G12 ECZ PRINCIPLES OF ACCOUNTS 2016 GCE PAPER 2 SOLUTIONS

Grade 12 ECZ Principles of Accounts 2016 GCE Paper 2 (7110/2)

Friday 15 July 2016 | 1 hour 45 minutes | Four questions, answer all

The full question paper appears first — worked answers follow.

Candidate Name ____________________

Centre Number	Candidate Number

EXAMINATIONS COUNCIL OF ZAMBIA

Examination for General Certificate of Education Ordinary Level

Principles of Accounts 7110/2

Paper 2

Friday **15 JULY 2016**

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)** For each of the following transactions, name the book of original entry, the account to be debited and amount and account to be credited and the amount.

(i) J Mwape, a sole trader invests K50 000 in his business and opens a Bank Account.

(ii) M Muungo bought goods for sale on credit from A Lekisa K5 000 less 10% Trade discount.

(iii) T Wamundila wrote off as a bad debt K560 after learning that a debtor, B Hamaula, had died in an accident.

(iv) M Muungo returned some of the goods bought from A Lekisa, price list K1 000 as they were damaged in transit.

S/No	Journal	Account Debited K	Account credited K
i			
ii			
iii			
iv			

[12]

(b) M Mwiinga had the following balances in his Ledger Accounts as at 30th September 2014.

	K
Stock of unsold goods	5 000.00
Prepaid insurance premium	500.00
Bank balance	800.00
Rent paid in Advance	450.00
Premises repairs bills owing	250.00
Debtors	2 000.00
Creditors	2 560.00
Premises	40 000.00
Equipment	15 000.00
Bank Loan	8 500.00

Showing your working clearly, **calculate** M. Mwiinga's working capital only. [10]

[Total: 22 marks]

2 (a) From the following details below, **prepare** R. Nyirenda's Account in S Hakainda's Sales Ledger and close off the account at the end. Pay particular attention to dates and wording.

2014		**K**
July 1	Balance owed by R Nyirenda	400
5	R Nyirenda bought goods on credit	500
10	Paid balance owing on 1 July by cheque in full settlement	370
15	R Nyirenda's cheque was returned unpaid due to lack of funds	
Sept 25	R Nyirenda was declared bankrupt by the Court of Law. His Trustee in Bankruptcy made first payment by cheque 1/5 of the total amount owing	
Dec 26	The Trustee made a final payment of 3/5 of the total amount by cheque	
Dec 31	S. Hakainda decided to write off the remaining balance as a bad debt.	

[13]

[Turn over

(b) **Prepare** J Mulenga's Provision for Bad Debts Account in his General Ledger for two years. Show the amounts of transfer to Profit and Loss Account at the end of each year and the balance carried forward to the following year. J Mulenga maintained his provision at 5% of the net debtors at the end of each year. [9]

2012

Jan 1	Provision for Bad Debts Account balance brought forward K250.00
Dec 31	Net Trade Debtors K5 600.00

2013

Sept 30	Bad Debts written off K260.00
Dec 31	Net Trade Debtors K5 500.00

[Total: 22 marks]

[Turn over

3 The Trial Balance below was drawn by an inexperienced Book keeper of Banja General Dealers at the end of the year 2014 and has a number of errors.

BANJA GENERAL DEALER'S
TRIAL BALANCE FOR THE YEAR ENDED 31 DECEMBER, 2014

Accounts	Dr	Cr
	K	K
Capital		3 300.00
Sales		1 900.00
Returns Outwards	60.00	
Purchases	1 200.00	
Returns Inwards		70.00
Carriage on Purchases	100.00	
Carriage on Sales		150.00
Discount Allowed		180.00
Discount received	40.00	
Cash at Bank	400.00	
Stock (1 January 2014)	400.00	
Premises	4 000.00	
Rent owing	200.00	
Loan	1 000.00	
Suspense		1 800.00
	7 400.00	7 400.00

Additional Information:

(i) Premises had just been appreciated to K5 000.00. No record had been made yet.

(ii) An invoice for goods purchased on credit K5 000.00 was not recorded in the books of Accounts

(iii) A private motor van had been given to the business by the owner K6 000.00. No formalities had been made.

(a) Do the Journal entries with narrations for the correction of the transactions **(i)** to **(iii)**. [9]

(b) Redraft the Trial Balance, with its correct heading, to show how it stands after the adjustments **(i)** to **(iii)**.

