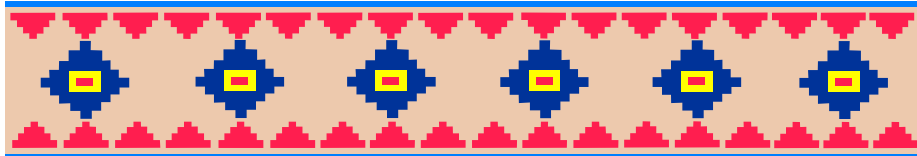


ACCOUNTING




ADVANCED LEVEL

SOLUTIONS BOOK

1998 - 2009 ANSWERS



P A P E R S

-  1 - Multiple Choice
-  2 - Structured Questions
-  3 - Case Study Scenario



1	A		56	A	
2	B		57	C	
3	D		58	D	
4	A		59	B	
5	B		60	B	$4 \times 12 \times 66\frac{2}{3}\%$
6	C		61	C	$1\,000 \times 75\%$
7	C		62	B	$1\,800 \times 70\% \times 95\%$
8	D		63	D	$5 \times 80 \times 75\%$
9	A		64	B	$1\,000 \times 1\%$
10	B		65	A	$(10\,000 - 1\,000) \times 1\%$
11	A		66	B	$1\,000 \times \frac{1}{2} \times 98\%$
12	A		67	D	$5\,000 + 5\,000 \times 12\% \times 60 \div 360$
13	C		68	C	$10\,000 \times (100\% + 12\% \times 90 \div 360)$
14	D		69	C	
15	B		70	C	
16	A		71	C	
17	D		72	B	
18	D		73	A	
19	D		74	C	
20	B		75	A	
21	A		76	A	
22	B		77	D	
23	C		78	A	
24	C		79	A	
25	D		80	C	
26	D		81	C	
27	D		82	B	
28	A		83	D	
29	A		84	B	
30	B		85	B	
31	B		86	C	
32	D		87	B	
33	B		88	C	
34	A		89	A	$600 - 120$
35	C		90	B	
36	C		91	B	
37	B		92	A	$800 \times 80\% \times [95\% \& 5\% \& 1]$
38	A		93	B	$1\,540 \& 1\,700 - 1\,540 \& 1\,700$
39	A		94	B	
40	D		95	C	
41	B	523×2	96	A	
42	B	$325 - 1$	97	D	
43	C		98	B	
44	D		99	C	
45	B		100	C	
46	C		101	C	
47	B		102	D	
48	A		103	D	
49	C		104	A	
50	D		105	B	
51	C		106	D	
52	B		107	D	
53	B		108	B	
54	C		109	C	
55	A		110	C	

111	A		166	B	
112	B		167	C	
113	B		168	B	
114	B	$750 - 250 - 900 + 1\ 050$	169	C	
115	C	$750 + 150\ 000 + 5\ 500 - 96\ 000 - 5\ 000$	170	D	
116	C		171	D	
117	B		172	C	
118	C		173	D	
119	C		174	D	
120	C		175	C	
121	C		176	B	
122	A		177	C	
123	B	$4\ 800 - 3\ 000 \times 70\% \times 90\% + 450$	178	D	
124	B	$6\ 000 + 80\ 000 - 56\ 000 - 18\ 000 - 500$	179	C	$5625 + 6000 + 119250 - 124800 + 19380$
125	D		180	C	$2\ 500 - 4\ 200 - 32\ 000$
126	D		181	D	$59\ 520 - 488\ 640 - 3\ 072 - 65\ 304$
127	A		182	A	$\{20 - 4 + 45 - 0.5 - 1.5 - 5 - 23\}1\ 000$
128	B		183	A	$4\ 270 + 16\ 000 - 800 - 17\ 610$
129	C		184	A	$\{20 - 110 + 120 - 2 - 3\}1\ 000$
130	D		185	D	$210\ 096 \div 220\ 000 \times 365$
131	D		186	D	$10\ 500 \div (135\ 000 - 7\ 250) \times 365$
132	B		187	D	$60 \times 45\ 000 \div 30 \times 125\%$
133	D		188	D	
134	C		189	B	$499\ 400 - 3\ 000$
135	C		190	A	$92\ 640 - 720 \times 2$
136	B	$360 - 2\ 100 + 875$	191	C	$28\ 000 - 1\ 400 + 300 + 150$
137	A	$1\ 000 + 230 - 400 - 200$	192	B	
138	A	$\{50 - 15 - 7\}1\ 000$	193	C	$76\ 000 + 4000 \equiv 85\ 000 - 5\ 000$
139	C	$5\ 000 - 1\ 500 + 700$	194	B	Common debt
140	C	$6\ 540 + 2\ 460 - 3\ 440 - 180$	195	B	Common debt
141	D	$5\ 074 - 12\ 444 + 20\ 160$	196	B	Common debt
142	B	$37\ 823 - 5\ 891 + 729 + 3\ 435$	197	A	Common debt
143	A	$1\ 600 + 425 - 452 + 375 - 400$	198	C	
144	C	$20\ 000 + 2\ 500 - 1\ 400 - 300$	199	C	
145	D	$5\ 000 + 2\ 000 - 600$	200	C	
146	C	$2\ 170 + 300 \times 2 - 1\ 050 + 600$	201	A	
147	C	$12\ 300 + 456 - 789 - 1\ 200 + 321 + 2\ 442$	202	B	
148	C		203	A	
149	C	$565 + 92$	204	C	
150	A	$22\ 650 + 3\ 110 - 6\ 290 - 650$	205	C	
151	B	$26\ 440 - 20 \equiv 32\ 500 + 2\ 620 - 8\ 700$	206	D	$12\ 100 - 63\ 500 - 3\ 426 - 14\ 625$
152	C	$1\ 740 + 200 \equiv 2\ 240 - 300$	207	D	$7\ 440 - 61\ 080 - 384 - 8\ 163$
153	B	$2\ 075 - 150 \equiv 2\ 250 - 325$	208	C	$20\ 500 - 500 - 50\ 000 - 25\ 000 + 1\ 500$
154	B	$10\ 136 + 4\ 998 - 5\ 896$	209	B	$\{150 - 700 - 25 - 80\}1\ 000$
155	D		210	B	$\{75 - 78 + 715 - 31.5 - 21\}1\ 000$
156	C		211	B	$16\ 810 - 1\ 150 - 276 - 100 - 5\ 406$
157	A		212	D	$32\ 000 - 2\ 200 - 300 - 150 + 10\ 000$
158	A		213	C	$205 + 360 + 180 - 300 - 50$
159	B		214	B	$11\ 500 + 48\ 000 - 45\ 000$
160	A		215	B	$5\ 600 + 16\ 000 - 17\ 200$
161	D		216	C	$17\ 240 + 52\ 300 - 51\ 760 - 1\ 455 - 900$
162	B		217	B	$\{10 - 0.5 - 20 + 30 - 2\}1\ 000$
163	C		218	C	$\{10 + 30 + 0.05 - 25 - 1\}1\ 000$
164	D		219	B	$205 + 360 - 300$
165	C		220	A	$63\ 421 - 724 \times 2$

221	A		276	D	$2\,100 \times 2$
222	C		277	C	$46\,800 - 3\,550 = 39\,700 + 3\,550$
223	A		278	B	
224	B	$104\,000 - 1\,300 - 870 - 240$	279	C	
225	C	$40\,000 + 500 - 1\,200 - 400$	280	B	$600 - 60$
226	A	$9\,800 - 3\,400 - 1\,200$	281	D	$500 + 50$
227	C		282	B	$440 - 400$
228	B		283	C	$400 + 40$
229	D		284	B	
230	D		285	B	
231	B		286	A	$(25\% - 10\%) \times 530\,000$
232	D		287	A	
233	B		288	A	
234	B		289	B	$256 + 356$
235	B	$1\,888 \div 13\,000 \times 365$	290	C	157×2
236	C	$1\,888 \div 9\,000 \times 365$	291	D	
237	D	$38 \div (250 - 8) \times 365$	292	A	
238	A	$50 \div (500 - 12) \times 365$	293	B	
239	C	$40 \div (300 - 8) \times 365$	294	B	
240	B	$7\,000 \div 50\,000 \times 365$	295	A	
241	B		296	C	
242	A		297	D	
243	C		298	B	
244	B		299	A	$10\,710 \times 2$
245	C		300	B	$9\,160 - 9\,610$
246	C		301	A	
247	D		302	C	$1\,530 \times 2$
248	C	$2\,000 \times 80\%$	303	A	$43\,000 - 34\,000$
249	D		304	D	500×2
250	A		305	B	
251	C		306	D	400×2
252	D		307	D	630×2
253	C		308	B	$48\,000 \times 2 - 960$
254	A		309	B	$186 - 300 - 40$
255	B		310	C	
256	A		311	B	
257	A		312	A	
258	B		313	C	
259	B		314	B	
260	A		315	C	
261	C		316	B	
262	D		317	B	
263	C		318	A	$12\,300 + 56\,700 - 7\,600$
264	D		319	A	
265	D		320	B	$20 + 15 + 6$
266	D		321	A	$54\,300 - 78\,900 - 45\,600$
267	B		322	B	$60\,000 + 60\,000 \div 7.5 \times 10$
268	A		323	B	
269	A		324	B	
270	A		325	A	
271	A		326	B	
272	B		327	B	$64 + 40$
273	A		328	D	$\{150 + 250\}1\,000$
274	D		329	C	$\{24.5 - 162.8 - 85.2 - 27.8\}1\,000$
275	A	$540 + 460$	330	D	$\{36 - 30 + 84 + 60\}1\,000$

- 331 C** $\{66 + 6 + 70 - 4 + 2 + 10\}1\ 000$
332 C $\{10 + 100 + 3 - 15 + 5 + 20\}1\ 000$
333 C
334 C
335 C
336 D
337 D $\{36 - 30 + 18 - 12 + 84 + 60 + 60 \div 7.5 \times 10\}1\ 000$
338 B $\{1 - 5 \times 2 - 2 - 0.2 + 0.3 - 0.5\}1\ 000$
339 A $\{1 + 28 + 47.5 + 0.5 + 1.5\}1\ 000$
340 A
341 B $(120 - 90) \times 100\% \div [120 \& 90]$
342 A $100\% \div (2 + 1)$
343 D $120 \div (3 - 1)$
344 D $2 \div 80\%$
345 B $16\ 000 \div 80\%$
346 C $12 \div 60\%$
347 B $(90\ 000 - 10\ 000) \div 80\%$
348 D $5 + 2 + 1 + 100\ 000 \times 30\% \div 10\ 000$
349 C $416\ 000 \div (10 + 2 \times 150\%) \times 150\%$
350 B $45\ 000 \times 365 \div 60 \div 83\frac{1}{3}\%$
351 B $120\ 600 + 17\ 240 \equiv 163\ 800 - 25\ 800$
352 B $79\ 000 + 6\ 100$
353 B
354 A
355 D $\{200 \div 125\% - 15 + 18\}1\ 000$
356 B $80\ 800 \times 70\% + 3\ 800 - 2\ 600$
357 D $\{20 - 25 - 220 \times \frac{7}{10}\}1\ 000$
358 C
359 B
360 C $\{1\ 800 \times 60\% + 120\}1\ 000$
361 B
362 D
363 A
364 A $104\ 000 - 42\ 000$
365 C $1\ 300 - 900 + 6\ 400 + 200$
366 B $\{6 - 9 - 8 + 20 + 10\}1\ 000$
367 C $[(125 \times 2 \div 10 - 5) \div 2 + 5 \times 5] \times 10 \div 2$
368 A $\{15 - 35 - 430 - 200 - 300\}1\ 000$
369 D $26\ 000 + 52\ 000$
370 C
371 C
372 B
373 D
374 B
375 B
376 D $4\ 000 \times 80\% \times 2 \div (300 + 500)$
377 C $96\ 000 \div 120\% \times 2 \div (7\ 000 + 9\ 000)$
378 D $156\ 250 \div 125\% \times 2 \div \{(10 + 15)1\ 000\}$
379 A $175 \div 125\% \times 2 \div (13.5 + 14.5)$
380 B $20\ 000 - 18\ 000 - 8\ 000$
381 C $600\ 000 \times 2 \div 15 - 30\ 000$
382 A $(240\ 000 - 40\ 000) \times 2 \div 12\frac{1}{2} - 20\ 000$
383 C $200\ 000 \times 2 \div 10 - 10\ 000$
384 D $(102\ 000 \times 2 \div 15 - 7\ 000) \times 2 + 7\ 000$
385 B $(130\ 000 - 10\ 000) \times 2 \div (18 + 2)$
386 A $\{35 + 146 - 240 \times 65\%\}1\ 000$
387 A $\{200 \times 65\% - 180\}1\ 000$
388 B $23\ 000 - 42\ 000 \div 133\frac{1}{3}\% + 38\ 000$
389 A $\{0.9 + 100 \div 125\% - 85 - 10\}1\ 000$
390 A $20\ 000 - 150\ 000 \div 133\frac{1}{3}\% + 110\ 000$
391 B $\{1\ 000 \times 70\% - 500 + 80 - 400\}1\ 000$
392 C $650\ 000 + 75\ 000 - 96\ 000 \times 75\%$
393 B $161\ 000 - 284\ 000 \div 133\frac{1}{3}\% + 266\ 000$
394 A $\{20 + 240 \div 133\frac{1}{3}\% - 60 - 150\}1\ 000$
395 A $3\ 696 - 4\ 320 \div 125\%(1 + 2 \div 12) + 240 \times 2$
396 D $9\% \times [110\ 000 \& 100\ 000]$
397 B $\{400 - 600 \div 125\% \times 400 \div 500\}1\ 000$
398 C
399 D
400 C
401 D
402 B
403 A
404 A
405 D
406 D
407 D
408 D
409 D
410 A $\{80 + 65 + 120 + 40 + 65.5\}1\ 000$
411 B $5\ 260 + (2\ 450 - 190)$
412 B $(2\ 800 - 600) + (4\ 700 - 900) + 3\ 200$
413 A $15 + (18 - 3) + 17 + (26 - 3)$
414 B $(1\ 976 + 1680) + (9\ 632 - 120) + (2\ 048 - 232)$
415 B $22 - 14$
416 B $\{45 - 5\}1\ 000$
417 A $\{50 + 32 + 20\}1\ 000$
418 B $10\ 000 - 100 + (150 - 70)$
419 B $15\ 600 - 2\ 500$
420 D
421 B $4\ 300 - 200 + 100$
422 C $(15\ 000 - 1\ 000 + 2\ 000) \times 3.40$
423 C $450\ 000 + 300\ 000 \div 120\%$
424 C $300\ 000 + 200 \div 125\%$
425 B $\{1\ 500 + 90\}1\ 000$
426 D $11\ 500 + 200$
427 C $86\ 500 + 1\ 750 - 1\ 550 - 310 + 190$
428 B $\{104 - 16 + 15 \div 125\%\}1\ 000$
429 C $\{30 + 6 \times 80\% - 10 + 15 \times 70\%\}1\ 000$
430 B
431 B
432 B
433 A
434 A
435 B
436 C
437 B
438 B
439 C
440 D

