G12 ECZ
PRINCIPLES OF ACCOUNTS
2022 GCE
PAPER 2
SOLUTIONS

Grade 12 ECZ Principles of Accounts 2022 GCE Paper 2 (7110/2)

Friday 5 August 2022 | 2 hours, 100 marks | Section A (Q1, Q2; Q3 either 3A or 3B) + Section B (Q4A or Q4B)

The full question paper appears first — worked answers follow. Both Q3 alternatives and both Section B options are worked here.

EXAMINATIONS COUNCIL OF ZAMBIA

Examination for General Certificate of Education Ordinary Level

Principles of Accounts 7110/2

Paper 2

Friday 5 AUGUST 2022

Additional materials:
Answer Booklet

Time 2 hours Marks: 100

Instructions to Candidates

1 Write the **centre number** and your **examination number** on **every page** of this paper and on the separate **Answer Booklet** provided.

2 There are **two** sections in this paper, Section **A** and **B**.

3 For **Section A:**

(i) Answer **all** questions in the spaces provided in the question paper.

(ii) Questions **1** and **2** are **compulsory**. For **Question 3** answer only **one** question, either **3A** or **3B**; **not** both. Both question **3A** and **3B** carry equal marks.

4 For **Section B:** Answer only **one** question either **4A** or **4B** on the separate Answer Booklet provided. Both questions in Section **B** carry equal marks.

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

Information for Candidates

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

2 **Non Programmable** Calculators may be used.

3 You are given **five** minutes to read through the paper before you begin writing.

4 Cell phones are **not allowed** in the examination room.

For Examiner's Use Only		
	Question	Marks
Section A		
Section B		
Total		

Centre Number	Examination Number

Section A

Questions **1** and **2** are **compulsory**. For **Question 3** answer only **one** question, either **3A** or **3B**; **not** both.

Write the answers in the spaces provided for each question or part of the question.

1 **(a)** Name the books of Prime (Original) Entry in which Mulubwa would record the following transactions.

(i) On 4th October 2020, received a refund by cheque from Mweenda K1 050.00 for overpayment made in September 2020.

(ii) On 7th October 2020, received an invoice from Mweenda K3 700.00.

(iii) Mulubwa sent a cheque to Mweenda on 14th October, 2020 for the balance owing on 1st October after taking 2% discount.

(iv) On 27th October 2020, received an original Credit Note from Mweenda K580.00. [4]

(i) ....

(ii) ....

(iii) ....

(iv) ....

(b) **You are required to** make Journal Entries or journalise the following business transactions for J Siame for the year ended 31st December 2020. Narrations are **not** required.

(i) Purchased a motor vehicle on credit from Toyota Zambia Limited valued at K100 000.00.

(ii) Sold part of the Fixtures and Fittings which were meant for business use to J Manongo who paid K9 000.00 by cheque.

(iii) A debt of K3 000.00 from J Kabwadi which was previously written off as bad debt was received by cheque during the year. [6]

1 (b)

(c) The following list of balances was extracted from the books of Twangale Social Club.

	K	N
Games equipment	17 500	00
Purchases of refreshments	13 300	00
Membership subscriptions	3 950	00
Accounts payable	1 790	00
Bank overdraft	3 810	00
Donations received for the year	2 650	00
Accumulated Fund	19 850	00
Accounts receivable	1 930	00
Fixtures and Fittings	13 250	00
Rent	2 400	00
Provision for depreciation on games Equipment	3 580	00
Bad Debts	2 000	00
Sales of Refreshments	14 750	00

You are required to prepare a Trial Balance on 30th June 2020 with its correct heading. [7]

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1 (c)

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(d) Classify each of the following either as Capital Expenditure, Capital Receipt, Revenue Expenditure or Revenue Receipt.

(i) Interest on a Loan to purchase a motor van.

(ii) Sale of an old equipment.

(iii) Cost of software for use with a computer.

(iv) Repairs to the office roof.

(v) Commission earned from sale of newspapers.

[5]

(i) ....