[12]

[Total: 21 marks]

(a)

[9]

(b)

[12]

[Total: 21 marks]

4 D Tembo's retail business is divided into two departments, Hardware and Electrical and the following information was extracted from the books on 31 October 2014, the end of the financial year.

Trial Balance as at 31 October 2014

	Dr	Cr
Capital		12 400
Drawings	1 200	
Premises	10 000	
Equipment and Fittings	1 500	
Motor Vehicles	1 900	
Mortgage Loan on Premises		2 000
Stocks 1st Nov. 2013		
Hardware	2 400	
Electrical	1 400	
Purchases: Hardware	4 400	
Electrical	3 200	
Sales: Hardware		8 400
Electrical		5 600
Debtors	520	
Creditors		2 400
Motor vehicle expenses	840	
Wages	2 400	
Rates and insurance	200	
Heating and lighting	300	
Mortgage interest paid	100	
Cash at Bank	440	
	30 800	30 800

You are required to prepare the Trading and Profit and Loss Account, in columnar form to show the Gross Profit and Net Profit for each Department for the year ended 31 October 2014 and a Balance Sheet as at that date.

You are to take into account the following additional information:

(a) Stocks at 31 October 2014 were:

Hardware K2 520

Electrical K1 620

(b) The item purchases – hardware K4 400 included K100 for desks bought for use in the business.

(c) Depreciation is based on the book values of Fixed Assets in possession of the firm at the year end at the following rates:

Equipment and Fittings	10%
Motor Vehicles	20%

(d) Motor vehicles expenses and depreciation of the motor vehicles should be charged wholly to the Hardware Department.

(e) Depreciation of Equipment and Fittings should be shared equally by the two Departments.

(f) All the other expenses should be allocated in proportion to the turnover of the two Departments.

[Total 35 marks]

Question 1(a). For each transaction, name the book of original entry, the account to be debited, and the account to be credited.

(i) J Mwape invests K50,000 in his business and opens a Bank Account.

Answer: Book of original entry: Cash Book (Bank column). Debit: Bank Account K50,000. Credit: Capital Account K50,000.

(ii) M Muungu buys goods on credit from A Lekisa, list price K5,000 less 10% trade discount. Invoice value = K5,000 – 10% = K4,500.

Answer: Book of original entry: Purchases Day Book. Debit: Purchases Account K4,500. Credit: A Lekisa (Creditor) Account K4,500.

(iii) T Nsiimulinda writes off a bad debt of K560 (debtor B Namsaldu died in an accident).

Answer: Book of original entry: General Journal (Journal Proper). Debit: Bad Debts Account K560. Credit: B Namsaldu (Debtor) Account K560.

(iv) M Muungu returns goods to A Lekisa, price list K1,000 (same 10% TD applies → net = K900).

Answer: Book of original entry: Returns Outwards Day Book (Purchase Returns Book). Debit: A Lekisa (Creditor) Account K900. Credit: Returns Outwards Account K900.

Question 1(b). Showing working clearly, calculate M. Mwinga's working capital only as at 30 September 2014.

Working Capital = Current Assets – Current Liabilities.

CURRENT ASSETS (short-term assets — cash or convertible within one year):

Stock of unsold goods: K5,000. Prepaid insurance premium: K500. Bank balance: K800. Rent paid in advance: K450. Debtors: K2,560.

Answer: Total Current Assets = K5,000 + K500 + K800 + K450 + K2,560 = K9,310.

CURRENT LIABILITIES (obligations due within one year):

Premises repairs bills owing: K250. Creditors: K2,000.

Answer: Total Current Liabilities = K250 + K2,000 = K2,250.

NOT included: Premises K40,000 and Equipment K15,000 are fixed assets; Bank Loan K8,500 is a long-term liability.

Answer: Working Capital = K9,310 – K2,250 = K7,060.

Question 2(a). Prepare R. Nyirenda's Account in S. Hakaanda's Sales Ledger for 2014 and close it off.

Nyirenda is a DEBTOR of Hakaanda — the account sits in the Sales Ledger and normally carries a DEBIT balance.

July 1: Balance b/d K400 Dr (amount owed by Nyirenda).

July 5: Credit sales K500 → Dr Nyirenda K500; Cr Sales K500.

July 10: Nyirenda pays the opening balance K400 with cheque K370 → implied discount K30. Dr Bank K370; Dr Discount Allowed K30; Cr Nyirenda K400.

July 15: Cheque returned unpaid (dishonoured). Reverse payment AND cancel discount: Dr Nyirenda K400; Cr Bank K370; Cr Discount Allowed K30.