441	C	$2 \times 2.50 + 20 \times 3$	496	A	
442	C	$3 \times 800 + 1\,000 - 2 \times 1\,600 \times 2$	497	A	
443	C	$30 \times (10 - 4) - 8 \times 4$	498	C	
444	C		499	A	
445	A	$60 \times 100 \times 400 + 350$	500	B	
446	B	$700 + 2\,000$	501	B	$45\,000 - 37\,500$
447	B	$100 + 50 \times (1.1 + 1.2)$	502	D	
448	B	$[(50 \times 3 + 100 \times 4.5) \div 150 \times 80 + 60 \times 5] \div 140$	503	B	
449	B	$(100 \times 2 + 150 \times 2.1) \div 250 \times 150 + 50 \times 2.2$	504	C	
450	B	$(1\,000 + 1\,800) \div 1\,600 \times 700 + 2\,000$	505	D	
451	B		506	B	
452	A		507	C	
453	D		508	A	
454	A		509	A	
455	C		510	C	
456	B		511	C	
457	C	$440\,000 - 210\,000$	512	B	
458	C	$\{100 - 60 - 21 \div 3 + 3\}1\,000$	513	D	
459	B	$160\,000 - (10\,000 + 14\,000) \times 10 \div 2$	514	D	
460	B	$109\,340 \times 30\% + (6\,303 + 8\,444 - 7\,370) \times 3 / 7$	515	C	
461	B	$30 - [48 + 10 + 20 \equiv 100 - 17 - 5] \div 4$	516	B	
462	D	$84\,200 + 4\,200 + 3\,700$	517	D	$1\,240 - 360$
463	A	$\{30 - 1 - 2\}1\,000$	518	C	$6\,100 + 4\,600$
464	A	$60\,200 - 250 - 100$	519	B	$160 + 290 - 210$
465	C	$92\,300 - 3\,500 + 4\,600$	520	B	$[2\,000 \times 9 + 2\,400 \times 3] \div 12$
466	B	$\{90 + 2 - 3\}1\,000$	521	B	$[2\,760 \times 8 + 3\,480 \times 4] \div 12$
467	D	$(60 + 10) \div 280 \times 100\%$	522	D	$\{15 + 1 + 2\}1\,000$
468	D		523	C	$8\,470 + 600 + 7\,800 + 8\,130 - 270$
469	B		524	A	$4\,500 + 3\,200 - 17\,100$
470	B		525	A	$6\,000 - 300 - 400$
471	C		526	B	$240 \times 4 + 270 \times 8$
472	B		527	D	$4\,200 - 2\,000 - 1\,600 + 2\,400 + 111\,000$
473	A		528	B	$1\,200 + 1800 \times 2 + 2\,100 + 2\,100 \div 3$
474	B		529	B	$1\,000 + 1\,500 \times 2 + 1\,560 \times 4 \div 3$
475	A	$\{234.5 + 48.2 - 53.1 - 65.4 + 59.3\}1\,000$	530	B	$10\,000 \times 9\% \times 5 \div 12$
476	D	$5 - 6.4 - 4 + 5.2 + 9.8 - 9.6 - 7.9 + 7.6$	531	C	$30\,000 \times 9\% \div 2$
477	A	$5\,000 - 4\,800$	532	A	
478	B	$10\,000 - 9\,600$	533	D	
479	C	$\{2 - 1.5 - 4 + 3.2\}1\,000$	534	C	
480	A		535	A	
481	A		536	A	
482	A		537	A	$500 \times 8 + 600 \times 4$
483	D		538	A	$4\,000 - 13\,100 + 110$
484	C		539	D	$55\,470 - 3\,435 + 1\,917 + 2\,108 - 1\,774$
485	B		540	A	$12\,000 \div 12 \equiv 12\,000 \div 4 \div 3$
486	B		541	D	$6\,000 \div 4 \times 2 \div 3$
487	D		542	C	
488	B		543	B	
489	C		544	B	
490	D		545	C	
491	C		546	B	
492	A		547	D	
493	C		548	C	
494	C		549	C	
495	A		550	C	

551	D		606	D	$26\,000 - 102\,600 \times 25\% \div 125\%$
552	C		607	B	$461\,442 - 49\,726 \times 15\% \div 115\%$
553	C	$5\% \div 105\% \times 157\,500$	608	B	
554	A	$(277\,500 \times 40\% - 31\,200) \times 5\% \div 105\%$	609	C	
555	C		610	D	
556	D		611	B	
557	A		612	D	
558	B	$[3 \& 2] \times 30\,000 \div 5$	613	B	
559	D	$(252 - 210) \div 210 \times 100\%$	614	B	
560	B		615	A	
561	B		616	A	
562	B		617	D	
563	A		618	C	
564	D	$110 \div 250 - 75 \div 200 \& (46 - 43) \div 200$	619	B	
565	C		620	B	
566	C		621	B	
567	A		622	A	
568	B	$(10\,500 - 13\,000) \times 2$	623	B	
569	B	$3\,200 - 3\,200 \& 3\,200 - 2\,300 + 600$	624	C	
570	D		625	A	
571	D	$367 + 376$	626	C	
572	D	400×2	627	A	
573	B	375×2	628	C	
574	B	$50\,000 \times 2$	629	B	
575	C		630	D	
576	A		631	A	
577	C	$420 - 3\,400$	632	A	
578	B		633	B	$\{75 + 14\}1\,000$
579	C	$1\,000 - 750$	634	A	$\{40 + 5\}1\,000$
580	B		635	B	$15\,000 + 2\,100$
581	A		636	C	$\{126 + 3 + 4\}1\,000$
582	B		637	A	$\{400 + 10 + 12\}1\,000$
583	D	$7\,200 + 250 \times 2$	638	C	$80\,000 + 4\,000$
584	C	$100 - 700 - 200$	639	C	$\{[90 \& 60] \div (90 + 60) \times 120\}1\,000$
585	B	$300 - 200 + 400 + 8\,050$	640	D	
586	B	$64\,000 + 300 - 2\,400 \div 6$	641	A	
587	A	$15\,000 + 600 - 140 + 200 - 720$	642	A	
588	D	$4\,620 + 2\,760$	643	C	
589	A	$\{135 - 2\,700 \times 4\% - 50\}1\,000$	644	A	
590	B		645	D	
591	A		646	A	
592	B		647	B	
593	B		648	B	
594	C		649	D	
595	C		650	D	
596	C		651	D	
597	D		652	B	
598	A		653	A	
599	A	$(75\,000 - 60\,000) \div 75\,000 \times 25\,000$	654	C	
600	B	$(220 - 250) \times 20\% \div 120\% + 1\,200 \times 20\%$	655	C	
601	B	$[30 + 300 \times 125\% - 60]1\,000 \times 25 \div 125$	656	B	
602	C	$9\,000 - 50\,000 \times 25\% \div 125\%$	657	D	
603	B	$(42\,000 - 45\,600) \times 20\% \div 125\%$	658	D	
604	A	$(50\,000 - 60\,000) \times 25\% \div 125\%$	659	D	
605	C	$17\,000 - 60\,000 \times 33\frac{1}{3}\% \div 133\frac{1}{3}\%$	660	A	

661	B		716	A	$120000 \times 25\% \times (1 - 75\%)$
662	A		717	A	$530\,000 \times 15\%$
663	C		718	B	$12\,000 \times (1 - 0.8^3)$
664	B		719	B	$31\,300 \times 90\% + 70\,000 \times 10\%^2$
665	D		720	D	
666	A		721	A	
667	A		722	A	
668	C		723	C	
669	C		724	B	
670	C		725	D	
671	B		726	B	$120\,000 - 50\,000$
672	A		727	A	$22\,500 - 14\,000$
673	A		728	C	$3\,200 \times .75^2$
674	A		729	C	$20\,000 \times 4 \div 5 + 150\,000$
675	D		730	B	$10\,000 \div 5 \times 4 + 150\,000$
676	A		731	B	$(3\,200 - 700) \div 5 \times 3 + 700$
677	D		732	A	$\{(175 - 25) \div 2 + 25\}1\,000$
678	D		733	C	$\{[(100 - 10) \div 10 \times 6 + 10] - 4\} \div 4 \times 3 + 4\}1\,000$
679	A		734	A	
680	C		735	D	$750 + 90 \& 187.5 + (750 + 90 \times 9 \div 12) \times 25\%$
681	A		736	D	
682	A		737	D	$\{30 + 70\}1\,000$
683	B		738	B	
684	A		739	A	$120\,000 - 72\,400 - 46\,500$
685	D		740	C	$100\,000 \times 0.8^2 - 50\,000$
686	A		741	B	$40\,000 \times 0.7^3 - 17\,470$
687	A		742	C	$\{2\,800 - 2\,695\}1\,000$
688	B		743	D	
689	C		744	A	$12 \times 20\% \times 4 \div 12 + [0 \& 8 + 2.2 - 12]$
690	C		745	A	$40\,000 \times 0.75^3 - 18\,000$
691	D		746	C	$15(1 - 20\% \times 3^9 /_{12}) - 3 \& 15 \times 20\% \times^3 /_{12}$
692	B	$\{(2\,640 - 300 + 360 + 180) \times 60 \div 1\,200\}1\,000$	747	B	
693	C	$2 \times 750\,000$	748	D	$30\,000 - 9\,000 + 1\,500$
694	B	$(C - R) \times [(5 + 2) \times 4] \div [(5 + 1) \times 5]$	749	D	$\{400 - 100 + 10\}1\,000$
695	D	$3 \div (3 + 2 + 1) \times (9\,500 - 500)$	750	C	$\{60 + 4 - 24\}1\,000$
696	C	Dep: F = $1 \div 10$ & M = $2 \div [(1 + 10) \times 10 \div 2]$	751	D	$\{500 - 240 + 70\}1\,000$
697	B		752	A	$\{230 - 85 - 275 + 98 - 25 + 60 - 1\}1\,000$
698	A		753	A	$\{115 - 155 - 40 + 105 - 10\}1\,000$
699	D		754	A	$\{56 - 74 - 30 + 27 + 52 - 10 - 15\}10\,000$
700	A	$(16\,000 - 1\,000) \div 5$	755	A	$32\,000 - 13\,600 + 7\,000 - 4\,200 \div 30\%$
701	B	$(165\,000 - 55\,000) \div 11$	756	D	$27\,000 - 15\,000$
702	A	$(2\,200 - 280) \div 4$	757	D	$\{700 - 200 - 950\}1\,000$ [Other debited]
703	B	$328\,000 \times 90\% \div 8$	758	C	$\{80 - 25 - 100\}1\,000$
704	A	$(500\,000 - 45\,500) \div 12$	759	A	$\{120 - 18 - 136\}1\,000$
705	B	$115\,000 \div 5$	760	D	$\{400 - 80 - 680\}1\,000$
706	A	$(450\,000 - 50\,000) \div 40 \times 30 \div 40$	761	D	$\{400 - 60 - 500\}1\,000$
707	C	$(200\,000 - 25\,000) \div 10 \times 5 \div 4$	762	D	$\{100 - 20 - 7.24 - 105\}1\,000$
708	C	$\{90 - 20 + 20 + 5\}1\,000 \times 10\%$	763	A	$220 + 19 - 91 - 50 + 38 - 50$
709	A	$100\,000 \times 20\% \times 9 \div 12$	764	C	
710	B	$(40\,000 - 90\,000) \times 2\%$	765	C	
711	C	$40\,000 \times 90\% \times 10\%$	766	D	
712	B	$20\,400 \times 70\% \times 30\%$	767	D	
713	B	$[1 - (4 \div 24)^{-10}] \times (4 \div 24)^{-10} \times 240\,000$	768	C	$204\,000 \div 20$
714	C		769	B	$714\,000 \div 15 \times 12 \div 7 \times 6$
715	B		770	C	