(ii) ....

(iii) ....

(iv) ....

(v) ....

[Total: 22 marks]

2 **(a)** Classify the following into: Real, Personal and Nominal Accounts respectively:

(i)	Cash	
(ii)	Purchases	
(iii)	Bank of Zambia	
(iv)	Stock (inventory)	
(v)	Depreciation	
(vi)	J. Magufuli	
(vii)	Stationery	
(viii)	Machinery	

[4]

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(b) The following details were found in the books of L. Bwalya and relates to the month of March 2020 in respect to L. Muchindu's Account.

2020	
March 1	L Bwalya was owed K2 900.00.
3	Goods supplied to L. Muchindu K4 800.00 subject to 20% trade discount.
6	L Muchindu paid last month's balance by cheque less 5% cash discount.
10	One fifth $\left(\frac{1}{5}\right)$ of the goods sold to L. Muchindu on 3rd March were returned as damaged in transit.
15	L Muchindu made part payment of K1 000.00 by cheque.
25	L. Bwalya supplied more goods valued at K2 000.00 subject to 10% trade discount.
30	L Muchindu made another down payment of K800.00 by cheque.

Required:

Prepare L. Muchindu's account in L. Bwalya's Ledger. [8]

2 (b)

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(c) State **three** advantages of using Straight Line Method of depreciation. [3]

(i) ....

....

(ii) ....

....

(iii) ....

....

(d) Kambambu started a manufacturing industry on 1st April 2018 and bought two machines for K200 000.00 each on credit from Chikwangala Limited. It was decided to depreciate the machines at the rate of 20% per annum on cost (i.e. by the fixed instalment method). The depreciation is to be recorded in a separate Provision for Depreciation Account.

On 31st March 2020 after allowing for the second year's depreciation, Kambambu sold one of the machines for K110,000.00 cash.

Required:

The Provision for Depreciation Account for the two years. [7]

[Total: 22 marks]

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EITHER

3 **(a)** **(i)** Mention one error that would cause the Trial Balance to disagree?

.... [1]

(ii) You work as a Senior Accounts Clerk for EMK Stationery and have been assisting in the preparation of the final accounts. The Trial Balance as at 30th April 2020 did not agree, and a Suspense Account was opened for the difference.

The following errors have now been traced.

1 The total of the Returns Outwards Book K2 480.00 had only been posted to the suppliers accounts.

2 A payment for repairs to motor vehicles, K720.00 had been entered in the motor vehicles repairs account as K700.00.

3 When balancing the account of S Gawani in the ledger the debit balance had been brought down in error as K280.00 instead of K820.00

4 K1 000.00 received from the sale of office equipment had been entered in the sales account.

5 The purchases day book was under cast by K920.00

Required:

(i) Prepare Journal Entries to correct the errors from the information given above. Narrations are not required. [10]

(ii) Prepare the Suspense Account. Determine the opening balance. [5]

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(iii) D. Phiri's Cash Book (Bank column) had a debit balance of K1 545.00 on 31st January 2020. This did not agree with the bank statement of the same date which showed a debit balance of K870.00

The Cash Book was checked against the Bank Statement and the following differences were found:

1. Cheque amounting to K1 860.00 issued to creditors had not been presented to the bank for payment.
2. An amount of K2 850.00 paid into the bank did not appear on the Bank Statement.
3. Cash sales deposited into the bank amounting to K1 170.00 had been omitted from the Cash Book.
4. Bank charges amounting to K360.00 appeared on the Bank Statement and had not yet been recorded in the Cash Book.
5. A cheque for K945.00 received from C. Mulamfu had been returned by the bank unpaid. No action had been taken by D. Phiri.
6. The bank received a credit transfer of K450.00 on behalf of D Phiri who had not been advised.

