day Book: Records goods returned BY customers to the business. The business issues a CREDIT NOTE to the customer; it retains the DUPLICATE copy as its source document.

**Answer: (iv) Sales Returns Day Book → Duplicate credit note (copy retained by the seller after issuing credit to the customer).**

## Question 1(b). State any FIVE uses of the General Journal.

The General Journal is used for transactions that do not fit into any specialist day book. Five recognised uses are:

**Answer: (i) Recording the purchase or sale of fixed assets on credit (e.g., buying machinery for which payment will be made later).**

**Answer: (ii) Opening entries — recording assets, liabilities, and capital at the start of a new business or accounting period.**

**Answer: (iii) Correction of errors — journal entries are used to correct mistakes such as errors of omission, commission, or principle, often via a Suspense Account.**

**Answer: (iv) Writing off bad debts — formally removing an irrecoverable debt from the books by journalising the debit to Bad Debts Expense and credit to the debtor's account.**

**Answer: (v) Closing entries — transferring balances from nominal accounts (e.g., Sales, Purchases, Expenses) to the Trading and Profit and Loss Account at year end.**

Other valid answers include: recording depreciation, recording provisions, transferring balances, dealing with dishonoured cheques.

## Question 1(c). Show the separate effect on Pakati's Balance Sheet for each of the eight transactions below.

Key identities: Assets = Capital + Liabilities. Any transaction affects at least two items. The table shows NET change for each category.

(i) Purchased goods on credit K4,000:

Stock (asset) increases K4,000. Trade Creditors (liability) increase K4,000. Capital unchanged.

**Answer: (i) Assets +K4,000; Capital nil; Liabilities +K4,000.**

(ii) Sala (a debtor) sends the firm K5,000 by cheque:

Bank (asset) increases K5,000; Trade Debtors (asset) decrease K5,000. Net effect on total assets = nil. Capital and Liabilities unchanged.

**Answer: (ii) Assets nil (bank +K5,000, debtors –K5,000); Capital nil; Liabilities nil.**

(iii) We return goods K500 to a supplier whose account was still outstanding:

Stock (asset) decreases K500. Trade Creditors (liability) decrease K500. Capital unchanged.

**Answer: (iii) Assets –K500; Capital nil; Liabilities –K500.**

(iv) We pay a creditor K3,000 by cheque:

Bank (asset) decreases K3,000. Trade Creditors (liability) decrease K3,000. Capital unchanged.

**Answer: (iv) Assets –K3,000; Capital nil; Liabilities –K3,000.**

(v) Pakati (owner) introduces K10,000 into the business by cheque:

Bank (asset) increases K10,000. Capital increases K10,000 (additional capital introduced). Liabilities unchanged.

**Answer: (v) Assets +K10,000; Capital +K10,000; Liabilities nil.**

(vi) Bought computer K8,000 for office use, paying by cheque:

Computer/Fixed Asset (asset) increases K8,000; Bank (asset) decreases K8,000. Net effect on total assets = nil (one asset replaces another). Capital and Liabilities unchanged.

**Answer: (vi) Assets nil (computer +K8,000, bank –K8,000); Capital nil; Liabilities nil.**

(vii) Sold goods for cash K500:

Cash received K500 increases bank (asset). The goods sold at cost reduce stock (asset). Net effect: total assets increase by the PROFIT on the sale; Capital increases by that profit. Since cost is not given, the K500 is treated as the net inflow: bank +K500, with capital (profit) increasing.

**Answer: (vii) Assets increase (net by profit); Capital increases (by profit from sale); Liabilities nil. [Note: bank +K500 cash received; stock reduces by cost of goods sold.]**

(viii) A debtor pays Pakati in cash K7,700:

Cash (asset) increases K7,700; Trade Debtors (asset) decrease K7,700. Net effect on total assets = nil. Capital and Liabilities unchanged.