771	D		826	A	
772	B		827	B	
773	D		828	B	
774	A		829	A	
775	B		830	A	
776	B		831	B	
777	C		832	B	
778	C		833	A	
779	A		834	D	
780	C	{300 - 275}1 000	835	C	
781	C		836	D	
782	B	{50 + 15 + 5 + 40 - 140}1 000	837	D	
783	A	{550 - 900 + 400}1 000	838	C	
784	D	{1 800 - 700 - 300 + 50 + 100}1 000	839	C	
785	C	{1 500 - 400 - 120}1 000	840	B	
786	B	{180 + 56 - 15 - 130 - 20}1 000	841	C	
787	A	{290 - 340 + 120 - 100}1 000	842	B	
788	D	{160 - 25 - 215}1 000	843	C	
789	A	{162 + 58 - 200} ≡ {240 - 20 - 200}1 000	844	A	
790	C	{101 + 29 - 14 + 50}1 000	845	C	
791	B	{70 + 45 + 15 - 25}1 000	846	B	225 000 + 3 200
792	B		847	A	15 000 + 60 000 + 26 420
793	A		848	D	16 000 + 700 + 500
794	C		849	B	
795	B		850	C	
796	A		851	D	
797	D		852	A	
798	A	3 500 - 2 300	853	A	
799	B	2 500 - 8 500	854	A	
800	B	600 000 × 1% - 400	855	D	26 800 + 800 + 1 000
801	B	14 300 - 78 900	856	C	7 000 + 900 + 30 000
802	A	(39 000 - 42 620 + 1 570) × 4%	857	B	9% × 30 000 × 4 ÷ 12
803	C	5 900 - 10 700	858	B	2 500 + 4 300
804	C	(10 620 - 260) × 5% - 460	859	C	8 125 + 3 612 + 18 148
805	A	435 - 1 375 - 545	860	B	5 000 × (1 + 12% × 90 ÷ 360)
806	D	1 000 - 2 500 - 1 500	861	A	
807	D	(35 600 - 1 600) × 2% - 160 + 1 600	862	B	
808	C	(4 + 10 - 0.2 - 10 - 1) × 5% - 0.5	863	B	
809	C	2 300 - 6 000	864	D	
810	B	{100 - 7}1 000	865	C	
811	D	(30 000 - 600) × 5% - 2 500	866	A	
812	A	(13 400 - 650) × 4% + 650 - 730 - 420	867	A	120 000 ÷ (120 000 - 40 000):1
813	A	{120 × 1% + 90 × 2% + 100 × 6%}1 000	868	C	(200 + 250) ÷ (100 + 50):1
814	B	9 000 000 × 2%	869	C	(60 + 40 + 25) ÷ (20 + 30):1
815	D	(14 240 - 200) × 2½%	870	B	(50 × 2 + 250 + 10) ÷ (20 + 180 + 30 + 40)
816	D	1 200 - 900	871	C	
817	A		872	B	(10 + 22 + 3) ÷ 40 × 100
818	A	(1 - 0.6 + 1.194) ÷ (24.8 - 0.6) × 100%	873	C	(378 + 63) ÷ 261
819	C	(700 + 200 - 30) ÷ 15 000 × 100%	874	B	(40 + 20) ÷ 10:1
820	C	(1 200 - 1 000) × [4% & 96% × 5%]	875	A	(119 + 1) ÷ (10 + 20)
821	C		876	A	(80 000 × 150% - 60 000) ÷ 80 000
822	B		877	B	(125 + 25 + 5) ÷ (10 + 90 + 15 + 20)
823	C		878	A	(1 + 50) ÷ (60 + 20 + 10)
824	A		879	B	(25 + 21 + 9) ÷ (10 + 6 + 4)
825	A		880	C	30 × 200% - 30 + 6 - 12

881	B	$15\,000 \times 1.5 \equiv 17\,500 + 5\,000$	936	C	$20\,000 + 8\,500 + 100 - 3\,000 - 4\,000$
882	C	$\{(4.5 + 15.15) \times 2 - 18 - 0.15 - 2\}1\,000$	937	A	$\{300 + 30 - 20\}1\,000$
883	D	$(1\,500 + 5\,050) \times 2 - 6\,000 - 50$	938	B	$20\,000 - 12\,000$
884	B	$84\,000 \times (2 - 0.7)$	939	B	$\{20 - 1 + 6 + 11\}1\,000$
885	C		940	A	
886	C		941	D	
887	C		942	B	
888	A		943	A	
889	C		944	C	
890	C		945	B	
891	D		946	C	$\{36 - 2 - 57 + 9 + 17 - 27\}1\,000$
892	A		947	A	$16\,500 - 11\,350 - 3\,300$
893	B		948	C	$\{18 - 30 - 2.6 + 6.5 - 1.9 + 5\}1\,000$
894	D		949	D	$\{15 - 20 - 3\}1\,000$
895	B		950	B	$324 - 21.6 - 513 + 81 + 153 - 243$
896	A	$26 - 34 + 33$	951	C	$7.868 - 1.12 + 0.8 - 27.64 + 16 + 0.07 - 5.2$
897	C	$125 \div 75 > 45 \div (75 - 35)$	952	B	$\{30 - 2 + 20 - 4 + 3 - 40\}1\,000$
898	C		953	D	
899	D		954	D	
900	D		955	D	
901	A	$72\,000 \times (1 - \frac{1}{2})$	956	D	
902	C		957	C	
903	A	$1\,100 + 500 - 700 - 200$	958	A	
904	A		959	D	
905	B		960	A	
906	C		961	D	
907	D		962	C	
908	B		963	B	
909	B		964	D	
910	C		965	D	
911	A		966	B	
912	C		967	B	
913	D		968	C	
914	D	$128 \div (485 + 27) \times 100\%$	969	C	
915	B		970	D	
916	B		971	A	
917	D		972	A	$38\,940 - 2\,700 - 250 - 1\,780$
918	C		973	C	60×20
919	B		974	A	$180 - 60 - 130 + 50 - 4\,000$
920	B	$8\,500 + (100\,000 - 50\,000) \times 15\%$	975	A	$3\,000 - 2\,340 - 15\,670 - 340$
921	B		976	A	$(3\,180 - 60 + 70) \times 150\%$
922	B		977	C	$12 \times [100 \& 4]$
923	D		978	B	$4\,000 - 50 + (500 + 100) \div 5$
924	B		979	B	$(34\,450 + 2\,600) \times 40\% - 2\,600$
925	C		980	B	$\{10 + 7 - 1.3 + 0.8 - 5\}1\,000$
926	C		981	B	
927	A		982	B	
928	D		983	C	
929	D		984	A	
930	C		985	D	
931	A		986	C	
932	D	$9\,550 \neq 1\,150 + 8\,200$	987	B	
933	B	$140\,000 - 60\,000$	988	D	
934	A	$7\,000 + 3\,500 - 17\,500 - 28\,000$	989	A	
935	B		990	C	

991 A		1046 B	$\{8 - 2 + 5 + 1\}100\ 000$
992 B		1047 D	$24\ 000 + (12\ 000 - 3\ 000) \times 2 \div (2 + 1)$
993 C		1048 B	$[\frac{1}{2} - \frac{2}{5} \& \frac{1}{2} - \frac{2}{5} \& 0 - \frac{1}{5}] \times 36\ 000$
994 A		1049 C	Closed; 24×3 ; $24 \times 3 \times [\frac{1}{2} - \frac{1}{3}; \frac{1}{2} - \frac{1}{3}; \downarrow]$
995 B	$\{40 + 3 + 4.5 - 6.4 - 0.4 - 2.5\}1\ 000$	1050 C	$24 \div (3+2+1) \times [3 \& 2 \& 1] \& 24 \times [\frac{1}{2} \& \frac{1}{2} \& 0]$
996 B		1051 C	$42 \div 7 \times [4 \& 2 \& 1] \& 42 \div 3 \times [2 \& 1 \& \text{Nil}]$
997 D		1052 A	$900 \div (4 + 3 + 2 + 1) \times [4 \& 3 \& 2 \& 1]$
998 C		1053 C	$[3 \& 2 \& 1] \div (3 + 2 + 1) - [\frac{1}{2} \& \frac{1}{2} \& \text{Nil}]$
999 A		1054 C	$18\ 000 \times (\frac{1}{2} - \frac{1}{3})$
1000 A		1055 B	$60\ 000 \times (\frac{1}{2} - \frac{1}{3})$
1001 B		1056 C	$60\ 000 \times [\frac{1}{3} - \frac{2}{5} \& \frac{2}{3} - \frac{2}{5} \& 0 - \frac{2}{5}]$
1002 B		1057 C	$(5\ 000 - 10\ 000) \times 3 \div (3 + 2) - 10\ 000$
1003 C		1058 B	$10\ 000 + 15\ 000 \times (\frac{1}{2} - \frac{1}{3})$
1004 B		1059 B	$8\ 000 + 18\ 000 \times (\frac{1}{2} - \frac{1}{3})$
1005 C		1060 A	$119\ 600 + 80\ 000 \times 2 \times (\frac{1}{4} - \frac{1}{2})$
1006 A		1061 C	$60\ 000 + 90\ 000 \times (\frac{1}{2} - \frac{1}{3})$
1007 B		1062 B	$56\ 000 + 30\ 000 \times (\frac{1}{2} - \frac{2}{5})$
1008 A		1063 A	$64\ 000 \times [\frac{1}{2} - \frac{3}{5} \& (\frac{1}{2} - \frac{2}{5})]$
1009 C		1064 D	No opening capital account balances]
1010 B		1065 C	$60\ 000 \times [\frac{1}{3} - 0 \& \frac{1}{3} - \frac{1}{2} \& \frac{1}{3} - \frac{1}{2}]$
1011 B		1066 D	Loan = $10\ 000 - 6\ 000 - 12\ 000 \times \frac{1}{6}$
1012 C		1067 D	$20\ 000 + 200 + 4\ 000 \div (3 + 1)$
1013 B		1068 C	$\{39.4 + 57 \times 2 \div (3 + 2 + 1) - 4.8\}1\ 000$
1014 C		1069 C	
1015 B		1070 C	
1016 B		1071 C	
1017 B		1072 C	
1018 C	$\{15 - 1\}1\ 000$	1073 C	
1019 C	$12\ 460 + 2\ 000$	1074 A	
1020 A	$3 \div (4 + 5 + 3) \times 40\ 000$	1075 D	
1021 A	$[(100 + 50) \times 10\% + 12 + 21 - 68]1\ 000 \div 2$	1076 D	
1022 D	$5 \div (4 + 5 + 3) \times 40\ 000$	1077 A	
1023 B	$(170\ 000 - 2\ 550\ 000) \div (2 + 2 + 1)$	1078 D	
1024 C	$(12\ 000 + 25\ 000) \div 2$	1079 C	
1025 A	$[10\% \times (20 + 8) - 40] \times 2 \div (2 + 1)$	1080 D	
1026 B	$(6\ 000 + 4\ 000 - 17\ 800) \div 2$	1081 D	
1027 B	$(30 + 0.3 + 0.4 - 1.2 - 0.8 - 4) \div 3 \times [2 \& 1]$	1082 A	
1028 A	$(80 - 3 - 2.5 + 0.5 + 1) \div (3 + 1) \times [3 \& 1]$	1083 D	
1029 B	$(63 - 2 - 1.5 - 10) \div (2 + 1) \times [2 \& 1]$	1084 D	
1030 C	$(1.2 + 0.8 - 0.44 - 0.36 + 3 - 10) \div 5 \times [3 \& 2]$	1085 D	
1031 B	$(100 - 4.4 - 5 + 1 + 1.4 - 30) \div 5 \times [3 \& 2]$	1086 C	
1032 D	$(8 - 47) \div (3 + 2) \times [3 \& 2] \& 8$	1087 D	
1033 B	$(8 - 20 + 5) \div (4 + 3) \times [4 \& 3] \& 8$	1088 D	
1034 B		1089 A	
1035 A	$(17\ 361 - 900) \times 12\ 174 \div 18\ 261$	1090 B	
1036 D	$[8 - 30 \times 2 - 20 - 25].1] \div 5 \times 2 - 15 + (30 - 25).1 - 25$	1091 B	
1037 C		1092 C	
1038 A		1093 B	
1039 D		1094 A	
1040 A		1095 C	
1041 C		1096 C	
1042 B	$36\ 000 \times \frac{1}{4}$	1097 B	No operations yet
1043 D	$40\ 000 \div (3 + 2) \times [3 \& 2]$	1098 B	
1044 A		1099 A	
1045 B	$125 + 90 + 40 + 15 + 50$	1100 B	