Required:

(i) Prepare an updated Cash Book. [4]

(ii) Draw up a Bank Reconciliation Statement with the correct heading. [2]

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[Total: 22 marks]

Centre Number	Examination Number

OR

3 **(b)** **(i)** You work as an Accounts Clerk for a manufacturing firm, GML Limited. Details of the transactions for the month of October 2020 are given below and you are required to prepare the Purchase Ledger Control Account only for the month of October 2020. [8]

		K
October 1	Purchases Ledger (credit balance)	26 100.00
	Purchases Ledger (debit balance)	460.00
	Sales ledger (debit balance)	51 400.00
	Sales ledger (credit balance)	630.00
	Total transactions for the month:	
	Bad debts written off	420.00
	Credit purchases	37 590.00
	Cash purchases	5 200.00
	Returns outwards	510.00
	Returns inwards	1 480.00
	Cheques received from debtors	47 360.00
	Credit sales	74 900.00
	Cash sales	9 250.00
	Discounts Allowed	1 840.00
	Discounts Received	960.00
	Cheque received from a supplier	460.00
	Cheques paid to creditors	24 270.00
	Sales ledger debit balance transferred to Purchases ledger	800.00
	Dishonoured cheques from debtors	140.00

Centre Number	Examination Number

OR

3 (b) (i) You work as an Accounts Clerk for a manufacturing firm, GML Limited. Details of the transactions for the month of October 2020 are given below and you are required to prepare the Purchase Ledger Control Account only for the month of October 2020. [8]

		K
October 1	Purchases Ledger (credit balance)	26 100.00
	Purchases Ledger (debit balance)	460.00
	Sales ledger (debit balance)	51 400.00
	Sales ledger (credit balance)	630.00
	Total transactions for the month:	
	Bad debts written off	420.00
	Credit purchases	37 590.00
	Cash purchases	5 200.00
	Returns outwards	510.00
	Returns inwards	1 480.00
	Cheques received from debtors	47 360.00
	Credit sales	74 900.00
	Cash sales	9 250.00
	Discounts Allowed	1 840.00
	Discounts Received	960.00
	Cheque received from a supplier	460.00
	Cheques paid to creditors	24 270.00
	Sales ledger debit balance transferred to Purchases ledger	800.00
	Dishonoured cheques from debtors	140.00

Centre Number	Examination Number

(i)

[8]

(ii) Sakala is in business of buying and selling goods on credit. The following balances were extracted from his books on 30th June 2020.

	K
Sales	200 000.00
Cost of sales	130 000.00
Expenses	65 000.00
Inventory (stock) 1 July 2019	20 000.00
Inventory (stock) 30 June 2020	60 000.00
Trade receivables (debtors)	16 000.00
Trade payables (creditors)	35 000.00
Bank overdraft	5 000.00
Closing capital	100 000.00

Centre Number	Examination Number

Using the information provided, calculate the items **(a)** to **(e)** below for Sakala, for the year ended 30 June 2020.

(a) Gross profit for sales percentage [3]

(b) Working capital ratio (current ratio) [3]

(c) Quick ratio (acid test) [3]

(d) Net profit to capital percentage [3]

(e) Rate of stock turnover [2]

[14]

[Total: 22 marks]

(ii)

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Section B

There are **two (2)** questions in this section, **4(a)** and **4(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)** The following information relates to Lusco Tennis Club for the year 2020.

	K
Club house (1/01/2020)	150 000.00
Equipment (1/01/2020)	8 000.00
Bank (1/01/2020)	5 000.00
Stock (refreshments) (1/01/2020)	2 500.00
<u>A summary of receipts for the year</u>:	
Subscriptions received for the year	15 000.00
Subscription in advance	1 500.00
Refreshments Sales	18 550.00
Dances	5 500.00
Fees for tournament	3 600.00
Donations from members	1 000.00
Members loan (5% per annum)	20 000.00
Sales of lottery	8 750.00
<u>A summary of payments for the year</u>:	
Sports equipment	4 500.00
Tennis balls (expenses)	500.00
Lottery tickets, prizes	5 650.00
Light and heat	800.00
General expenses	2 400.00
Refreshments purchases	12 550.00
Club house re-building	18 500.00
Maintenance of grounds	2 000.00
Insurance, rates, water	3 750.00

At the end of the season, 31st December 2020; the following information was available to the club's Treasurer:

1. The sports equipment (including additions) was valued at K9 000.00.
2. Stock of refreshments was valued at cost K1 650.00
3. Subscriptions owing by members K800.00
4. A gas bill was still to be paid K180.00
5. Insurance was prepaid K250.00
6. Club house re-building was for the extension of the club house.
7. Members interest on loan had not been paid from 1st January, 2020.

