G12 ECZ
PRINCIPLES OF ACCOUNTS
2017
PAPER 2
SOLUTIONS

Grade 12 ECZ Principles of Accounts 2017 Paper 2 (7110/2)

Monday 13 November 2017 | 2 hours | Section A (Q1–Q3 all) + Section B (Q4A or Q4B)

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 **13 NOVEMBER 2017**

Additional materials:
Answer Booklet

Time 2 hours

Instructions to Candidates

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

2 There are **two (2)** sections in this paper; Section **A** and **B.**

3 Answer **ALL** questions in Section **A** in the spaces provided.

4 Answer only **one** question in Section **B** (either **4A** or **4B**) on the separate Answer Booklet provided.

5 Both questions in Section **B** carry equal marks.

6 Read carefully the instructions for each question or part of question before you answer it.

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.

You are given five (5) minutes to read through the paper.

Cell phones are not allowed in the examination room.

MARKS GRID

	Question	Marks
Section A		
Section B		
TOTAL		

 This question paper consists of 16 printed pages

Section A

Answer ALL questions in the Section.

1 (a) For each of the transactions below, name the book of Prime Entry where each should first be recorded.

(i) M. Zambana paid Toyota (Z) Ltd a cheque of K45 000 for the delivery Van purchased.

(ii) W. Mkandawire returned damaged goods K4 500 to the supplier.

(iii) Sold goods on credit to H Hamaula K5 000

(i) ....

(ii) ....

(iii) ....

[3]

(b) The following Sales and Purchases were extracted from the books of D. Choongo during the month of May 2016.

You are required to prepare his Purchases Journal **only** for the month of May 2016 from the transactions below:

May 1	Bought goods on credit from A. Banda:
	5 Kgs of sugar at K20 per kg
	3 Kgs of salt at K5 per kg
May 5	Sold goods to L. Hatwaambo:
	5 Kgs of rice at K30
	10 bags of potatoes @ K20 each
May 10	Bought 1kg of sugar from K Mwaandu at K20 on credit
May 16	Bought goods on credit from P. Mwale:
	2 Kgs of rice at K7 per kg
	1 bag of potatoes @ K25
May 31	Sold goods on credit to B N'gandu
	20kgs of caster sugar at a total of K100

[8]

(c) The following balances were extracted from the books of H Shakapenda as at 31 December 2015, the end of the financial year. From the balances below **prepare** a Trial Balance, with correct heading.

	K
Capital	10 810
Purchases	47 400
Stock 1/1/2015	4 600
Debtors	6 200
Creditors	3 900
Motor Van	3 300
General expenses	1 900
Rent and rates	1 800
Provision for bad debts 1/1/2015	670
Bad debts	7 730
Drawings	6 300
Bank balance	950
Sales	64 800
Stock 31/12/2015	5 200

[7]

(d) State the type of expenditure, capital or revenue, incurred in the following transactions:

(i) Cost of building an extension to a factory.
(ii) Purchase of extra filing cabinets for Sales Office.
(iii) Cost of repairs to Accounting Machines.
(iv) Cost of installing reconditioned engine to a delivery van.

(i) ....

(ii) ....

(iii) ....

(iv) ....

[4]

[Total: 22 marks]

2 **(a)** Define the following terms used in connection with the Ledger Accounts, giving an example in each case.

(i) Real Accounts [2]
(ii) Personal Accounts [2]
(iii) Nominal Accounts [2]

(i) ....

....

(ii) ....

....

....

(iii) ....

....

....

(b) On 1 January 2008, there was a balance of K500 in an Allowance for Doubtful Debts Account, and it was decided to maintain the provision at 5% of the debtors at each year end.

The debtors on 31 December each year were:

	K
2008	12 000
2009	8 000
2010	9 000

Show the necessary entries for the three years ended 31 December 2008 to 31 December 2010 inclusive of the Allowance for Doubtful Debts Account. [8]

(c) Mulenga maintained his Motor Vehicles Account at cost price and a Provision for Depreciation of Motor Vehicle Account.