1101 D		1156 B	$10\,000 \times 91\%$
1102 D		1157 D	$100\,000 \times 101\frac{7}{8}\% + 1\,100$
1103 C		1158 C	$1\,000 \times 104$
1104 B		1159 C	$160 \times 1.1 \& 160 \times 1.1 \div 1.25 \times [1 \& 0.25]$
1105 C	Companies Act 24:03 forbid discounts	1160 B	$80\,000 \times 0.50 \times 120\%$
1106 C		1161 D	$1\,000\,000 \times 10 \times \frac{1}{2} \div 20\,000 \times 5\,000$
1107 D		1162 A	$80\,000 \times 0.50$
1108 C		1163 B	$(1\,100\,000 - 300\,000) \div 200\,000$
1109 A		1164 A	$(1\,000\,000 - 100\,000) \div 1\,200\,000$
1110 D		1165 B	$(440\,000 - 100\,000) \div 400\,000$
1111 C		1166 A	$(500 + 100 + 30) \div 500$
1112 A		1167 C	$3.6 - 0.2$
1113 B		1168 C	$1 + (15\,000 + 50\,000) \div 175\,000$
1114 A		1169 C	$(720 - 100 + 500 - 400 + 160) \div 500$
1115 D		1170 B	$(220 - 50 - 80 + 120) \div 200$
1116 A		1171 C	$(4\,400\,000 - 10\,000 \times 100) \div 100\,000$
1117 D		1172 D	$20\,000 \div 0.25$
1118 B		1173 D	
1119 A		1174 D	
1120 D		1175 B	
1121 A		1176 A	$[2 \div 0.5 \equiv 4] \times 1\,000\,000 \div 4 \times (3 - 0.5)$
1122 A		1177 C	$2\,000\,000 \div 4 \times (2 - 0.50)$
1123 D		1178 C	$0.50 \times 4\,000\,000 \times (1 + 2) \div 2$
1124 C		1179 C	$300\,000 \times 0.5 \times [(2+3) \div 3 \times (1+2) \div 2-1]$
1125 B		1180 D	$600\,000 \times 2 \times (1 + 4) \div 4 \times (1 + 5) \div 5$
1126 D		1181 D	$400\,000 \times 2 \times (1 + 5) \div 5 \times (1 + 3) \div 3$
1127 C		1182 A	$150\,000 \times 0.5 \times (1 + 3) \div 3 \times (1 + 5) \div 5$
1128 B	$\{1\,000 + 100 + 800\}1\,000$	1183 A	$320 \times 3 \div 2 \times 5 \div 4 \& 100 + 320 \div 0.5 \times \frac{1}{2} \times 1.1$
1129 C	$\{200 - 200 \times 1.25 - 20\}1\,000$	1184 B	
1130 A	$\{100 \times (1 + 0.25) + 50 - 230 - 10\}1\,000$	1185 D	$200\,000 + 100\,000 \times 1.50$
1131 C	$\{60 - 150 \times 0.65\}1\,000$	1186 C	$300 \times (2 + 1) \times 2 + 3 \div 3$
1132 D	$\{2\,000 \times 0.70 - 750 - 450 + 350\}1\,000$	1187 B	$300 \times (1 + 4) \div 4 \times (1 + 5) \div 5$
1133 D	$\{100 + 50 - 200 \times 1.50\}1\,000$	1188 D	$400 \times (1 + 5) \div 5 \times (1 + 3) \div 3$
1134 B	$\{320 \times 3.50 - 300\}1\,000$	1189 C	$400 \times (1 + 5) \div 5 \times (1 + 3) \div 3$
1135 A	$\{320 \times (1 + 0.75) - 150\}1\,000$	1190 B	$30 \& 200 \div 5 - [50 \& 20]$
1136 C	$50 \times (0.50 + 0.20) + 20 \times 90\% - 80$	1191 A	$800 \times (1 + 1) \& 800 - [480 \Rightarrow 260 \Rightarrow 270]$
1137 C	$\{60 \times 200\% + 200 + 40 + 20\}1\,000$	1192 A	$300 \times (1 + 2) \div 2 \times 2 \div 3 - [220 \rightarrow 100]$
1138 D	$\{400 - 120 - 100 \times 95\%\}1\,000 \div 18\,500$	1193 C	$400 \div 4 - 60 - 120 > 0 \therefore 310 + 90$
1139 C	$(25 + 13 + 18.5 - 17 - 1.5 - 0.5 + 10) \div 0.5$	1194 A	$50 + 84 \div 0.5 \div 2 \times (1.3 - 0.5) - 84 \times 3 \div 2 \times 2 \div 3$
1140 B	$\{300 + 150 - 10 - 40 + 20\}1\,000 \div (1 + 0.4)$	1195 B	
1141 A	$180\,000 \div (1 + 2.60)$	1196 C	
1142 B	$250\,000 \div 200\,000 - 1$	1197 A	
1143 A	$(137\,000 - 50\,000) \div 60\,000 - 1$	1198 B	
1144 A	$(150\,000 - 60\,000) \div 72\,000 - 1$	1199 D	
1145 D		1200 C	
1146 C		1201 C	
1147 B		1202 C	
1148 B		1203 C	$60\,000 \times [1 + 0.15 \& 1]$
1149 C		1204 A	$20\,000 \times [1 + 0.3 \& 1]$
1150 A		1205 A	$150\,000 - 100\,000 \times 20\% \& 100\,000$
1151 C	$\{220 + 20 - 80 \times 2\}1\,000$	1206 C	$250\,000 - 200\,000$
1152 A	$\{150 - 20\}1\,000 \div 1.30 \times 0.50$	1207 C	$\{5\,000 - 1\,500 - 500\}1\,000 \div 2.5$
1153 B	$100\,000 \times [\text{Cash } 70\% \& \text{Premium } 30\%]$	1208 A	$1\,000 \times (1 - 0.8)$
1154 C	$(612\,000 - 300\,000 \times 1.80) \times 100 \div 90$	1209 A	
1155 B	$20\,000 \times 8\% \div 10\%$	1210 B	

1211 A		1266 C	$200 \div 40 \& (125 - 12) \div 50$
1212 B	$\{50 - 70 - 45 - 100 - 38 - 36\}1\ 000$	1267 B	$5 \div 20 \div 4.5 \times 100\%$
1213 B		1268 D	$(150 + 250) \div 5\ 000 \div 1.4 \times 100\%$
1214 B		1269 B	$400\ 000 \times 50\% \div 2\ 000\ 000 \div 4.6$
1215 C		1270 A	
1216 D		1271 D	
1217 B		1272 A	
1218 B		1273 C	$\{215 - 15\}1\ 000$
1219 B		1274 A	$\{(2\ 000 - 100 \times 10\% \times 5) \div 100\}1\ 000$
1220 C		1275 B	$1\ 030 \div 206 \times 0.5$
1221 B		1276 B	$(1\ 440 - 12\% \times 120 - 10\% \times 180) \div 600 \times 3$
1222 C		1277 B	$(336 - 16 \equiv 200 + 120) \div 800$
1223 C	$15\ 000 \div 0.50 \div 3\%$	1278 B	$(68 - 8 \equiv 30 \times 2) \div 200 \times 0.5$
1224 D		1279 A	$(68 - 8 \equiv 30 \times 2) \div 200 \times 0.25$
1225 D		1280 B	$(63 - 4 \equiv 20 + 39) \div 100 \times 0.25$
1226 A		1281 C	$(400 - 300 \times 7\%) \div 3\ 000$
1227 A		1282 A	$100\ 000 \times 6\% \div 150\ 000$
1228 D	$10\ 000 \div 10 \times 37$	1283 B	$500\ 000 \div 240\ 000 \times 2.4$
1229 C		1284 B	$10 \times 40 \div (20 - 2 - 2)$
1230 B		1285 A	$500\ 000 \times 3.5 \div 140\ 000$
1231 B		1286 B	$1 \div (4 \times 4\%)$
1232 B	$100\% + 50\% : 100\% = 3 \div 2 : 2$	1287 C	$400\ 000 \times 2 \div 40\ 000$
1233 C		1288 A	$500\ 000 \div 340\ 000 \times 3.6$
1234 C		1289 C	14×0.6
1235 D		1290 D	19×1.575
1236 B	$(520 - 800 \times 15\%) \div (2\ 000 - 800) \times 100\%$	1291 B	$5\% \times 10$
1237 B	$(260 - 15\% \times 400) \div 600 \times 100\%$	1292 C	$1\ 500 \times 0.5 \div 10\ 000 \div 5\%$
1238 D		1293 B	$80\% \times 15 \times .2$
1239 A	$0.50 \times 70\ 000 \times 6\%$	1294 B	$(10\ 020\ 000 - 10\% \times 200\ 000) \div 500\ 000$
1240 C	$100\ 000 \times 60\% \times 8\%$	1295 C	
1241 A	$0.25 \times 80\ 000 \times 10\%$	1296 D	$(230 - 10 \equiv 110 + 110) \times 0.5 \div 600 \div 0.45$
1242 C	$\{4 + 9\}1\ 000$	1297 C	
1243 B	$\{5 + 10\}1\ 000$	1298 D	
1244 C	$\{300 + 1\ 000\}1\ 000$	1299 C	
1245 C	$\{15 + 50 \& 50\}1\ 000$	1300 B	
1246 B	$\{8 + 30\}1\ 000$	1301 D	$(180 + 50) \div (200 + 20 + 40) \times 100\%$
1247 B	$\{60 \times 7.5\% + 40 \times 5\%\}1\ 000$	1302 D	
1248 A	$\{7.5\% \times 0.5 \times 60 + 5\% \times 40\}1\ 000$	1303 A	$3 \div \{3 + 5\} \times 100\%$
1249 A	$20\ 000 \times 0.1 + 10\ 000 \times 5\% \times 0.5$	1304 C	$(1 + 0.5) \div (2 + 1 + 0.5 \times 2 + 0.6) \times 100\%$
1250 C	$1\ 000 \times 9\% \times 100 \times (3 + 1)$	1305 C	
1251 D	$10\ 000 \times 3\frac{1}{2}\% \times 10 \times (3 + 1) + 100\ 000 \times 1.5$	1306 C	
1252 D	$0.75 \times 400\ 000 \times 5\%$	1307 D	
1253 A	$10\ 000\ 000 \times 0.5 \times 12\%$	1308 D	
1254 D	$5\% \times 100\ 000 \div 0.25 \times 0.75$	1309 B	
1255 B	$\{(80 + 30) \div 1\ 000\}1\ 000$	1310 C	
1256 A	$(128 - 400 \times 4\%) \div 1\ 600 \div 2$	1311 D	
1257 D	$48\ 000 \div 800\ 000 \times 100\%$	1312 D	
1258 C	$(26.6 - 20 \times 8\% - 5) \div 50 \times 100\%$	1313 D	
1259 B	$(100 \times 6\% - 20\ 000 + 10) \div 100 \times 100\%$	1314 A	
1260 A	$1.25\% \div 0.5 \times 4$	1315 B	
1261 C	$(300 - 8\% \times 1\ 000 - 5\% \times 500) \div 2\ 000 \times 100\%$	1316 C	
1262 B	$(580 - 160) \div 120$	1317 B	
1263 B	$(750 - 120 \equiv 350 + 200 + 80) \div 350$	1318 A	
1264 C	$(25 + 75 + 100 \equiv 215 - 15) \div (25 + 75)$	1319 A	
1265 C	$(600 - 50 \equiv 450 + 100) \div 100$	1320 C	