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You are required to:

(i) calculate Accumulated Fund at 1 January 2020. [3]

(ii) prepare a receipts and payment account for year ending 31 December 2020 [2]

(iii) prepare Refreshments Trading Account. [3]

(iv) prepare Subscriptions Account. [2½]

(v) prepare Income and Expenditure Account for the year ending 31st December 2020. [10½]

(vii) prepare Balance sheet as at 31st December 2020. [13]

[Total: 34 marks]

Centre Number	Examination Number

OR

4B The following balances appeared in the books of T Lukama and Son's at 31 December 2020.

	K	N
Capital	114 312.00	
Inventory 1/1/2020	21 316.00	
Purchases	270 392.00	
Sales	792 206.00	
Discount allowed	6 000.00	
Returns inward	668.00	
Returns outwards	1 228.00	
Carriage inwards	394.00	
Carriage outwards	502.00	
Electricity	11 456.00	
Insurance	1 600.00	
Stationery	950.00	
Rent received	2 800.00	
Salaries and wages	166 518.00	
Receivables	55 200.00	
Payables	25 922.00	
Provision for doubtful debts 1/01/2020		
Premises	400 000.00	
Equipments	10 000.00	
Furniture	12 000.00	
10% loan (repayable in 10 years)	20 000.00	
Provision for depreciation		
Premises	8 000.00	
Equipment	4 000.00	
Furniture	9 000.00	
Cash in hand	14 712.00	
Drawings	10 000.00	

The following adjustments are to be taken into consideration:

1. Inventory at 31st December was valued at K18 000.00.
2. Interest on loan had not yet been paid.
3. At 31st December the Provision for Doubtful Debts is to be equal to 10% of receivables at that date and 5% should be the provision for discount allowed on adjusted figure of receivables.
4. T Lukama withdrew goods valued at k4 000.00 selling price, no entry was made in the books of accounts.

5 Part of the firm's premises were rented out at an annual rental of K2 400.00.

6 Insurance of K400.00 had been accrued while electricity of K1 456.00 had been paid in advance.

7 Depreciation on the firm's fixed assets was to be charged as follows:

Equipment 25% per annum (reducing balance method) Furniture 10% per annum (straight line method).

Required to prepare:

(i) Income statement for the year ended 31st December 2020 [17½]

(ii) Statement of financial position as at that date. [16½]

[Total: 34 marks]

Question 1(a). Name the books of Prime (Original) Entry in which Mulubwa would record the transactions.

Answer: (i) Refund by cheque K1,050 received from Mweenda → Cash Book (Bank column).

Answer: (ii) Invoice received from Mweenda K3,700 → Purchases Day Book (Purchases Journal).

Answer: (iii) Cheque sent to Mweenda for the balance owing, less 2% discount → Cash Book (Bank column; the discount goes in the discount column).

Answer: (iv) Original Credit Note received from Mweenda K580 → Returns Outwards Day Book (Purchases Returns Journal).

Question 1(b). Journalise the following transactions for J Siame for the year ended 31 December 2020 (narrations not required).

Answer: (i) Motor vehicle on credit from Toyota Zambia Ltd K100,000 → Dr Motor Vehicle K100,000; Cr Toyota Zambia Limited K100,000.

Answer: (ii) Sold Fixtures and Fittings to J Manongo for K9,000 by cheque → Dr Bank K9,000; Cr Fixtures and Fittings K9,000.