**Answer: (viii) Assets nil (cash +K7,700, debtors –K7,700); Capital nil; Liabilities nil.**

## Question 2(a). State THREE methods of depreciation.

**Answer: (i) Straight-Line Method (Fixed Instalment Method): An equal amount is charged as depreciation each year, calculated as (Cost – Residual Value) ÷ Useful Life.**

**Answer: (ii) Reducing Balance Method (Diminishing Balance Method): A fixed PERCENTAGE is applied to the NET BOOK VALUE (carrying amount) at the start of each year, giving a higher charge early in the asset's life and lower amounts later.**

**Answer: (iii) Revaluation Method: The asset is valued at year-start and year-end; the decrease in value during the year is the depreciation charge. Often used for small tools, loose tools, and animals.**

## Question 2(b). M. Mwela keeps rent and rates in one ledger account. On 1 Jan 2013 rent accrued was K900, rates prepaid K700. Year end 31 Dec 2013: rent accrued K1,100, rates prepaid K700. During year: rent paid K4,800; rates paid K3,100. Write the Rent and Rates Account.

Opening ACCRUED RENT K900 (Cr balance b/d) — this is rent owed from the previous year, an outstanding expense carried forward.

Opening PREPAID RATES K700 (Dr balance b/d) — rates already paid at start of year for this period, a prepaid asset.

During the year: Bank — Rent paid K4,800 (Dr); Bank — Rates paid K3,100 (Dr).

Year-end CLOSING ACCRUAL (rent) K1,100 (Cr c/d) — rent for the last period of 2013 not yet paid at 31 Dec.

Year-end CLOSING PREPAID (rates) K700 (Dr c/d) — rates paid in advance, to be carried forward.

RENT AND RATES ACCOUNT — year ended 31 Dec 2013:

Dr: Prepaid b/d K700 | Bank (rent) K4,800 | Bank (rates) K3,100 | Accrual c/d K1,100 = K9,700.

Cr: Accrual b/d K900 | Prepaid c/d K700 | Profit and Loss A/c K8,100 = K9,700.

Verification: Rent expense = K4,800 paid + K1,100 closing accrual – K900 opening accrual = K5,000. Rates expense = K700 opening prepaid + K3,100 paid – K700 closing prepaid = K3,100. Total = K8,100. ✓

**Answer: Transfer to Profit and Loss Account: Rent and Rates expense for 2013 = K8,100.**

## Question 2(c). G. Keeto is a customer of J. Nyangu. Prepare J. Nyangu's Account in G. Keeto's Purchases Ledger for May 2013.

J. Nyangu is G. Keeto's SUPPLIER — the account appears in G. Keeto's PURCHASES LEDGER (Creditors Ledger). A credit balance means Keeto OWES money to Nyangu.

May 1: Balance b/d K6,000 Cr (owed to J. Nyangu from before May).

May 8: Bought goods list price K10,000 less 20% trade discount = K10,000 × 0.80 = K8,000. Cr J. Nyangu K8,000; Dr Purchases K8,000.

May 16: Returned goods list price K2,000 less 20% trade discount = K2,000 × 0.80 = K1,600. Dr J. Nyangu K1,600; Cr Returns Outwards K1,600.

May 20: Paid opening balance K6,000 less 2½% cash discount. Discount = 2.5% × K6,000 = K150. Cheque = K6,000 – K150 = K5,850. Dr J. Nyangu K6,000; Cr Bank K5,850; Cr Discount Received K150.

May 30: Purchased more goods K3,000 net (no trade discount to adjust). Cr J. Nyangu K3,000; Dr Purchases K3,000.

J. NYANGU ACCOUNT (in G. Keeto's Purchases Ledger):

Dr: Returns Outwards K1,600 | Bank K5,850 | Discount Received K150 | Balance c/d K9,400 = K17,000.

Cr: Balance b/d K6,000 | Purchases K8,000 | Purchases K3,000 = K17,000.

Verification: Cr = K6,000 + K8,000 + K3,000 = K17,000. Dr = K1,600 + K5,850 + K150 = K7,600. Balance c/d = K17,000 – K7,600 = K9,400 Cr. ✓

**Answer: Closing balance: J. Nyangu Account = K9,400 Cr (G. Keeto owes K9,400 to J. Nyangu at 31 May 2013).**

## Question 3(a). State whether each of the following expenses of Buleya Cheelo is Capital Expenditure or Revenue Expenditure.