1321 A		1376 A	
1322 C		1377 A	
1323 B		1378 B	
1324 C	$(0.5-0.8) \times (120+40) \div (300+170+120+40)$	1379 D	
1325 B		1380 B	
1326 C		1381 C	
1327 A		1382 D	
1328 D		1383 B	
1329 B		1384 B	
1330 D		1385 D	
1331 A		1386 B	
1332 B		1387 B	
1333 D		1388 D	
1334 D		1389 D	
1335 D		1390 A	
1336 C		1391 C	
1337 D		1392 B	
1338 B		1393 D	
1339 B		1394 A	
1340 C		1395 A	
1341 D		1396 A	
1342 D		1397 A	
1343 A		1398 C	
1344 D		1399 B	
1345 D		1400 A	Profits shown by indirect method
1346 D		1401 A	
1347 B		1402 D	
1348 A		1403 A	
1349 D		1404 D	
1350 A		1405 C	
1351 A		1406 B	
1352 B		1407 A	
1353 B		1408 D	
1354 A		1409 D	
1355 A		1410 A	
1356 A		1411 A	
1357 C		1412 C	
1358 A		1413 B	
1359 B	{subsequently in A makes it wrong}	1414 A	
1360 A		1415 D	
1361 B		1416 B	
1362 A		1417 D	
1363 C		1418 D	
1364 B		1419 A	
1365 A		1420 C	$1\,100\,000 \times (5\% + 10\%)$
1366 C		1421 C	$\{75 - 120 + 170\}1\,000$
1367 B		1422 A	$500 \times (0.5 - 0.35)$
1368 A		1423 A	
1369 B		1424 D	$\{18 - 14 + 43\}1\,000$
1370 B		1425 A	
1371 D		1426 C	$\{22 + 104 - 91 + 31\}1\,000$
1372 B		1427 D	$100 - 130 + 50 - 80$
1373 B		1428 B	
1374 D		1429 A	
1375 A		1430 B	$\{17 + 9 + 3 - 4 - 6 + 8\}1\,000$

1431 D	$\{15 + 2.5 + 1 + 0.5\}1\ 000$	1486 B	
1432 C	$100 + 29 + 35 - 41 + 47 - 49 - 16 + 20$	1487 D	
1433 C	$192 + 33.6 + 128 - 176 + 68 - 50.4 - 57.6 + 69.6$	1488 A	
1434 B	$80 \times 2 - 90 - 60 - 70 + 80 + 100$	1489 A	$2\ 000 \& 40 \times 80$
1435 C	$55 + 22 - 145 + 150 - 100 + 90 - 7.5 + 8 + 51 - 58$	1490 B	
1436 B	$160 - 220 + 85 - 63 - 72 + 87 + 240$	1491 D	
1437 B	$60 + 0.6 - 0.12 + 2.5 + 1.6$	1492 C	
1438 A	$20 + 5 - 1 - 3.5 - 3 - 1.5 - 2$	1493 C	
1439 A	$2\ 000 + 120 - 20 - 300 - 70 + 100$	1494 C	
1440 D	$1\ 000 + 25 - 100 - 70 + 30 + 400$	1495 C	
1441 A		1496 C	
1442 C		1497 A	
1443 D		1498 C	
1444 C		1499 B	
1445 A		1500 A	
1446 C		1501 B	
1447 B	$\{3 + 1\}1\ 000$	1502 A	
1448 A		1503 A	
1449 C	$\{200 + 45\}1\ 000$	1504 D	
1450 C		1505 C	
1451 C		1506 A	
1452 B		1507 A	
1453 A		1508 C	
1454 A		1509 D	
1455 C		1510 B	
1456 D		1511 B	
1457 D		1512 A	
1458 C		1513 B	
1459 D		1514 A	
1460 D		1515 C	
1461 B		1516 B	
1462 B		1517 D	
1463 B		1518 B	
1464 C	$\{500 + 380\}1\ 000$	1519 D	
1465 D		1520 A	
1466 C		1521 C	
1467 D		1522 C	
1468 C		1523 A	
1469 D		1524 C	
1470 A		1525 A	
1471 A		1526 D	
1472 B		1527 D	
1473 C		1528 D	
1474 C		1529 D	
1475 B		1530 C	
1476 D		1531 A	
1477 A		1532 A	
1478 A		1533 C	$1000 \times (520 + 480 \times 1.1 + 440 \times 1.1^2 + 400 \times 1.1^3)$
1479 C		1534 B	
1480 B		1535 B	$\{250 - 22.5 + 30\}1\ 000$
1481 B		1536 C	$(180 - 240) \times 110\% - 180$
1482 C		1537 A	$500 - 600 + 560 - 700 + 570 - 400 + 370$
1483 A		1538 C	$(1\ 000 - 1\ 500) \times 20\% - 1\ 000$
1484 A		1539 C	$(150 - 240 - 3\ 960 - 5\ 040 - 4\ 770) \div 3$
1485 A		1540 D	$\{20 - 6 + 12\}1\ 000 \times 2$

1541 B	$1.2 \times 110\% \times 10\,000$	1596 A	
1542 C	$(5\,000 + 800) \times 4 - 1\,200$	1597 C	
1543 C	$(12\,000 + 1\,000) \times 3 - 2\,000$	1598 A	
1544 A	$(12\,000 - 1\,000) \times 3 + 2\,000$	1599 B	$\{(400-280) \times 14\,000 \div 20\,000-50\}1\,000$
1545 B	$\{7.5 + 1.5 \times (2 - 30 - 3) - 7\}1\,000$	1600 B	$(2 + 5 - 1 - 1) \times 3 \& 10 + (2 - 1) \times 2 + 5 \times 3$
1546 B	$\{6 \times (10 + 1 - 3) + 4.5 - 0.5\}1\,000$	1601 A	
1547 B	$40\,000 \times 2 \div 45 \times 30$	1602 B	
1548 B	$84\,000 \times 130\% \div 80 \times 60$	1603 C	
1549 B		1604 C	$\{30 \div (30 + 20) \times 100 + 6\}1\,000$
1550 A		1605 C	
1551 D		1606 D	
1552 B	$\{50 + 30 + 23 - 94 - 15\}1\,000$	1607 C	
1553 D	$\{20 - 12 - 3 + 1\}1\,000$	1608 D	
1554 D	$320 \times 0.2 + 300 \times (\frac{3}{4} \times 0.5 \div 0.8 + \frac{1}{4} \times 25\% \div 0.3)$	1609 C	$7\,200 \times 45\% \div (30\% + 45\%)$
1555 C	$8\% \times 52.5 + 20\% \times 60 + 70\% \times 90 \times 97\%$	1610 B	
1556 C	$180 \times 4\% + 210 \times 10\% + 240 \times 15\% + 270 \times 70\%$	1611 C	$8\,750 + 60\% \times 3\,378 + 75\% \times 4\,563$
1557 D	$60\% \times 60 \times 98\% + 25\% \times 40 + 12\% \times 35$	1612 C	$8\,000 + (6\,270 + 9\,081) \times 30\%$
1558 B	$(120 + 140 + 160) \times 45\% + (140 + 160 + 150) \times 50\%$	1613 D	
1559 B	$112.5 \times 0.5 \times 95\% + 125 \times 0.3 \times 97\frac{1}{2}\% + 100 \times 0.2$	1614 B	
1560 A	$70\% \times 275 + 15\% \times 270 + 10\% \times 240 + 4\% \times 210$	1615 C	
1561 C	$\{25 - 8 + 2.8\}1\,000$	1616 D	
1562 A	$\{40 - 4 + 1\}1\,000$	1617 D	
1563 B	$39 \div 3 + 141 + 48 \times 2 \div 3 \& 228 - 39 \& 48 \div 3$	1618 D	
1564 D	$\{130 + 110\}1\,000 \times 40\% \times 50\%$	1619 C	
1565 C	$1.3 \times 2.8 \times 10\,000$	1620 D	
1566 B	$6.5 \times (40\% \times 250 + 60\% \times 320)$	1621 D	
1567 D	$(90 + 120) \times 60\% \times 50\%$	1622 C	
1568 D	$\{3\,000 \times 75\% - 140 + 240\}1\,000$	1623 D	
1569 B	$\{1\,500 \times 75\% + 70 - 120\}1\,000$	1624 B	
1570 B		1625 B	$540\,000 \div 10\,000$
1571 C	$[90275 - 515 \times \&] (90\,275 - 82\,200) \div (515 - 420)$	1626 B	$148\,750 \div 8\,500$
1572 B	$(35\,200 - 38\,500) \div (400 - 500)$	1627 C	$7\,000 \div (1\,500 + 3\,000) \times 100\%$
1573 A	$58\,500 - (58\,500 - 59\,875) \div (17 - 17.5) \times 17$	1628 C	$1\,250 \div 500 \times 100\%$
1574 A	$400 - (400 - 425) \div (100 - 110) \times 100$	1629 A	$493\,250 \div 10\,960$
1575 A	$50 - (50 - 57.5) \div (100 - 125) \times 100$	1630 B	$532\,000 \div 14\,000$
1576 B	$\{98 - 3 \times 18 - 11\}1\,000$	1631 C	$(150 \times 80\% + 240) \div (60 \times 80\%)$
1577 B	$\{17.76 - (17.76 - 20.64) \times (2 - 4)\}1\,000$	1632 A	$11\,500\,000 \div 25\,000 \div 10$
1578 B	$\{12.9 - (11.1 - 12.9) \times (3 - 4)\}1\,000$	1633 C	$315\,000 \div 180\,000 \times 2.25$
1579 A	$\{11.1 - (11.1 - 12.9) \div 4 \times (4 - 8)\}1\,000$	1634 C	$(102\,660 + 1\,740) \div 8\,700$
1580 A	$30 - (30 - 40) \div (0.5 - 1) \times (0.5 - 0.9)$	1635 B	$10\,500 \div (3 \times 50 + 60) \times [50 \& 60]$
1581 B	$\{60.8 - (36.4 - 60.8) \times (2 - 1.6)\}1\,000$	1636 A	$\{18 + 36 + 12 + 6 + 9\}1\,000 \div (800 + 1\,200)$
1582 B	$192 - (192 - 132) \div (15 - 10) \times (15 - 12)$	1637 D	
1583 D	$72.8 - (72.8 - 121.6) \div (10 - 20) \times (10 - 8)$	1638 C	
1584 B	$16 - (16 - 17.2) \times (5 - 6.2) \& 25 \div 5 \times 6.2 \dots$	1639 B	
1585 B	$[725 - (725 - 750.25) \div 5 \times 10] \div 110$	1640 C	
1586 C	$(32 + 20 + 15 + 6 + 4) \times 12\,000 + 3 \times 8\,000$	1641 C	
1587 A		1642 C	
1588 A		1643 B	$170\,500 \div 11\,000 \times 12\,400 - 198\,400$
1589 A		1644 C	$\{515 \div 200 \times 210 - 500\}1\,000$
1590 C		1645 B	$18\,000 \div 450 \times 400 - 13\,750$
1591 D	$18 + 12\,000 \times 20 \div 10\,000$	1646 C	$\{720 \div 600 \times 550 - 680\}1\,000$
1592 A	$8\,000 \div 1\,000 \times 25\% \div 125\%$	1647 B	$\{261 - 116 \div 122 \times 268\}1\,000$
1593 D	$160 + 100 + 75 + 15$	1648 C	$50\,000 \div 18\,000 \times 20\,000 - 60\,000$
1594 D	$10 - (6.2 \times 2 - 10) \& 7.5 - 6 + 4.2 \times 2$	1649 D	$493\,200 \div 10\,960 \times 10\,493 - 514\,157$
1595 D	$34.5 - (30 \times 2 - 34.5) \& 30 \times 2 - 34.5$	1650 D	$6\,000 \times 800 \times 792 - 6\,312$