Balance after July 15: K400 (b/d) + K500 (sales) + K400 (dishonour) – K400 (payment cancelled) = K900 Dr.

Sept 25: Trustee in Bankruptcy pays 1/5 × K900 = K180 by cheque. Dr Bank K180; Cr Nyirenda K180.

Dec 26: Trustee pays 3/5 × K900 = K540 by cheque. Dr Bank K540; Cr Nyirenda K540.

Remaining = K900 – K180 – K540 = K180.

Dec 31: Hakaanda writes off remaining K180 as bad debt. Dr Bad Debts K180; Cr Nyirenda K180.

R. NYIRENDA ACCOUNT (S. Hakaanda's Sales Ledger):

Dr: Balance b/d K400 | Sales K500 | Bank (dishon.) K370 | Discount Allowed K30 = K1,300.

Cr: Bank (10 Jul) K370 | Disc Allowed (10 Jul) K30 | Bank (25 Sep) K180 | Bank (26 Dec) K540 | Bad Debts (31 Dec) K180 = K1,300.

Answer: Account closes to zero at 31 December 2014. Bad debt written off: K180.

Question 2(b). Prepare J Mulenga's Provision for Bad Debts Account for 2012 and 2013. Provision = 5% of net trade debtors at each year-end.

YEAR 2012:

Opening provision (1 Jan 2012) = K250 (balance b/f).

Required provision = 5% × K5,600 (net debtors at 31 Dec 2012) = K280.

Increase needed = K280 – K250 = K30 → Debit P&L; K30; Credit Provision K30.

YEAR 2013:

Bad debts written off (30 Sep 2013) K260 → Dr Bad Debts K260; Cr Debtors K260 (recorded separately, not through this provision account).

Required provision = 5% × K5,500 (net debtors at 31 Dec 2013) = K275.

Decrease = K280 – K275 = K5 → Debit Provision K5; Credit P&L; K5 (income).

PROVISION FOR BAD DEBTS ACCOUNT:

2012 | Dr: Balance c/d K280 | Cr: Balance b/d K250, P&L; (increase) K30 — Totals: K280.

2013 | Dr: P&L; (decrease) K5, Balance c/d K275 | Cr: Balance b/d K280 — Totals: K280.

Answer: Closing provision 31 Dec 2012: K280 Cr. Closing provision 31 Dec 2013: K275 Cr.

Answer: P&L; transfers: 2012 → charge K30 (expense); 2013 → credit K5 (income, provision reduced).

Question 3(a). Do journal entries with narrations for corrections (i) to (iii) for Banja General Dealers as at 31 December 2014.

BACKGROUND: The given Trial Balance contains items on WRONG sides (causing a Cr Suspense K1,800). Adjustments (i)–(iii) are NEW omissions not yet recorded.

(i) Premises appreciated from K4,000 to K5,000 (gain K1,000). No record made.

Answer: Dr Premises K1,000 | Cr Revaluation Reserve K1,000.

Answer: Narration: Being the appreciation of business premises to K5,000 as at 31 December 2014.

(ii) Invoice for goods purchased on credit K5,000 not recorded in books.

Answer: Dr Purchases K5,000 | Cr Creditors (Accounts Payable) K5,000.

Answer: Narration: Being the recording of an omitted purchase invoice for goods received on credit.

(iii) Private motor van (K6,000) given to the business by the owner. No formalities made.

Answer: Dr Motor Vehicles K6,000 | Cr Capital K6,000.

Answer: Narration: Being a motor van contributed to the business by the owner valued at K6,000 (capital introduced in kind).

Question 3(b). Redraft the Trial Balance with its correct reading to show how it stands after adjustments (i) to (iii).

ITEMS ON WRONG SIDES IN THE ORIGINAL TB (moved to correct sides):

Returns Outwards: was Dr K60 → now Cr K60.

Returns Inwards: was Cr K70 → now Dr K70.

Carriage on Sales: was Cr K150 → now Dr K150.

Discount Allowed: was Cr K180 → now Dr K180.

Discount Received: was Dr K40 → now Cr K40.

Rent owing: was Dr K200 → now Cr K200 (liability).

Loan: was Dr K1,000 → now Cr K1,000 (liability).

Suspense K1,800 Cr: ELIMINATED (it arose only because of the wrong-side postings).

EFFECTS OF ADJUSTMENTS (i)–(iii):

(i) Premises +K1,000 → K5,000 Dr; Revaluation Reserve K1,000 Cr (new account).