Answer: (iii) Bad debt of K3,000 from J Kabwadi (previously written off) recovered by cheque → Dr Bank K3,000; Cr Bad Debts Recovered K3,000.

Question 1(c). Prepare a Trial Balance for Twangale Social Club as at 30 June 2020 with its correct heading.

Classify each balance (Dr = assets/expenses; Cr = income/liabilities/fund):

TWANGALE SOCIAL CLUB — TRIAL BALANCE AS AT 30 JUNE 2020:

Dr: Games equipment K17,500 | Purchases of refreshments K13,300 | Accounts receivable K1,930 | Fixtures and Fittings K13,250 | Rent K2,400 | Bad Debts K2,000 = K50,380.

Answer: Cr: Membership subscriptions K3,950 | Accounts payable K1,790 | Bank overdraft K3,810 | Donations received K2,650 | Accumulated Fund K19,850 | Provision for depreciation on games equipment K3,580 | Sales of Refreshments K14,750 = K50,380. ✓

Question 1(d). Classify each item as Capital Expenditure, Capital Receipt, Revenue Expenditure or Revenue Receipt.

Answer: (i) Interest on a loan to purchase a motor van → Revenue Expenditure (interest is a running cost).

Answer: (ii) Sale of an old equipment → Capital Receipt (disposal of a fixed asset).

Answer: (iii) Cost of software for use with a computer → Capital Expenditure (software forms part of the computer system, a fixed asset).

Answer: (iv) Repairs to the office roof → Revenue Expenditure (restoring, not improving).

Answer: (v) Commission earned from sale of newspapers → Revenue Receipt (trading income).

Question 2(a). Classify the following into Real, Personal and Nominal Accounts.

Answer: (i) Cash → Real. (ii) Purchases → Nominal. (iii) Bank of Zambia → Personal. (iv) Stock (inventory) → Real.

Answer: (v) Depreciation → Nominal. (vi) J. Magufuli → Personal. (vii) Stationery → Nominal. (viii) Machinery → Real.

Question 2(b). Prepare L. Muchindu's account in L. Bwalya's Ledger for March 2020. (Muchindu is a customer → debtor → Sales Ledger.)

Mar 1: Opening balance owed by Muchindu → Dr Balance b/d K2,900.

Mar 3: Goods K4,800 less 20% TD = K3,840 → Dr Sales K3,840.

Mar 6: Paid last month's balance K2,900 less 5% cash discount → Discount K145; cheque K2,755 → Cr Bank K2,755 + Discount Allowed K145.

Mar 10: 1/5 of 3 March goods returned (damaged): 1/5 × K3,840 = K768 → Cr Returns Inwards K768.

Mar 15: Part payment K1,000 by cheque → Cr Bank K1,000.

Mar 25: More goods K2,000 less 10% TD = K1,800 → Dr Sales K1,800.

Mar 30: Down payment K800 by cheque → Cr Bank K800.

L. MUCHINDU ACCOUNT:

Dr: Mar 1 Balance b/d K2,900 | Mar 3 Sales K3,840 | Mar 25 Sales K1,800 = K8,540.

Answer: Cr: Mar 6 Bank K2,755 | Mar 6 Discount Allowed K145 | Mar 10 Returns Inwards K768 | Mar 15 Bank K1,000 | Mar 30 Bank K800 | Mar 31 Balance c/d K3,072 = K8,540.

Answer: Closing balance c/d = K3,072 Dr (Muchindu still owes Bwalya).

Question 2(c). State three advantages of using the Straight Line Method of depreciation.

Answer: 1. It is simple and easy to calculate and understand.

Answer: 2. It charges an equal amount each year, making comparison of profits between years easier.

Answer: 3. The asset can be written down to zero (or its residual value) by the end of its useful life — suitable for assets used evenly over time.

Question 2(d). Kambambu bought two machines for K200,000 each on credit on 1 April 2018. Depreciate 20% on cost (fixed instalment). On 31 March 2020, after the second year's depreciation, one machine was sold for K110,000. Prepare the Provision for Depreciation Account for the two years.