1651 B	$50\,000 \div 8\,000 \times 11\,200 - 60\,000$	1706 B	$\{(35 + 30) \div (500 - 150 - 20 - 5) \times 25\}1\,000$
1652 A	$\{500 \div 200 \times 210 - 525\}1\,000$	1707 B	$40 \div (150 - 60) \times 5\,000$
1653 B	$118\,000 \div 354\,000 \times (360\,000 - 3\,000)$	1708 D	$400\,000 \div (400\,000 + 100\,000) \times 5\,000$
1654 A	$4 \times 7\,940 - 32\,000$	1709 D	$120\,000 \div 40 \div 40\%$
1655 D	$50 \times 11\,000 + 50\,000$	1710 C	$(210 + 31.5) \div (1\,000 - 700) \times 100\,000$
1656 A	$340\,000 \times 21\,050 \div (343\,825 + 14\,025)$	1711 C	$\{33 - (33 - 45) \div (6 - 12) \times 6 + 27\} \div (12 - 6)$
1657 D		1712 C	
1658 D		1713 C	
1659 D	$\{600 + 80 + 70 + 50\}1\,000$	1714 D	$105\,000 \times 120 \div (120 - 40 - 50)$
1660 A	$(1\,200\,000 + 800\,000) \div 10\,000$	1715 D	$45\,000 \times 5\,000 \div (5\,000 - 1\,500 - 2\,000)$
1661 C	$(50\,000 \div 4\,000 + 20) \times (4\,000 - 2\,000)$	1716 A	$10\,000 \div (10 - 3) \times 10$
1662 B	$\{(600 \div 200 + 30 - 40) \times 120 + 400\}1\,000$	1717 B	$400\,000 \div (400\,000 - 80\,000) \times 20\,000$
1663 C	$(10 - 5.5 - 1200 \div 1200 - 0.5)1\,000 - 1\,000$	1718 C	$80\,000 \div 40\%$
1664 B	$11 \times 2\,400 - 187\,200 \div 2\,400 \times 2\,500 - 200$	1719 D	$5\,000 \div (5\,000 + 800) \times 16\,000$
1665 A		1720 D	$420\,000 \div 30\%$
1666 D		1721 B	$120\,000 \div 30\,000 \times 15\,000$
1667 C		1722 A	$\{10 + 15\}1\,000$
1668 A		1723 D	
1669 D		1724 D	$24 \times (1 - 18\,000 \div 72\,000)$
1670 A	$\{8 \times [(11.5 - 10) + (11.5 - 0.9)] - 42\}1\,000$	1725 D	$(30\,000 + 2\,000) \div 3\,000 \times 20$
1671 B	$(50\,000 - 40\,000) \times 40$	1726 A	$(10 - 3.5 - 2.5) \times 2\,500$
1672 A		1727 D	
1673 D		1728 B	
1674 A		1729 C	
1675 A		1730 B	
1676 C		1731 C	$50\,000 \div (110 - 90\% \times 50 - 40) = 2\,000$
1677 B		1732 A	
1678 B		1733 A	$(48\,000 \div 40\% - 140\,000) \div 10$
1679 B		1734 B	$(76\,800 \div 60\% - 224\,000) \div 16$
1680 B		1735 B	$12\,000 - 140\,000 \div 10$
1681 C		1736 B	$8\,000 \div (4 - 2) \times 7\,000$
1682 B		1737 B	
1683 B		1738 B	
1684 A		1739 A	$(480\,000 - 400\,000) \div 480\,000 \times 100\%$
1685 C	$4\,000 - 1\,900 - 500$	1740 B	
1686 C	$10 - 1.2 - 0.8 - 1$	1741 B	$(20 - 3 - 4 - 2 - 1) \times 10\,000$
1687 C	$24 - (2 + 6) \times 110\%$	1742 A	$\{(30 - 40) \times 120 + 600 + 400\}1\,000$
1688 B	$10\,000 \times (10 - 4 \times 115\% - 2 - 1)$	1743 B	$(10 - 5.5 - 0.5) \times 1\,000 - 1\,200 - 1\,000$
1689 A	$10\,000 \times (30 \times 90\% - 12 - 6 - 3)$	1744 A	$192\,000 \div 3 - 40\,000$
1690 B	$40\% - (110\% - 60\%) \div 110\% \times 100\%$	1745 A	$500\,000 \times \frac{1}{2} - 100\,000$
1691 B		1746 B	$600 \times [50 - (7\,500 + 2\,500) \div 500] - 8\,400$
1692 C	$3\,600 \div 2\,000$	1747 D	$(20 - 15) \times 50\,000 - 100\,000$
1693 A		1748 B	$9\,000 \times 125\% - 3\,000$
1694 C		1749 C	$5 \div (5 - 3) \times (20\,000 + 15\,000)$
1695 D	$(500\,000 - 200\,000) \div 500\,000 \times 100\%$	1750 B	$9 - 6.5 + 2$
1696 C	$[2 - (1.5 - 0.2 - 2 + 0.5) \div (0.75 - 1)] \div 2 \times 100\%$	1751 D	$(160\,000 + 20\,000) \div (16 - 12)$
1697 B	$(0.6 + 0.9 \equiv 6 - 4.5) \div 6 \times 100\%$	1752 C	$(20\,000 + 50\,000) \div (20 - 15)$
1698 B		1753 D	$(200\,000 + 50\,000) \div (20 - 5)$
1699 C		1754 D	$(260\,000 + 60\,000) \div (12 - 8)$
1700 A		1755 C	
1701 B		1756 B	$(80\,000 + 100\,000) \div (50 - 30)$
1702 A	$9 - 6.5$	1757 B	$(130\,000 + 50\,000) \times 70\% - 130\,000$
1703 D	$320\,000 \div (32 - 24)$	1758 B	$50\% \times (12 \times 1\,000 + 4 \times 2\,000)$
1704 B	$800\,000 \div (100 - 36)$	1759 C	$(100 + 250) \div 150 \times 900$
1705 C	$\{210 \div (90 + 210) \times 100\}1\,000$	1760 C	

1761 A		1816 D	
1762 A		1817 C	$1\ 600 + 4\ 000 + 2\ 400 - 400$
1763 D		1818 C	$(600 \times 2.5 + 348) \div 600 \div 80\%$
1764 C		1819 A	$2\ 500 \times 90\% - 75$
1765 C	$15 > 14$	1820 D	$(6 + 7 + 5 - 10\% \times 2) \div 90\%$
1766 A	$0.47 - 0.19 < 0.35$	1821 C	$(2\ 500 + 3\ 150 + 3\ 875 - 500 \times 5\%) \div 500 \div 95\%$
1767 A		1822 A	
1768 B		1823 C	$700 + 400 \times 75\%$
1769 A		1824 D	$20\ 000 + 6\ 000 \times [90\% \& 75\%]$
1770 B		1825 C	$(320 \times 80\% + 80 \times 75\% + 160 \times 25\%) \times 1\ 000$
1771 A	$10 \div 5 < 12 \div 4 > 14 \div 6 < 16 \div 7$	1826 B	$\{60 + 30 + 10 - 4\} 1\ 000 \div (200 + 800 \times 25\%)$
1772 B	$30 \div 15 < 42 \div 20 > 30 \div 30$	1827 D	$202\ 000 \div 38\ 000$
1773 C	$53.3 \div 13 < 70.2 \div 6.5 > 65 \div 19.5$	1828 B	$248 \div (2.1 + 7 \times 8) + 16\% \div (2.1 + 7 \times 6) + 36.2 \div (2.1 + 7 \times \frac{1}{2})$
1774 D	$41 \div 10 < 54 \div 5 > 50 \div 15$	1829 A	
1775 B	$(20 + 54) \div 96 > (36 + 14) \div 80 < (36 + 27) \div 90$	1830 A	$\{160 \div (240 + 80) \times [240 \& 80]\} 1\ 000$
1776 C	$160 < 175 \div 1.25 < 190 \div 0.75$	1831 C	
1777 C	$8 \div 3 \therefore \textcircled{2} \& 8 \div 2 \therefore \textcircled{1} \& 16 \div 7 \therefore \textcircled{3}$	1832 B	
1778 D	$(12 - 9) \div 2 < (12 - 10) \div 0.8 < (22.5 - 12.5) \div 3$	1833 A	
1779 B	$(4.5 + 3.5) \div 2 > (3 + 4) \div 4 < (1.35 + 2.95) \div 1.8$	1834 B	
1780 B	$(18 + 7) \div 40 > (18 + 13.5) \div 45 < (27 + 6) \div 48$	1835 D	
1781 D	$(24 - 18) \div 4 < (24 - 20) \div 1.6 < (45 - 25) \div 6$	1836 B	
1782 C	$35 \div 0.2 < 49 \div 0.3 > 64 \div 0.4$	1837 A	
1783 B	$(17 - 6 - 3) \div 3 > (18 - 8 - 4) \div 4 < (25 - 10 - 5) \div 5$	1838 D	
1784 B	$(90 - 60) \div 40 > (88 - 74) \div 48 < (64 - 48) \div 32$	1839 C	
1785 A	$(600 - 300 \times \frac{1}{2} - 300) \div 3$	1840 B	$[1\ 100 \times 3 - 3\ 200] \times 4.8$
1786 A		1841 A	$[2 \times 1\ 300 - 2\ 500] \times 6.5$
1787 A		1842 A	$[1.5 \times 1\ 000 - 1\ 550] \times 3$
1788 A		1843 B	$[0.25 \times 19\ 000 - 5\ 000] \times 8$
1789 C		1844 C	$[2\ 400 - 2\ 152] \times 71.23$
1790 B		1845 C	$[2 \times 500 - 1\ 050] \times 6$
1791 D		1846 C	$7.2 \times 9\ 700 - 72\ 800 \& [4 \times 2\ 500 - 9\ 700] \times 7.2$
1792 B		1847 A	$[1.25 \times 5\ 300 - 6\ 600] \times 12$
1793 C		1848 C	
1794 C		1849 A	$5.4 \times 19\ 100 - 98\ 350 \& [4\ 650 \times 4 - 19\ 100] \times 5.4$
1795 C	$24\ 600 \times 126\ 000 \div (14\ 500 + 3\ 500 + 24\ 600)$	1850 B	$12\ 500 \times 2.75 \times 15 - 31\ 250 \times 16.20$
1796 D		1851 C	$8 \times 5\ 000 - 42\ 000 \times 90\%$
1797 D	$58\ 575 + 43\ 100 + 126\ 000 \times 39\ 100 \div 42\ 600$	1852 C	
1798 A	$25 + 5 + 150\% \times 30 + 40 \times 300\% \div 200\%$	1853 D	$2\ 000 + 1\ 600 \div 8$
1799 A	$(42.79 + 3.5 + 3.5 \div 42.6) \div 66^2 / 3\%$	1854 B	$(25\ 000 \div 25 - 240 \div 6) \div 25\ 000 \times 100$
1800 C		1855 D	$(10\ 000 + 1\ 000) \div 2\ 000$
1801 C		1856 B	
1802 C		1857 D	$[1\ 100 - 1\ 050] \times 8$
1803 B		1858 C	$[11\ 000 - 10\ 000] \times 2.8$
1804 C		1859 A	$2\ 200 \div 20 - 200$
1805 D		1860 B	$(30 \times 100 - 3\ 100) \times 2 + (45 \times 100 - 4\ 400) \times 3$
1806 B		1861 A	$(50 \times 50) \times 0.5 + (60 \times 50 - 3\ 100) \times 0.6$
1807 B		1862 D	$[8 \times 19\ 000 - 142\ 500] \times 1.80$
1808 A		1863 C	$92 \times 5 + 100 \div 5$
1809 A		1864 A	$[4 - 297 \div 75] \times 70 \& [3 \times 23\ 000 - 70\ 000] \times 4$
1810 D		1865 A	$[4.7 - 4.5] \times 4\ 850 \& [2\ 400 \times 2 - 4\ 850] \times 4.7$
1811 D		1866 B	$6 \times 10\ 000 - 59\ 295 \& [19 \times 500 - 10\ 000] \times 6$
1812 D		1867 A	$[0.8 - 6888 \div 8200] 7\ 150 \& [8 \times 870 - 7\ 150] 0.8$
1813 D	$2 \div 80\% \times 3$	1868 A	$[1.8 - 304\ 000 \div 160\ 000] \times 142\ 500$
1814 C	$10 \times 1.5 - (1.5 - 1) \times 2$	1869 B	$[3.1 - 3] \times 1\ 950$
1815 C	$\{57 + 88\} 1\ 000$	1870 C	$[5 - 5.05] \times 51\ 000$