At 1 Jan 2014, the Motor Vehicles Account had cost value of K120 000 while the Provision for Depreciation of Motor Vehicles Account had a balance of K24 000.

His policy was to depreciate the motor vehicle at 20% of cost per annum, charge full year's depreciation in the year of purchase and charge no depreciation in the year of disposal.

On 31 March 2015, Mulenga acquired another vehicle from Tata Motors Ltd at K40 000. On 30 September 2016, Mulenga sold one old vehicle which had cost him K35 000 in 2014, at K19 000, to Zioneĺe Traders on credit.

Required:

Open the Provision for Depreciation of Motor Vehicles Account for three years – 2014 to 2016.

[8]

[Total: 22 marks]

3 (a) Dr Gesh's books show the following details for the month of June 2015.

2015		K	
June 1	Sales Ledger Control Account balance b/f	30 000	Dr
June 30	Sales for the month	48 000	
	Returns inwards	3 000	
	Receipts from debtors (banked)	46 500	
	Customers' cheque returned unpaid by bank	1 500	
	Bad Debts written off	900	
	Discount Allowed	1 600	
	Transfer of debit balance from Sales Ledger to Purchases Ledger during the month	1 000	
	Credit balance in Sales Ledger 30 June 2015	1 400	

You are required to prepare the Sales Ledger Control Account in the appropriate Ledger for the month of June 2015. [8]

(b) Briefly explain the purpose of Control Accounts.

....

....

....

....

[4]

(c) During the year 2015, Lubengula held an average stock at cost price of K11 280. His selling prices were obtained by adding 25% to the cost prices. His turnover for 2015 was K169 200.

His selling and administrative expenses were 12% of turnover.

Calculate:

(i) Lubengula's Gross Profit for 2015. [5]

(ii) The rate of turnover of stock for 2015. [3]

(iii) The Net profit for 2015. [2]

[Total: 22 marks]

3 (c) **(Working Space)**

[Turn over

Section B

Answer only **one** question from this section on the Answer Booklet provided.
Answer either **4(a)** or **4(b) not** both.

Either

4 **(a)** Lukundo and Isaac are in partnership sharing profits and losses in the ratio 3:2 respectively.

The following balances were extracted from the partnership books on 31 December 2015:

		K	
Fixed Capital Accounts:	Lukundo	36 000	
	Isaac	54 000	
Current Accounts:	Lukundo	900	(Dr)
	Isaac	2 100	(Cr)
Drawings:	Lukundo	18 000	
	Isaac	7 500	
Purchases		108 000	
Sales		195 000	
Returns inwards		4 200	
Returns outwards		5 400	
Salaries and wages		16 800	
Rent and Insurance		9 000	
Advertising expenses		6 900	
Petty cash		2 000	
Cash at Bank		10 000	
Debtors		31 200	
Creditors		13 200	
Provisions for Bad Debts 1/1/2015		900	
Stock – 1/1/2015		32 100	
Motor vehicles at cost		84 000	
Provision for Depreciation on Motor Vehicles		24 000	

Additional information:

1 Stock at 31 December 2015 was valued at K33 900

2 Rent K1800 had been paid for the year to 30 June 2016.

3 Advertising due amounted to K600.

4 The provision for bad debts to be reduced to K600.

5 Lukundo withdrew goods valued at K1 800 at selling price. No entry had been made in the books of accounts.

6 Motor Vehicles should be depreciated at the rate of 20% per annum using the straight line method.

7 The Partnership Agreement provided that:

(i) Interest was to be allowed on partners' capitals at the rate of 5% per annum.

(ii) Lukundo was to receive a salary of K15 000.

(iii) The remaining profit or loss was to be shared by partners in their agreed ratio.