Total cost = 2 × K200,000 = K400,000. Annual depreciation = 20% × K400,000 = K80,000 (K40,000 per machine).

PROVISION FOR DEPRECIATION OF MACHINERY ACCOUNT:

Yr to 31 Mar 2019: Dr Balance c/d K80,000 | Cr P&L; (Dep'n) K80,000.

Yr to 31 Mar 2020: Cr Balance b/d K80,000 + P&L; (Dep'n) K80,000 = K160,000 | Dr Disposal K80,000 (sold machine: 2 × K40,000) + Balance c/d K80,000 = K160,000.

Answer: Closing provision (remaining machine) = K80,000.

Disposal note: sold machine cost K200,000, accumulated dep'n K80,000 → NBV K120,000; sold for K110,000 → Loss on disposal K10,000.

Question 3A(i). [Q3 alternative A] Mention one error that would cause the Trial Balance to disagree.

Answer: Any one of: a casting (addition) error in a ledger account; posting only one side of a transaction (partial omission); posting different amounts to the debit and credit sides; or posting an entry to the wrong side of an account.

Question 3A(ii). EMK Stationery: correct the errors by journal entries (no narrations) and prepare the Suspense Account, determining the opening balance.

1. Returns Outwards total K2,480 not posted to the Returns Outwards Account → Dr Suspense K2,480; Cr Returns Outwards K2,480.

2. Repairs K720 entered in Motor Vehicle Repairs as K700 (short K20) → Dr Motor Vehicle Repairs K20; Cr Suspense K20.

3. S Gawani debit balance brought down as K280 instead of K820 (short K540) → Dr S Gawani K540; Cr Suspense K540.

4. K1,000 from sale of office equipment entered in Sales (error of principle) → Dr Sales K1,000; Cr Office Equipment (Disposal) K1,000. (No suspense.)

5. Purchases Day Book undercast by K920 → Dr Purchases K920; Cr Suspense K920.

SUSPENSE ACCOUNT:

Dr: Returns Outwards K2,480 = K2,480.

Cr: Balance b/d K1,000 | Motor Vehicle Repairs K20 | S Gawani K540 | Purchases K920 = K2,480.

Answer: Opening Suspense balance = K1,000 (Credit). The account clears after the postings. ✓

Question 3A(iii). D. Phiri: Cash Book (Bank) debit balance K1,545 on 31 Jan 2020; Bank Statement balance K870. (i) Prepare an updated Cash Book; (ii) Draw up a Bank Reconciliation Statement.

Update the Cash Book for items not yet recorded:

Cash sales omitted K1,170 → Dr; Credit transfer K450 → Dr; Bank charges K360 → Cr; Dishonoured cheque (C. Mulamfu) K945 → Cr.

(i) UPDATED CASH BOOK:

Dr: Balance b/d K1,545 | Cash sales (omitted) K1,170 | Credit transfer K450 = K3,165.

Cr: Bank charges K360 | Dishonoured cheque K945 | Balance c/d K1,860 = K3,165.

Answer: Updated Cash Book balance = K1,860 Dr.

(ii) BANK RECONCILIATION STATEMENT as at 31 January 2020:

Balance as per updated Cash Book: K1,860.

Add: Unpresented cheque K1,860 → K3,720.

Less: Uncredited lodgement K2,850 → K870.

Answer: Balance as per Bank Statement = K870 (a favourable/credit balance corresponding to the cash book debit balance). ✓

Question 3B(i). [Q3 alternative B] GML Limited: prepare the Purchase Ledger Control Account only for October 2020.

INCLUDE only creditor items. EXCLUDE: sales ledger balances, bad debts, returns inwards, cheques received from debtors, credit/cash sales, discounts allowed, dishonoured cheques from debtors, cash purchases.

PURCHASE LEDGER CONTROL ACCOUNT — October 2020:

Dr: Balance b/d (debit balances) K460 | Returns outwards K510 | Discounts received K960 | Cheques paid to creditors K24,270 | Set-off/contra (sales ledger transfer) K800 | Balance c/d (creditors) K37,150 = K64,150.