(ii) Purchases +K5,000 → K6,200 Dr; Creditors K5,000 Cr (new account).

(iii) Motor Vehicles K6,000 Dr (new); Capital +K6,000 → K9,300 Cr.

BANJA GENERAL DEALERS — TRIAL BALANCE AS AT 31 DECEMBER 2014 (CORRECTED):

Dr: Purchases K6,200 | Returns Inwards K70 | Carriage on Purchases K100 | Carriage on Sales K150 | Discount Allowed K180 | Cash at Bank K400 | Stock (1 Jan 2014) K400 | Premises K5,000 | Motor Vehicles K6,000 = K18,500.

Answer: Cr: Capital K9,300 | Sales K1,900 | Returns Outwards K60 | Discount Received K40 | Rent Owing K200 | Loan K1,000 | Creditors K5,000 | Revaluation Reserve K1,000 = K18,500. ✓

Question 4. D Tembo's business has two departments: Hardware and Electrical. Prepare the departmental Trading and P&L; Account (columnar) for year ended 31 October 2014, and a Balance Sheet.

SALES: Hardware K8,400; Electrical K5,600; Total K14,000.

Turnover ratio Hardware : Electrical = 8,400 : 5,600 = 3 : 2 (used to apportion shared expenses).

ADJUSTMENTS: Purchases Hardware includes K100 for desks (capital item — move to Equipment and Fittings).

Adjusted Purchases Hardware = K4,400 – K100 = K4,300.

Adjusted Equipment & Fittings cost = K1,500 + K100 = K1,600.

DEPRECIATION:

Equipment and Fittings: 10% × K1,600 = K160 — split equally: Hardware K80; Electrical K80.

Motor Vehicles: 20% × K1,900 = K380 — charged wholly to Hardware.

HARDWARE TRADING ACCOUNT:

Sales K8,400. Opening Stock K2,400 + Purchases K4,300 – Closing Stock K2,520 = COGS K4,180.

Answer: Hardware Gross Profit = K8,400 – K4,180 = K4,220.

ELECTRICAL TRADING ACCOUNT:

Sales K5,600. Opening Stock K1,400 + Purchases K3,200 – Closing Stock K1,620 = COGS K2,980.

Answer: Electrical Gross Profit = K5,600 – K2,980 = K2,620.

EXPENSES ALLOCATION:

Motor vehicle expenses K840 → wholly Hardware: K840.

Motor vehicle depreciation K380 → wholly Hardware: K380.

Equipment depreciation K160 → equally: Hardware K80, Electrical K80.

Wages K2,400 → 3:2 ratio: Hardware K1,440, Electrical K960.

Rates and insurance K200 → 3:2: Hardware K120, Electrical K80.

Heating and lighting K300 → 3:2: Hardware K180, Electrical K120.

Mortgage interest paid K100 → 3:2: Hardware K60, Electrical K40.

HARDWARE P&L;:

Gross Profit K4,220. Less: MV expenses K840 + MV dep'n K380 + E&F; dep'n K80 + Wages K1,440 + R&I; K120 + H&L; K180 + Mortgage int K60 = K3,100.

Answer: Hardware Net Profit = K4,220 – K3,100 = K1,120.

ELECTRICAL P&L;:

Gross Profit K2,620. Less: E&F; dep'n K80 + Wages K960 + R&I; K80 + H&L; K120 + Mortgage int K40 = K1,280.

Answer: Electrical Net Profit = K2,620 – K1,280 = K1,340.

Answer: TOTAL NET PROFIT = K1,120 + K1,340 = K2,460.

BALANCE SHEET as at 31 October 2014:

Fixed Assets: Premises K10,000 (no dep'n stated); E&F; K1,600 less Dep'n K160 = K1,440; Motor Vehicles K1,900 less K380 = K1,520.

Answer: Total Fixed Assets = K10,000 + K1,440 + K1,520 = K12,960.

Current Assets: Stock Hardware K2,520 + Electrical K1,620 = K4,140; Debtors K520; Cash at Bank K440.

Answer: Total Current Assets = K5,100. Less Current Liabilities (Creditors K2,400) = Net CA K2,700.

Long-term Liability: Mortgage Loan on Premises K2,000.

Answer: Net Assets = K12,960 + K2,700 – K2,000 = K13,660.

Answer: Capital: Opening K12,400 + Net Profit K2,460 – Drawings K1,200 = K13,660. ✓

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