Required:

(a) Prepare the Partnership Trading and Profit and Loss account and the appropriation account for the year ended 31 December 2015 [15½]

(b) Draw up Current Accounts of the partners. [7]

(c) Prepare the Partnership Balance Sheet as at 31 December 2015. [11½]

[Total: 34 marks]

OR

4 **(b)** At the beginning of the year, 1 January 2016, Matero Social Club had the following Assets and Liabilities:

	K
Equipment at cost	1 000 000
Furniture at cost	1 500 000
Cash at hand	200 000
Cash at Bank	450 000
Stock refreshments	250 000
Subscriptions in Advance	50 000
Subscriptions in Arrears	60 000
Credit suppliers of refreshments	120 000
Sundry expenses owing	50 000

At 31 December, the end of the year, the club Treasurer presented the Receipts and Payments Account as follows:

RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

RECEIPTS	K	PAYMENTS	K
Opening balances:			
Cash at hand	200 000	New equipment	400 000
Bank	450 000	Rent and Rates	500 000
Subscriptions	1 200 000	Stationery postage	200 000
Sale of Raffle tickets	580 000	Wages – office assistant	450 000
Sale of refreshments	900 000	Creditors for refreshments	650 000
		Sundry expenses	120 000
		Raffle tickets and expenses	200 000
		Balances: Cash	210 000
		Bank	600 000
	3 330 000		**3 330 000**

The treasurer had this **additional information** at 31 December 2016:

1 Stock of unsold refreshments was K390 000.

2 Subscriptions in advance K100 000.

3 Rent paid in advance K120 000.

4 The club policy was to depreciate:

Equipment at 20% on cost

Furniture at 10% on cost.

Your are required to:

(a) Calculate the Club's Accumulated Fund at 1 January 2016. [5½]

(b) Prepare the Club refreshments Trading Account [5]

(c) Prepare the Income and Expenditure Account for the year ending 31 December 2016. [13½]

(d) The Balance Sheet as at 31 December 2016. [10]

[Total: 34 marks]

Question 1(a). For each transaction name the book of Prime Entry where it should first be recorded.

(i) M. Zambana paid Toyota (Z) Ltd a cheque of K45,000 for the delivery van purchased.

Answer: Book of Prime Entry: Cash Book. (This is a cash/bank payment for a fixed asset. Cash Book records all bank transactions.)

(ii) W. Mundawe returned damaged goods K4,500 to the supplier.

Answer: Book of Prime Entry: Returns Outwards Day Book (Purchase Returns Book). Returns to suppliers are recorded in the Purchases Returns Journal.

(iii) Sold goods on credit to H Namaula K5,000.

Answer: Book of Prime Entry: Sales Day Book (Sales Journal). Credit sales are first recorded in the Sales Day Book.

Question 1(b). Prepare the Purchases Journal only for D. Choongu for May 2016 from the transactions given. (Sales transactions are excluded — they belong in the Sales Day Book.)

PURCHASES (credit acquisitions of goods for resale):

May 1: A. Banda — 5 Kgs sugar @ K20 = K100; 3 Kgs salt @ K5 = K15. Total: K115.

May 10: K Mwakandu — 1 Kg sugar @ K20 = K20.

May 16: P. Mwale — 2 Kgs rice @ K7 = K14; 1 bag potatoes @ K25 = K25. Total: K39.

NOT included (sales, not purchases): May 5 (sold to L. Hotwaamba); May 31 (sold to B N'gandu).

PURCHASES JOURNAL — D. Choongu, May 2016:

May 1 | A. Banda | Sugar & Salt | K115

May 10 | K. Mwakandu | Sugar | K20

May 16 | P. Mwale | Rice & Potatoes | K39

Answer: Total Purchases Journal May 2016: K174. Posted: Dr Purchases Account K174; Cr individual creditors' accounts (PLCA) K174.

Question 1(c). From the balances extracted from H. Shakapenda's books at 31 December 2015, prepare a Trial Balance with correct heading.