Cr: Balance b/d (credit balances) K26,100 | Credit purchases K37,590 | Cheque received from a supplier K460 = K64,150.

Answer: Closing creditors (Purchase Ledger Control) balance = K37,150 Cr.

Question 3B(ii). Sakala, year ended 30 June 2020. Calculate (a)–(e).

Gross profit = Sales K200,000 – Cost of sales K130,000 = K70,000. Net profit = K70,000 – Expenses K65,000 = K5,000.

Current assets = Inventory (closing) K60,000 + Debtors K16,000 = K76,000. Current liabilities = Creditors K35,000 + Bank overdraft K5,000 = K40,000.

Answer: (a) Gross profit percentage = K70,000 ÷ K200,000 × 100 = 35%.

Answer: (b) Working capital (current) ratio = K76,000 : K40,000 = 1.9 : 1.

Answer: (c) Quick (acid test) ratio = (K76,000 – K60,000) ÷ K40,000 = K16,000 : K40,000 = 0.4 : 1.

Answer: (d) Net profit to capital percentage = K5,000 ÷ K100,000 × 100 = 5%.

Answer: (e) Rate of stock turnover = COGS ÷ Average stock = K130,000 ÷ ((K20,000 + K60,000)/2) = K130,000 ÷ K40,000 = 3.25 times.

Question 4A(a). [SECTION B — Q4A] Lusco Tennis Club, year 2020. Calculate the Accumulated Fund at 1 January 2020.

Opening assets: Club house K150,000 + Equipment K8,000 + Bank K5,000 + Stock of refreshments K2,500 = K165,500. No opening liabilities.

Answer: Accumulated Fund at 1 January 2020 = K165,500.

Question 4A(b). Prepare the Receipts and Payments Account for the year ending 31 December 2020.

Receipts: Balance b/d K5,000 + Subscriptions K15,000 + Subscription in advance K1,500 + Refreshments Sales K18,550 + Dances K5,500 + Tournament fees K3,600 + Donations K1,000 + Members loan K20,000 + Lottery sales K8,750 = K78,900.

Payments: Sports equipment K4,500 + Tennis balls K500 + Lottery tickets/prizes K5,650 + Light and heat K800 + General expenses K2,400 + Refreshments purchases K12,550 + Club house re-building K18,500 + Maintenance of grounds K2,000 + Insurance, rates, water K3,750 = K50,650.

Answer: Balance c/d (Bank) = K78,900 – K50,650 = K28,250.

Question 4A(c). Prepare the Refreshments Trading Account.

Sales of refreshments K18,550. Cost: Opening stock K2,500 + Purchases K12,550 – Closing stock K1,650 = K13,400.

Answer: Gross Profit on refreshments = K18,550 – K13,400 = K5,150.

Question 4A(d). Prepare the Subscriptions Account.

SUBSCRIPTIONS ACCOUNT:

Dr: Income & Expenditure (subscriptions) K15,800 | Balance c/d (in advance) K1,500 = K17,300.

Cr: Bank (received K15,000 + advance K1,500) K16,500 | Balance c/d (arrears owing) K800 = K17,300.

Answer: Subscriptions income transferred to I&E; = K15,800.

Question 4A(e). Prepare the Income and Expenditure Account and the Balance Sheet at 31 December 2020.

Depreciation of equipment: Opening K8,000 + additions K4,500 = K12,500; valued at K9,000 → Dep'n K3,500.

Interest on members loan: 5% × K20,000 = K1,000 (accrued). Light & heat K800 + K180 gas owing = K980. Insurance, rates, water K3,750 – K250 prepaid = K3,500.

INCOME AND EXPENDITURE ACCOUNT:

Income: Subscriptions K15,800 + Refreshments GP K5,150 + Dances K5,500 + Tournament fees K3,600 + Donations K1,000 + Lottery sales K8,750 = K39,800.