1871 C	$[12 - 13.20] \times 44\ 000$	1926 A	
1872 B	$[2.8 - 3] \times 10\ 000$	1927 A	
1873 D	$\{[(84 - 3) \div 27 - 84 \div 30] \times 30\}1\ 000$	1928 D	
1874 B	$9\ 000 \times 40 - 342\ 000$	1929 B	
1875 B	$90 \times 6\ 000 - 95 \times 5\ 500$	1930 D	
1876 A	$(30 - 33) \div 30 \times 100\%$	1931 A	
1877 D	$1\ 600 - 1\ 300 - 820 + 900 + 23\ 440$	1932 A	
1878 A	$16\ 380 \div 7\ 800 - 1\ 170 \div (7\ 800 - 440)$	1933 C	
1879 D	$1\ 600 - 1\ 400 - 1\ 300 + 1\ 500 + 24\ 440$	1934 A	
1880 B	$12.5 + 215 \div 430$	1935 C	
1881 B		1936 C	
1882 C		1937 C	
1883 A		1938 B	$6\ 000 \times 2 \div (45\ 000 + 5\ 000) \times 100\%$
1884 A		1939 B	$60\ 000 \div 5 \times 2 \div 1\ 000\ 000 \times 100\%$
1885 A		1940 C	$(48 - [220 - 20] \div 5) \times 2 \div (220 + 20) \times 100\%$
1886 D		1941 C	$(50 + 100 \times 2 + 150) \div 2 \div 400 \times 100\%$
1887 A		1942 B	$(3 - 5 \times 0.1 - 3.5 \times 0.2) \div [\frac{1}{2} \times (5 + 3.5) + 1.5] \times 100\%$
1888 C	$\{16 + 7\}1\ 000$	1943 B	$(90 - [270 - 30] \div 5) \div (\frac{1}{2} \times [270 + 30] + 45) \times 100\%$
1889 D		1944 D	
1890 C	$50 \times 2\ 100 - 100\ 800$	1945 C	
1891 A	$12 \times 2\ 600 - 30\ 400$	1946 B	
1892 C	$50 \times 4\ 100 - 196\ 800$	1947 B	$45\ 000 \div 7\ 500$
1893 D	$200 \times 4\ 500 - 787\ 500$	1948 C	$250\ 000 \div 80\ 000$
1894 C	$17 \times 48\ 000 - 744\ 000$	1949 C	$500\ 000 \div 135\ 000$
1895 A	$8\ 000 \div 10\ 000 \times 105\ 000 - 92\ 000$	1950 D	$\{60 = 20 \times 3 \text{ OR } 60 - 20 \times 3\}1\ 000$
1896 C	$300\ 000 \times 5\ 000 \div 6\ 000 - 235\ 000$	1951 A	$210\ 000 \div (80\ 000 + 10\ 000)$
1897 D	$[500 - 600] \times 10 \ \& \ 10 \times 600 - 5\ 850$	1952 B	$300\ 000 \div (90\ 000 + 15\ 000)$
1898 C	$\{8 \times 11 - 90 \ \& \ 100 - 8 \times 11\}1\ 000$	1953 A	$2 + (500 - 300 - 150) \div 100$
1899 C	$300[1 - 5\ 000 \div 6\ 000]$	1954 B	$3 + (800 - 100 - 200 \times 3) \div (200 \times 2)$
1900 A		1955 B	$2 \ \& \ (50 - 5 \times 2 - 11.9 - 14.6) \div (5 + 16.2) \times 12$
1901 A		1956 A	
1902 B		1957 B	
1903 A	$1\ 300 - 1\ 500 + 950 + 670 - 660 + 415$	1958 B	
1904 D	$800 - 1\ 200 + 500 + 300 - 240 + 1\ 060$	1959 D	
1905 A	$\{90 - 50 - 86 + 51\}1\ 000$	1960 C	NPV Sum = $\{1\ 600 + 1\ 200\}1\ 000$
1906 C	$\{3 + 4 - 1 - 2\}1\ 000$	1961 C	NPV Sum = $\{1\ 600 + 1\ 200\}1\ 000$
1907 B	$\{5 - 3 + 1 + 4\}1\ 000$	1962 B	NPV Sum = $\{50 + 600\}1\ 000$
1908 A		1963 C	NPV Sum = $\{1 + 0.8\}$ million
1909 C		1964 C	NPV Sum = $\{1.5 + 1.3\}$ million
1910 A		1965 C	$208\ 450 \times 10\% - 13\ 700$
1911 C		1966 B	$50\ 000 - 18\ 180 - 24\ 780 - 26\ 280$
1912 D		1967 C	$80\ 000 \times (1 + 1.1^{-1}) \div 2 - 36\ 360 - 49\ 560 - 52\ 570$
1913 C		1968 A	$1\ 000 - 500 \times (0.909 + 0.826 + 0.751)$
1914 B		1969 B	$\{100 - 20 \times (1 - 1.25^{-10}) \div 25\%\}1\ 000$
1915 A	NBV $(200 - 150)1\ 000$	1970 C	$\{40 - 20 \times (0.87 + 0.756 + 0.658)\}1\ 000$
1916 B	NBV $(84 - 60)1000$	1971 A	$100 - 60 \times 0.91 - 30 \times 0.76 - 20 \times 1.6$
1917 C	$\{900 + 100\}1\ 000$	1972 A	$25 - 7 \times 0.87 - 5 \times 0.756 - 9.5 \times 0.658 - 1 \times 0.572$
1918 A		1973 A	$\{100 - 80 \times 0.909 - 40 \times 0.826 - 20 \times 0.751\}1\ 000$
1919 B		1974 B	$\{25 - 8 \times 0.926 - 10 \times 0.857 - (5 + 6) \times 0.794\}1\ 000$
1920 A		1975 D	$5 - 1.6 \times 0.893 - 1.5 \times 0.797 - (8 + 5) \times 0.712 - (5 - 5) \div 3 \times 2.402$
1921 A		1976 D	$100 \div 2 \times [1 + (1 - \{1 + 0.2 \div 12\}^{-12}) \div 20\%]$
1922 D		1977 C	121×1.1^{-2}
1923 D		1978 C	100×1.06^5
1924 C		1979 C	$2000 \times (1.15^{-1} + 1.1 \times 1.15^{-2} + 1.1^2 \times 1.15^{-3} \dots)$
1925 D		1980 C	$80\ 000 \times 4.564 - 12\ 720$

1981 C		1991 C	$14 - (14 - 10) \times 3\,904 \div (6\,120 + 3\,904)$
1982 D		1992 C	$15 + (10 - 15) \times 846 \div (2\,341 + 846)$
1983 A		1993 D	$30 - (30 - 50) \times 104 \div (104 + 32)$
1984 A		1994 B	
1985 D		1995 D	
1986 C	$10 - (10 - 16) \times 6\,000 \div (6\,000 + 3\,000)$	1996 D	
1987 C	$10 + (20 - 10) \times 30\,000 \div (30 + 8)$	1997 C	
1988 C	$9 - (9 - 13) \times 16\,152 \div (16\,152 - 4\,931)$	1998 C	
1989 A	$18 + (20 - 18) \times 195 \div (195 + 395)$	1999 C	
1990 C	$9 - (9 - 13) \times 16\,140 \div (16\,140 - 4\,920)$	2000 C	

2001 a) Prudence is the main accounting concept which requires assets and profits to be understated, expenses to be recorded as soon as they are incurred and provision to be made for expenses whose exact values cannot be ascertained with substantial accuracy.

- b) i)** Prudence concept permits only purchased goodwill to be recorded in the books of accounts and forbids recording of non-purchased (inherent) goodwill which overstates assets. Positive purchased goodwill should be amortised over a period not exceeding 20 years on fixed (equal) instalment basis and impairment immediately recognised. Amortisation amount should be shown in the Appropriation Account
- ii)** Prudence concept requires stock in trade to be valued at a smaller (lower) amount between its cost and the net realisable value (NRV), thereby understating assets as well as profits. NRV takes into account potential loss in sales revenue and recognises it in the current period where it arose.

2002 a)

- Carrying down and bringing down an account balance on the same side e.g. Carrying down a \$200 bank overdraft balance on the debit side and bringing it down on debit side instead of credit side
- Completing double entry using different figures e.g. debiting the Cash Account with \$4 3 00 and crediting the Sales Account with \$3 400
- Making a single entry e.g. Purchase of furniture on credit for \$1 000 being recorded only on the debit side of Furniture Account with no corresponding entry to the creditor

b) i)

Mangena Ltd: General Journal			
i.	Discount Allowed	430	
	Discount Received	430	
	Suspense		860
ii.	Suspense – Creditors	350	
iii.	Profit and Loss	670	
	Insurance		670
iv.	Rates (240 × 2)	480	
	Suspense		480
v.	Furniture	10 000	
	Purchases		10 000
v.	Profit and Loss (10 000 × 10%)	1 000	
	Furniture Provision for Depreciation		1 000

ii)

Suspense Account			
	Difference as per Trial Balance	990	
ii.	Creditors	350	i. Discount Allowed
			430
			i. Discount Received
			430
			iv. Rates
			480
		<u>1 340</u>	<u>1 340</u>

- ii)**
- Show the amount in the Balance Sheet
 - Write off the balance in the Income Statement (Profit and Loss Account)

2003 a) Depreciation attempts to match the cost of an asset consumed with revenues generated in the process. Acquisition of fixed assets is capital expenditure which is subsequently spread over asset useful life through charges to the Profit and Loss Account so as to reflect a correct and reliable profit

- b)** Land has an indefinite (infinite) life span (useful life) and cannot be finished or used up. Instead it tends to appreciate (gain) in value over time. No loss in value cannot therefore be reasonably determined.

- c) Depreciation is the loss in value of a tangible fixed asset over its useful life due to wear, tear and usage whereas funds set aside for replacement of fixed assets are profits kept in the business (not paid out as cash dividends) which in turn results in cash being retained for purchase of tangible fixed assets.
- d) i) – Depletion unit \equiv Number of units extracted
 – Diminishing balance \equiv Reducing balance
 – Machine hours
 – Revaluation
 – Straight-line \equiv Fixed instalment
 – Sum of years' digits
- ii) The consistency concept forbids changing depreciation method every year to ensure comparability of financial statements. However, the depreciation method can be changed to show a true and fair view, or in line with the requirements and provisions of new legislation or International Accounting Standards (IAS).

2004 a) Depreciation is the decrease in value of tangible fixed assets over their productive lives in business due to wear, tear and usage; which is debited to the Income Statement as an improvised (estimated) loss and credited to the Provision for Depreciation Account.

- b) – Economic factors e.g. decrease in production capacity
 – Physical factors e.g. corrosion of parts in contact
 – Technological factors e.g. incompatibility with latest developments in science and methods
 – Time factors e.g. obsolescence
- c) – Economic (productive \equiv useful) life
 – Historical (or revaluation) cost
 – Rate (or frequency) of usage
 – Salvage (residual \equiv scrap \equiv terminal) value

d) i)

Taxis Account						
Jan 1	Balance b/d	{w1}	140 800	July 1	Taxis Disposal	25 600
July 1	Taxis Disposal		8 500	Dec 31	Balance c/d	163 200
	1 Loan – Benza Finance {48 – 8.5}		<u>39 500</u>			
			<u>188 800</u>			<u>188 800</u>
Jan 1	Balance b/d		163 200			

ii)

Taxis Provision for Depreciation Account						
July 1	Taxis Disposal [25 600 \times (1 – 0.75 ⁴)]		17 500	Jan 1	Balance b/d	{w2} 72 400
Dec 31	Balance c/d		<u>81 975</u>	Dec 31	Profit and Loss	{w3} <u>27 075</u>
			<u>99 475</u>			<u>99 475</u>
				Jan 1	Balance b/d	81 975

iii)

Taxis Disposals Account						
July 1	Taxis		25 600	July 1	Taxis	8 500
	1 Profit and Loss		<u>400</u>		1 Provision for depreciation	<u>17 500</u>
			<u>26 000</u>			<u>26 000</u>

Workings

- Total taxis = 25 600 + 32 000 + 38 400 + 44 800
- Accumulated depreciation = 140 800 – 25 600 \times 0.75⁴ – 32 000 \times 0.75³ – (38 400 + 44 800) \times 0.75²
- Charge for the year = (163 200 + 17 500 – 72 400) \times 25%