PLACEMENT OF BALANCES (Dr = assets + expenses + drawings; Cr = liabilities + income + capital):

Dr: Purchases K47,400 | Opening Stock (1/1/2015) K4,600 | Debtors K6,200 | Motor Van K3,300 | General expenses K1,900 | Rent and rates K1,800 | Bad debts K7,730 | Drawings K6,300 | Bank balance K950.

Cr: Capital K10,810 | Creditors K3,900 | Provision for bad debts K670 | Sales K64,800.

NOTE: Stock 31/12/2015 K5,200 is closing stock (additional info for Trading Account, NOT appearing in the pre-closing TB).

H. SHAKAPENDA — TRIAL BALANCE AS AT 31 DECEMBER 2015:

Dr: Purchases K47,400 | Stock 1/1/2015 K4,600 | Debtors K6,200 | Motor Van K3,300 | General expenses K1,900 | Rent and rates K1,800 | Bad debts K7,730 | Drawings K6,300 | Bank K950 = K80,180.

Answer: Cr: Capital K10,810 | Creditors K3,900 | Provision for Bad Debts K670 | Sales K64,800 = K80,180. ✓

Question 1(d). State the type of expenditure (Capital Expenditure, Revenue Expenditure, or Capital Receipt) for each transaction.

Answer: (i) Cost of building an extension to a factory → Capital Expenditure. Extending the factory creates a new fixed asset (increases the value of the building permanently).

Answer: (ii) Purchase of extra filing cabinets for Sales Office → Capital Expenditure. Filing cabinets are fixed assets (furniture and fittings) with a life beyond one year.

Answer: (iii) Cost of repairs to Accounting Machines → Revenue Expenditure. Repairs restore an asset to its original condition without extending its useful life — a regular running cost.

Answer: (iv) Cost of installing a reconditioned engine to a delivery van → Capital Expenditure. A reconditioned engine extends the van's useful life or improves its performance, thereby enhancing the asset's value.

Question 2(a). Define Real Accounts, Personal Accounts, and Nominal Accounts, giving an example of each.

Answer: (i) REAL ACCOUNTS: These record assets that have a physical or tangible existence (real property owned by the business). They have a permanent debit balance. Example: Motor Vehicles Account, Buildings Account, Cash Account.

Answer: (ii) PERSONAL ACCOUNTS: These record transactions with individuals or organisations (persons, whether real or artificial/legal). They may have either a debit balance (debtors) or credit balance (creditors). Example: Debtors Account (e.g., J. Banda), Creditors Account, Capital Account.

Answer: (iii) NOMINAL ACCOUNTS: These record incomes, expenses, gains, and losses. They are temporary accounts, closed to the Profit and Loss Account at year-end. Example: Sales Account (income), Wages Account (expense), Rent Account (expense), Discount Received (income).

Question 2(b). On 1 January 2008, the Allowance for Doubtful Debts balance was K500. Policy: 5% of net debtors at each year-end. Debtors: 2008 K12,000; 2009 K8,000; 2010 K9,000. Show the Allowance for Doubtful Debts Account for three years.

Required provisions: 2008 = 5% × K12,000 = K600; 2009 = 5% × K8,000 = K400; 2010 = 5% × K9,000 = K450.

Changes: 2008 → increase from K500 to K600 = K100 (Dr P&L; K100).

2009 → decrease from K600 to K400 = K200 (Cr P&L; K200, income).

2010 → increase from K400 to K450 = K50 (Dr P&L; K50).

ALLOWANCE FOR DOUBTFUL DEBTS ACCOUNT:

2008 | Dr: Balance c/d K600 | Cr: Balance b/d K500, P&L; K100. Total: K600.

2009 | Dr: P&L; K200, Balance c/d K400 | Cr: Balance b/d K600. Total: K600.

Answer: 2010 | Dr: Balance c/d K450 | Cr: Balance b/d K400, P&L; K50. Total: K450.

Answer: P&L; transfers: 2008 Dr K100 (expense); 2009 Cr K200 (income); 2010 Dr K50 (expense).