Expenditure: Tennis balls K500 + Lottery tickets/prizes K5,650 + Light & heat K980 + General expenses K2,400 + Maintenance K2,000 + Insurance etc K3,500 + Equipment dep'n K3,500 + Loan interest K1,000 = K19,530.

Answer: Surplus = K39,800 – K19,530 = K20,270.

BALANCE SHEET at 31 December 2020:

Fixed Assets: Club house (K150,000 + K18,500 extension) K168,500 + Equipment K9,000 = K177,500.

Current Assets: Stock K1,650 + Subscriptions owing K800 + Insurance prepaid K250 + Bank K28,250 = K30,950.

Current Liabilities: Subscriptions in advance K1,500 + Gas owing K180 + Loan interest owing K1,000 = K2,680.

Answer: Net Current Assets = K30,950 – K2,680 = K28,270. Less long-term Members loan K20,000.

Answer: NET ASSETS = K177,500 + K28,270 – K20,000 = K185,770.

Answer: Accumulated Fund: Opening K165,500 + Surplus K20,270 = K185,770. ✓

Question 4B(a). [SECTION B — Q4B ALTERNATIVE] T Lukama and Son, year ended 31 December 2020. Prepare the Income Statement. (Opening Provision for Doubtful Debts is K4,240 — the figure that balances the trial balance.)

ADJUSTMENTS: Closing inventory K18,000. Goods withdrawn K4,000 → Dr Drawings; Cr Purchases (note: gross profit is the same whether credited to Purchases or Sales).

Loan interest: 10% × K20,000 = K2,000 (accrued). PDD to 10% of receivables: 10% × K55,200 = K5,520 (increase K1,280). Provision for discount allowed: 5% × (K55,200 – K5,520) = K2,484.

Insurance K1,600 + K400 accrued = K2,000. Electricity K11,456 – K1,456 prepaid = K10,000. Rent received income = K2,400 (K400 received in advance).

Depreciation: Equipment 25% reducing balance × (K10,000 – K4,000) = K1,500; Furniture 10% SL × K12,000 = K1,200.

TRADING:

Net Sales = K792,206 – Returns inward K668 = K791,538.

COGS: Opening K21,316 + (Purchases K270,392 – Goods drawings K4,000 – Returns outwards K1,228 + Carriage inwards K394) K265,558 – Closing K18,000 = K268,874.

Answer: Gross Profit = K791,538 – K268,874 = K522,664.

PROFIT AND LOSS:

Add: Rent received K2,400 → K525,064.

Less expenses: Discount allowed K6,000 + Carriage outwards K502 + Electricity K10,000 + Insurance K2,000 + Stationery K950 + Salaries & wages K166,518 + Increase in PDD K1,280 + Provision for discount allowed K2,484 + Loan interest K2,000 + Depreciation K2,700 = K194,434.

Answer: Net Profit = K525,064 – K194,434 = K330,630.

Question 4B(b). Prepare the Statement of Financial Position as at 31 December 2020.

NON-CURRENT ASSETS:

Premises: K400,000 – Prov dep K8,000 = K392,000.

Equipment: K10,000 – (K4,000 + K1,500) = K4,500.

Furniture: K12,000 – (K9,000 + K1,200) = K1,800.

Answer: Total Non-Current Assets = K398,300.

CURRENT ASSETS: Inventory K18,000 + Receivables (K55,200 – PDD K5,520 – discount provision K2,484) K47,196 + Prepaid electricity K1,456 + Cash in hand K14,712 = K81,364.

CURRENT LIABILITIES: Payables K25,922 + Loan interest owing K2,000 + Insurance accrued K400 + Rent received in advance K400 = K28,722.

Answer: Net Current Assets = K81,364 – K28,722 = K52,642. Less long-term 10% loan K20,000.

Answer: NET ASSETS = K398,300 + K52,642 – K20,000 = K430,942.

FINANCED BY:

Answer: Capital K114,312 + Net Profit K330,630 – Drawings (K10,000 cash + K4,000 goods) K14,000 = K430,942. ✓

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