CAPITAL EXPENDITURE: spending that creates or improves a long-term asset (balance sheet item). REVENUE EXPENDITURE: day-to-day operating expense for maintaining the business (income statement item).

**Answer: (i) Purchase of Shop Fixtures and Fittings → Capital Expenditure. Fixtures and fittings are fixed assets with lasting benefit.**

**Answer: (ii) Purchase of Motor Vehicles for resale → Revenue Expenditure. The vehicles are STOCK (inventory for sale), not fixed assets for the business's own use.**

**Answer: (iii) Painting of old business buildings → Revenue Expenditure. Repainting maintains the building but does not extend its life or improve its value — it is a repair/maintenance cost.**

**Answer: (iv) Paying builder for extension of the shop → Capital Expenditure. Extending the shop improves and adds to the fixed asset, creating lasting benefit.**

**Answer: (v) Purchase of delivery vehicle for Buleya Cheelo → Capital Expenditure. The vehicle is used IN the business for delivery — it is a fixed asset.**

**Answer: (vi) Paying for repairs to business Motor Vehicles → Revenue Expenditure. Routine repairs maintain an existing asset but do not improve it — an ongoing operating cost.**

## Question 3(b). Malikhana Chewe uses single entry. From the position at 31 Dec 2013 and additional information, prepare (i) Statement of Profit and Loss and (ii) Statement of Affairs at 31 Dec 2013.

STEP 1 — Statement of Affairs at 31 December 2013 (closing position):

Assets: Land and Buildings K10,000 + Computers K6,000 + Stock in Trade K13,000 + Trade Debtors K17,500 + Bank Balance K3,000 = K49,500.

Liabilities: Trade Creditors K18,750.

CLOSING CAPITAL = Total Assets – Total Liabilities = K49,500 – K18,750 = K30,750.

STEP 2 — Calculate Net Profit or Net Loss:

Formula: Closing Capital + Drawings – Additional Capital – Opening Capital = Net Profit (positive) or Net Loss (negative).

= K30,750 + K5,000 – K2,000 – K55,000 = K33,750 – K57,000 = –K21,250.

Result: NET LOSS for the year = K21,250.

**Answer: (i) STATEMENT OF PROFIT AND LOSS — year ended 31 December 2013:**

**Answer: Closing Capital K30,750 | Add Drawings K5,000 = K35,750 | Less Additional Capital K2,000 = K33,750 | Less Opening Capital K55,000 | NET LOSS = K21,250.**

**Answer: (ii) STATEMENT OF AFFAIRS — as at 31 December 2013:**

**Answer: ASSETS: Land and Buildings K10,000 | Computers K6,000 | Stock in Trade K13,000 | Trade Debtors K17,500 | Bank K3,000 = Total K49,500.**

**Answer: LESS LIABILITIES: Trade Creditors K18,750.**

**Answer: CAPITAL (OWNER'S EQUITY) = K49,500 – K18,750 = K30,750.**

## Question 4(i). Prepare the Trading Account for Refreshments for Chingola Recreation Club for the year ended 31 March 2014.

SALES of Refreshments (cash received): K525,000.

PURCHASES OF REFRESHMENTS (accruals basis):

Cash paid for refreshments: K230,500. Add Closing creditors K15,000 (goods received but not yet paid = this year's purchase). Less Opening creditors K10,000 (paid this year for last year's goods = last year's cost). Adjusted purchases = K230,500 + K15,000 – K10,000 = K235,500.

COST OF GOODS SOLD:

Opening stock K27,000 + Purchases K235,500 – Closing stock K32,500 = K230,000.

GROSS PROFIT = K525,000 – K230,000 = K295,000.

**Answer: TRADING ACCOUNT FOR REFRESHMENTS — year ended 31 March 2014:**

**Answer: Sales K525,000 | Opening stock K27,000 + Purchases K235,500 – Closing stock K32,500 = COGS K230,000 | Gross Profit K295,000. Transfer to I&E; Account.**

## Question 4(ii). Prepare the Subscriptions Account for Chingola Recreation Club for the year ended 31 March 2014.

Opening balances (31 March 2013): Advance K78,000 (received for this year — Cr entry, now earned); Arrears K56,400 (owed from last year — Dr entry, now being cleared).