Question 2(c). Mulenga: MV at cost 1 Jan 2014 K120,000; Provision K24,000. Policy: 20% per annum on cost (straight-line), full year in year of purchase, nil in year of disposal. On 31 Mar 2015 he bought a new van at K40,000. On 30 Sep 2016 he sold one old van (cost K35,000, purchased 2014) for K19,000 on credit. Open the Provision for Depreciation of Motor Vehicles Account for 2014–2016.

DEPRECIATION CALCULATIONS:

2014: 20% × K120,000 = K24,000 total charge.

2015: Original vans K120,000 × 20% = K24,000; New van K40,000 × 20% = K8,000 (full year). Total K32,000.

2016 DISPOSAL: Old van cost K35,000 bought in 2014. Accumulated dep'n = K7,000 (2014) + K7,000 (2015) = K14,000. No dep'n in year of disposal.

2016 REMAINING: Original vans less sold = K120,000 – K35,000 = K85,000; + new K40,000 = K125,000 total. Dep'n = 20% × K125,000 = K25,000.

PROVISION FOR DEPRECIATION OF MOTOR VEHICLES ACCOUNT:

2014: Dr Balance c/d K48,000 | Cr Balance b/d K24,000 + Dep'n K24,000 = K48,000.

2015: Dr Balance c/d K80,000 | Cr Balance b/d K48,000 + Dep'n K32,000 = K80,000.

Answer: 2016: Dr Disposal K14,000 + Balance c/d K91,000 = K105,000 | Cr Balance b/d K80,000 + Dep'n K25,000 = K105,000.

Answer: Closing provision 31 Dec 2016: K91,000 Cr.

NOTE on disposal gain/loss: Sale proceeds K19,000; NBV = K35,000 – K14,000 = K21,000. Loss on disposal = K21,000 – K19,000 = K2,000 Dr to P&L.;

Question 3(a). Dr Gesh's Sales Ledger Control Account for June 2015, from the details given.

SLCA — JUNE 2015:

Dr: Balance b/d K30,000 | Credit Sales K48,000 | Dishonoured cheque (returned unpaid) K1,500 | Credit balances c/d K1,400 = K80,900.

Cr: Returns Inwards K3,000 | Cash received from debtors K46,500 | Bad debts K900 | Discount Allowed K1,600 | Transfer to PL (contra) K1,000 | Debit balances c/d K27,900 = K80,900.

VERIFICATION: Dr entries (before balances) = K30,000 + K48,000 + K1,500 = K79,500. Cr entries (before balances) = K3,000 + K46,500 + K900 + K1,600 + K1,000 = K53,000. Net = K26,500 Dr. Add credit balance customers K1,400 (on Dr side) → total Dr = K80,900. Closing Dr balance = K27,900.

Answer: Balances b/d July 2015: Dr (debtors) K27,900; Cr (customers with credit balances) K1,400.

Question 3(b). Briefly explain the purpose of Control Accounts.

Answer: 1. Locating errors: A Control Account summarises all transactions in the subsidiary ledger (e.g., Sales Ledger). Its balance must equal the total of all individual account balances in that ledger. Any discrepancy pinpoints where errors exist.

Answer: 2. Internal check: Because the Control Account is maintained in the General Ledger (usually by a different person from those maintaining individual ledgers), it provides an independent check against fraud or error in the subsidiary ledgers.

Answer: 3. Producing financial statements quickly: The Control Account balance gives the total debtors or creditors figure needed for the Trial Balance and Balance Sheet without waiting for each individual account to be totalled.

Answer: 4. Verification of subsidiary ledgers: The Control Account provides a means to verify that all postings to individual ledger accounts are complete and accurate.

Question 3(c). Lubengula: average stock at cost K11,280; selling price = cost + 25%; turnover K169,200; selling and admin expenses = 12% of turnover. Calculate: (i) Gross Profit; (ii) Rate of stock turnover; (iii) Net Profit.