Cash received during year: K250,000 Cr.

Closing balances (31 March 2014): Arrears K49,000 (earned this year, not yet received — Cr entry c/d); Advance K21,200 (received for next year, not yet earned — Dr entry c/d).

I&E; transfer (balancing figure):

Total Cr = Advance b/d K78,000 + Cash K250,000 + Arrears c/d K49,000 = K377,000.

Total Dr (without I&E;) = Arrears b/d K56,400 + Advance c/d K21,200 = K77,600.

I&E; transfer = K377,000 – K77,600 = K299,400.

SUBSCRIPTIONS ACCOUNT:

Dr: Arrears b/d K56,400 | Advance c/d K21,200 | I&E; A/c K299,400 = K377,000.

Cr: Advance b/d K78,000 | Cash K250,000 | Arrears c/d K49,000 = K377,000.

**Answer: Subscriptions income for I&E; Account = K299,400.**

## Question 4(iii). Prepare the Income and Expenditure Account for Chingola Recreation Club for the year ended 31 March 2014, and the Balance Sheet at that date (show calculation of Accumulated Fund).

ACCUMULATED FUND at 1 April 2013 (start of year):

Assets: Printing machine NBV K370,000 + Bank K40,000 + Subscriptions arrears K56,400 + Stock K27,000 = K493,400.

Liabilities: Subscriptions advance K78,000 + Creditors (suppliers) K10,000 = K88,000.

Opening Accumulated Fund = K493,400 – K88,000 = K405,400.

**Answer: Opening Accumulated Fund (1 April 2013) = K405,400.**

INCOME AND EXPENDITURE ACCOUNT — year ended 31 March 2014:

INCOME:

Surplus from Refreshments (from Trading Account): K295,000.

Subscriptions (from Subscriptions Account): K299,400.

Donations: K702,000.

Total Income: K1,296,400.

EXPENDITURE:

Stationery: K62,700.

Rent: K55,000.

Prizes for competitions: K82,000.

Depreciation — Printing Machine: NBV at start K370,000 – NBV at end K320,000 = K50,000.

Total Expenditure: K249,700.

SURPLUS for year = K1,296,400 – K249,700 = K1,046,700.

**Answer: INCOME AND EXPENDITURE ACCOUNT:**

**Answer: Income: Refreshments surplus K295,000; Subscriptions K299,400; Donations K702,000 = K1,296,400.**

**Answer: Expenditure: Stationery K62,700; Rent K55,000; Prizes K82,000; Dep'n Printing Machine K50,000 = K249,700.**

**Answer: SURPLUS for year = K1,046,700.**

BANK RECONCILIATION (to confirm closing bank position):

Opening bank: K40,000 Dr. Total receipts: K525,000 + K250,000 + K702,000 = K1,477,000. Total payments: K230,500 + K62,700 + K55,000 + K82,000 + K1,600,000 = K2,030,200. Closing bank = K40,000 + K1,477,000 – K2,030,200 = –K513,200 = OVERDRAFT K513,200.

BALANCE SHEET at 31 March 2014:

Fixed Assets: Printing Machine (NBV) K320,000 + Computer (at cost) K1,600,000 = K1,920,000.

Current Assets: Stock of refreshments K32,500 + Subscriptions in arrears K49,000 = K81,500.

Current Liabilities: Bank Overdraft K513,200 + Subscriptions in advance K21,200 + Creditors (suppliers) K15,000 = K549,400.

Net Current Liabilities: K81,500 – K549,400 = (K467,900).

Net Assets: K1,920,000 – K467,900 = K1,452,100.

Accumulated Fund: Opening K405,400 + Surplus K1,046,700 = K1,452,100. ✓

**Answer: BALANCE SHEET at 31 March 2014:**

**Answer: Fixed Assets: Printing Machine K320,000; Computer K1,600,000 = K1,920,000.**

**Answer: Net Current Liabilities: (K467,900) [CA K81,500 less CL K549,400].**

**Answer: NET ASSETS = K1,452,100 = ACCUMULATED FUND K1,452,100.**

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