Mark-up on cost = 25%, so GP as % of sales = 25/(100+25) = 25/125 = 20% of sales.

COGS = 80% of sales = 80% × K169,200 = K135,360.

Answer: (i) Gross Profit = 20% × K169,200 = K33,840.

Answer: (ii) Rate of Stock Turnover = COGS ÷ Average Stock = K135,360 ÷ K11,280 = 12 times per year.

Selling and admin expenses = 12% × K169,200 = K20,304.

Answer: (iii) Net Profit = K33,840 – K20,304 = K13,536.

Question 4A(a). [SECTION B — Q4A] Lukundo & Isaac partnership (ratio 3:2). Prepare Trading and P&L; Account and Appropriation Account for year ended 31 December 2015.

TB KEY FIGURES: Sales K195,000; Purchases K108,000; Returns Inwards K4,200; Returns Outwards K5,400; Wages K16,800; Rent K9,000; Advertising K6,900; Stock 1/1/2015 K32,100; Fixed Capitals K36,000 + K54,000.

ADJUSTMENTS:

Adj 5: Lukundo withdrew goods at selling price K1,800 (no entry made). Journal: Dr Lukundo Drawings K1,800; Cr Sales K1,800 (increases Lukundo's drawings and records the 'sale').

Adj 2: Rent K1,800 prepaid to 30 Jun 2016 → prepaid K900 (6/12). Adjusted Rent = K9,000 – K900 = K8,100.

Adj 3: Advertising accrued K600. Adjusted Advertising = K6,900 + K600 = K7,500.

Adj 4: PDD: K900 → K600 (decrease K300 → income).

Adj 6: Motor Vehicles dep'n: 20% × K84,000 = K16,800.

TRADING ACCOUNT:

Net Sales = K195,000 + K1,800 – K4,200 = K192,600.

COGS: Opening K32,100 + Net Purchases (K108,000 – K5,400) – Closing K23,900 = K110,800.

Answer: Gross Profit = K192,600 – K110,800 = K81,800.

PROFIT AND LOSS:

Income: GP K81,800 + PDD decrease K300 = K82,100.

Expenses: Wages K16,800 + Rent K8,100 + Advertising K7,500 + MV Dep'n K16,800 = K49,200.

Answer: Net Profit = K82,100 – K49,200 = K32,900.

APPROPRIATION ACCOUNT:

Net Profit K32,900.

Less Lukundo's salary K15,000.

Less Interest on Capital: Lukundo 5% × K36,000 = K1,800; Isaac 5% × K54,000 = K2,700 = K4,500.

Profit for distribution = K32,900 – K15,000 – K4,500 = K13,400.

Answer: Profit shares (3:2): Lukundo 3/5 × K13,400 = K8,040; Isaac 2/5 × K13,400 = K5,360.

Question 4A(b). Draw up the Current Accounts of both partners.

LUKUNDO CURRENT ACCOUNT:

Dr: Opening balance b/d K900 (Dr) | Drawings K18,000 | Drawings (goods) K1,800 = K20,700.

Cr: Salary K15,000 | Interest on Capital K1,800 | Profit share K8,040 = K24,840.

Answer: Closing balance = K24,840 – K20,700 = K4,140 Cr.

ISAAC CURRENT ACCOUNT:

Dr: Drawings K7,500.

Cr: Opening balance b/d K2,100 (Cr) | Interest on Capital K2,700 | Profit share K5,360 = K10,160.

Answer: Closing balance = K10,160 – K7,500 = K2,660 Cr.

Question 4A(c). Prepare the Partnership Balance Sheet as at 31 December 2015.

FIXED ASSETS:

Motor Vehicles: Cost K84,000; Accum Dep'n K24,000 + K16,800 = K40,800; NBV K43,200.

CURRENT ASSETS: Stock K23,900 | Debtors K31,200 – PDD K600 = K30,600 | Prepaid Rent K900 | Petty Cash K2,000 | Cash at Bank K10,000 = K67,400.

CURRENT LIABILITIES: Creditors K13,200 | Accrued Advertising K600 = K13,800.

Answer: Net Current Assets = K67,400 – K13,800 = K53,600.

Answer: NET ASSETS = K43,200 + K53,600 = K96,800.

FINANCED BY:

Answer: Fixed Capital: Lukundo K36,000 + Isaac K54,000 = K90,000.

Answer: Current Accounts: Lukundo K4,140 Cr + Isaac K2,660 Cr = K6,800.

Answer: Total Partners' Funds = K96,800. ✓

Question 4B(a). [SECTION B — Q4B ALTERNATIVE] Matero Social Club. Calculate the Club's Accumulated Fund at 1 January 2016.

BALANCE SHEET OF MATERO SOCIAL CLUB AT 1 JANUARY 2016:

Assets: Equipment K3,000,000 + Furniture K1,500,000 + Cash K200,000 + Bank K450,000 + Subscriptions in arrears K60,000 = K5,210,000.

Liabilities: Sundry expenses owing K50,000.

Answer: Opening Accumulated Fund = K5,210,000 – K50,000 = K5,160,000.

Question 4B(b). Prepare the Club Refreshments Trading Account for year ended 31 December 2016.

R&P; DATA: Cash receipts from Sales of refreshments K900,000; Cash paid to creditors for refreshments K650,000.

ADJUSTMENTS: Opening stock of refreshments K0 (not listed as opening balance); Closing stock K390,000.

REFRESHMENTS TRADING ACCOUNT:

Sales: K900,000.

Opening Stock K0 + Purchases K650,000 – Closing Stock K390,000 = COGS K260,000.

Answer: Gross Profit on Refreshments = K900,000 – K260,000 = K640,000.

Question 4B(c). Prepare the Income and Expenditure Account for year ended 31 December 2016.

SUBSCRIPTIONS ACCOUNT:

Dr: Arrears b/d K60,000 + Advance c/d K100,000 + I&E; K1,040,000 = K1,200,000.

Cr: Cash K1,200,000.

Answer: I&E; Subscriptions = K1,200,000 – K60,000 (arrears b/d earned last year) – K100,000 (advance c/d, next year's) = K1,040,000.

RAFFLE: Receipts K580,000 – Expenses K200,000 = Net income K380,000.

EXPENSES ADJUSTMENTS:

Rent: K500,000 – K120,000 (prepaid) = K380,000.

Sundry expenses: K120,000 – K50,000 (prior year accrual now paid) = K70,000.

Depreciation: Equipment 20% × (K3,000,000 + K400,000) = K680,000; Furniture 10% × K1,500,000 = K150,000. Total K830,000.

INCOME AND EXPENDITURE ACCOUNT:

Income: Refreshments GP K640,000 + Subscriptions K1,040,000 + Raffle net K380,000 = K2,060,000.

Expenditure: Rent K380,000 + Wages K450,000 + Sundry K70,000 + Depreciation K830,000 = K1,730,000.

Answer: Surplus for year = K2,060,000 – K1,730,000 = K330,000.

Question 4B(d). Prepare the Balance Sheet as at 31 December 2016.

FIXED ASSETS:

Equipment: Cost K3,400,000 (K3M + K400,000 new); Dep'n K680,000; NBV K2,720,000.

Furniture: Cost K1,500,000; Dep'n K150,000; NBV K1,350,000.

Answer: Total Fixed Assets K4,070,000.

CURRENT ASSETS: Stock K390,000 + Prepaid Rent K120,000 + Cash K210,000 + Bank K800,000 = K1,520,000.

Answer: Less Current Liabilities (Subscriptions in advance K100,000) = Net CA K1,420,000.

Answer: NET ASSETS = K4,070,000 + K1,420,000 = K5,490,000.

ACCUMULATED FUND:

Answer: Opening K5,160,000 + Surplus K330,000 = K5,490,000. ✓

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