- 2005 a)**
- In the Balance Sheet, provisions reduce assets but reserves are shown in the 'Financed By' section and have no effect on the assets.
 - Reserves can be used for bonus issue of shares while provisions cannot be used for that purpose
 - Provisions are created as a requirement of prudence concept to record expenses known to have been incurred but whose exact amount cannot be ascertained but this is not the case with reserves which are created as a means of ploughing back (retaining) profits in the business
 - Provisions are dealt with in the main Profit and Loss Account while only revenue reserves are dealt with in the Appropriation Account
 - Provisions have increases and decreases unlike reserves which do not have increases and decreases
 - IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, deals with provisions and defines them as liabilities of uncertain timing or amounts but no IAS deals specifically with reserves

b)		Minibus at Cost Account		
Nov 1	Balance b/d	{w1} 97 500	Feb 16 Minibus Disposal	21 500
May 1	Cash/ Bank [22 500 × 2]	45 000	Mar 31 Minibus Disposal	18 000
			Apr 30 Minibus Disposal	18 000
			30 Minibus Disposal	19 000
			Oct 31 Balance c/d	66 000
		<u>142 500</u>		<u>142 500</u>
Nov 1	Balance b/d	66 000		

c)		Minibus Provision for Depreciation Account		
Feb 16	Minibus Disposal [21 500 × (1 - 0.6 ²)]	13 760.00	Nov 1 Balance b/d	{w2} 75 072.00
Mar 31	Minibus Disposal [18 000 × (1 - 0.6 ⁴)]	15 667.20	Oct 31 Profit and Loss	{w3} 21 024.00
Apr 30	Minibus Disposal [18 000 × (1 - 0.6 ⁴)]	15 667.20		
30	Minibus Disposal [19 000 × (1 - 0.6 ⁴)]	16 537.60		
Oct 31	Balance c/d	<u>34 464.00</u>		
		<u>96 096.00</u>		<u>96 096.00</u>
			Nov 1 Balance b/d	34 464.00

d)		Minibus Disposals Account		
Feb 16	Minibuses	21 500.00	Feb 16 Depreciation	13 760.00
			16 Debtor (21 500 × 0.6 ² × 95%)	7 353.00
			16 Loss on disposal	387.00
		<u>21 500.00</u>		<u>21 500.00</u>
Mar 30	Minibuses	18 000.00	Mar 30 Depreciation	15 667.20
30	Profit on disposal	667.20	30 Cash/ Bank	3 000.00
		<u>18 667.20</u>		<u>18 667.20</u>
Apr 31	Minibuses	18 000.00	Apr 30 Depreciation	15 667.20
			30 Cash/ Bank	2 100.00
		<u>18 000.00</u>	30 Loss on disposal	232.80
				<u>18 000.00</u>
Apr 31	Minibuses	19 000.00	Apr 31 Depreciation	16 537.60
31	Profit on disposal	337.60	31 Cash/ Bank	2 800.00
		<u>19 337.60</u>		<u>19 337.60</u>

Workings

- Total minibuses = 18 000 × 2 + 19 000 + 21 000 + 21 500
- Aggregate depreciation = 97 500 - (18 000 × 2 + 19 000) × 0.6⁴ - (21 000 + 21 500) × 0.6²
- Year depreciation charge = (21 000 × 0.6² + 22 500 × 2) × 40%

- 2006 a)**
- To enhance internal control: by separation of duties
 - To detect frauds, embezzlements and thefts: because differences on totals are investigated, with errors being corrected and all cause of variations being identified
 - To locate the Ledger in which errors were made: by comparing totals of individual Ledgers with balances of respective control accounts and using discrepancies as indicators of errors
 - To provide figures of trade debtors and creditors faster: since control accounts are based on totals from several books of prime entry

b)		Purchases Ledger Control Account		
Apr 30	Purchases Returns	12 400	May 1 Balance b/d	43 120
30	Bank	745 980	Apr 30 Purchases	824 140
30	Discount Received	31 400		
30	Set Off	C 5 210		
30	Balance c/d	<u>72 270</u>		
		<u>867 260</u>		<u>867 260</u>
			May 1 Balance b/d	72 270

c) i)		Amended Purchases Ledger Control Account		
iv.	Set Off	C 850	Apr 30 Balance b/d	72 270
v.	Bank	1 450	i. Discount Received	1 000
Apr 30	Balance c/d	<u>73 010</u>	ii. Purchases	<u>2 040</u>
		<u>75 310</u>		<u>75 310</u>
			May 1 Balance b/d	73 010

ii) William Noel: Creditors Reconciliation Statement as at 31 April 2007	
Total as per Purchases Ledger schedule	67 660
ii. Purchases invoice omitted	2 040
iii. Purchases Ledger account undercast	100
vi. Creditor balance omitted	<u>3 210</u>
Balance as per Amended Purchases Ledger Control Account	<u>73 010</u>

- 2007 a)**
- To cross check on arithmetical accuracy
 - To detect thefts, embezzlements and frauds
 - To deter fraud, thefts and embezzlements
 - To provide figures of debtors and creditors faster

- b)**
- Cash Book
 - General Journal = Journal = Journal Proper
 - Purchases Day Book = Purchases Journal
 - Purchases Returns Book = Returns Outwards Journal

c) Sales Ledger Control Account			
Nov 1 Balance b/d	44 000	Nov 1 Balance b/d	1 800
Oct 31 Sales [53 000 × 12]	636 000	Oct 31 Sales Returns [6 400 × 12]	76 800
31 Dishonoured cheques [6 600 × 12]	79 200	31 Cash [45 200 × 12]	542 400
31 Interest on debtors [2 000 × 12]	24 000	31 Discount Allowed [6 200 × 12]	74 400
31 Balance c/d	2 000	31 Bad Debts	28 800
		31 Set Off	C 4 400
		31 Balance c/d	<u>56 600</u>
	<u>785 200</u>		<u>785 200</u>
Nov 1 Balance b/d	56 600	Nov 1 Balance b/d	2 000

- d)**
- i) Accounting policy is a set of accounting bases and concepts adopted by a firm for preparation of its financial statements
 - ii) Ordinary activities are the normal and expected day to day operations of a business entity
 - iii) Extraordinary items are those rare events which fall outside the expected daily ordinary activities and happen once without them being expected to recur
 - iv) Fundamental errors are made in prior years financial statements whose effects would render those past financial statements unreliable and thus require restatement

- 2008 a)**
- cross-check on arithmetical accuracy in the debtor and creditor books
 - detect fraud, thefts and embezzlements
 - deter fraud, thefts and embezzlements
 - ensure double-entry is completed
 - provide figures for debtors and creditors
- b)**
- Payment in advance by some customers
 - Some credit customers would have overpaid in error such that the business owes them money

- c)**
- i) Cash Book
 - ii) General Journal = Journal = Journal Proper
 - iii) - Cash Book
 - Cash Disbursements (Payments) Journal
 - iv) Purchases Day Book = Purchases Journal
 - v) Cash Book
 - vi) Purchases Returns Book = Returns Outwards Journal
 - vii) General Journal = Journal = Journal Proper

d) Sales Ledger Control Account			
Oct 1 Balance b/d	18 423	Oct 31 Bank	141 876
Oct 31 Sales	185 265	31 Bad Debts	2 054
31 Bank – Dishonoured cheques	350	31 Discount Allowed	5 812
		31 Sales Returns	2 535
		31 Set Off	C 1 046
		31 Balance c/d	<u>50 715</u>
	<u>204 038</u>		<u>204 038</u>
Nov 1 Balance b/d	50 715		

e) i)	Updated Sales Ledger Control Account			
	Dec 31 Balance b/d	61 480	iv. Sales [230 256 – 230 265]	9
	iii. Sales	<u>2 520</u>	Dec 31 Balance c/d	<u>63 991</u>
		<u>64 000</u>		<u>64 000</u>
	Jan 1 Balance b/d	63 991		

ii)	Lee Ping: Debtors Reconciliation Statement as at 31 December 2007			
	Total per list of Debtors Ledger balances			61 988
	i. Debit balance omitted			198
	ii. Debtor's account overstatement			(435)
	iii. Sales invoice omitted			2 520
	v. Bad debt written off			<u>(280)</u>
	Balance as per Updated Sales Ledger Control Account			<u>63 991</u>

- 2009 a) i)** A bad debt is an actual expense written off by debiting the Income Statement while a provision for doubtful debt is an estimated amount likely to be lost as bad debts in current debtors, the amount of which may increase or decrease to respectively decrease or increase the operating profit and the closing account balance is shown in the Balance Sheet as a deduction on trade debtors.
- ii)** Provision for bad debts is set in line with requirements of prudence concept so that the profits and the assets are not overstated and expenses without precise monetary amounts are approximated and recognised in the period to which they relate (matching concept)
- iii)**
- Age of debts
 - Disposable income reflected by nature of customer employment to determine ability to pay
 - Historical = Industrial bad debts patterns (trends)

b) i)	Provision for Doubtful Debts Account			
	Nov 1 Profit and Loss {w1}	1 530	Nov 1 Balance b/d	3 500
	Oct 31 Balance c/d [110 000 × 3%]	<u>3 300</u>	Oct 31 Profit and Loss	<u>1 330</u>
		<u>4 830</u>		<u>4 830</u>
			Nov 1 Balance b/d	3 300

ii)	Bad Debts Account			
	Nov 1 Lau Chuen	1 500	Oct 31 Profit and Loss	2 400
	Jan 31 Lee Fang [500 × (1 – 0.6)]	200		
	Apr 30 Sundry debtors	<u>700</u>		
		<u>2 400</u>		<u>2 400</u>

iii)	Bad Debts Recovered Account			
	Oct 31 Profit and Loss	1 650	Nov 30 Lau Chuen [1 500 × 0.3]	450
		<u>1 650</u>	Apr 30 Mohammed Khan	<u>1 200</u>
				<u>1 650</u>

- c)** Net profit for the year decreased by \$1 330, the equivalent of increase in provision for bad debts

Working

1.	2 000	⇒	2% of all debtors	∴ Total debtors [2 000 ÷ 2%]	100 000
	<u>1 500</u>	⇒	amount owed by Lau Chuen	Lau Chuen's bad debt written off	<u>1 500</u>
	<u>3 500</u>			Correct debtors at 1 November	<u>98 500</u>
			Correct amount of provision for doubtful debts	= 98 500 × 2%	
			Adjustment to (decrease in) provision for doubtful debts	= 3 500 – 98 500 × 2%	

2010 a) i)	Creditors Control Account			
	Dec 31 Cash	67 500	Jan 1 Balance b/d	18 000
	31 Discount Received	1 500	Dec 31 Purchases	<u>76 650</u>
	31 Purchases Returns	3 000		
	31 Set Off C	1 650		
	31 Balance c/d	<u>21 000</u>		
		<u>94 650</u>		<u>94 650</u>
	Gross Purchases =	Cash purchases + Credit purchases		
	=	4 850 + 76 650		
	=	<u>81 500</u>		

ii)		Debtors Control Account	
Jan 1 Balance b/d	19 950	Dec 31 Bank	87 000
Dec 31 Bank – Dishonoured cheque	4 875	31 Discount Allowed	1 800
31 Sales	93 000	31 Sales Returns	4 500
		31 Bad Debts	4 125
		31 Set Off	C 1 650
		31 Cash	600
		31 Balance c/d [20 400 – 2 250]	<u>18 150</u>
	<u>117 825</u>		<u>117 825</u>

iii) Tinashe: Trading Account (extract) for the year ended 31 December 2006		
Opening Stock		32 250
Add: Purchases	81 500	
Less: Purchases Returns	<u>3 000</u>	<u>78 500</u>
		110 750
Less: Drawings in kind		<u>2 100</u>
		108 650
Less: Closing Stock [27 750 + 2 250 ÷ 125%]		<u>29 550</u>
Cost of sales		<u>79 100</u>

iv) Creditors' payment period = $\frac{\text{Trade creditors} \times 365 \text{ days}}{\text{Net credit purchases}}$

= $\frac{21\,000 \times 365 \text{ days}}{76\,650 - 3\,000}$

= 104.1 days

v) Debtors payment period = $\frac{\text{Trade debtors} \times 365 \text{ days}}{\text{Net credit sales}}$

= $\frac{(20\,400 - 2\,250) \times 365 \text{ days}}{93\,000 - 4\,500}$

= 74.9 days

b) Reasons for agreement

- improves cash inflows
- low risk of default (bad debts chances are minimal)
- practical for fast moving and cheap products which can otherwise be bought on cash basis
- reduces cash discount period thereby minimizing chances of cash discounts (discount allowed)

Reasons for disagreement

- discourages low income earning customers
- impractical for slow moving goods (merchandise)
- not realistic for customers who buy in bulk
- not suitable for a highly competitive business environment

- c) i) Goods taken by the owner for private (own ≡ personal) consumption (use) are called *drawings in kind*. They are credited to Purchases Account or alternatively deducted from cost of goods sold in the Trading Account and debited to Drawings Account.
- ii) Goods stolen or damaged are an operating expense debited at cost to the Profit and Loss Account and deducted from cost of sales in the Trading Account to arrive at the correct gross profit.

2011 a) A Statement Of Affairs is a list of assets and liabilities, based on the accounting equation, used to calculate capital (or accumulated fund) at a particular date, prepared in the General Journal

b) Cash Book (Bank Account and Cash Account)

- c) i) Special (specific) donations received are credited to Donations Special Fund Account and shown in the Balance Sheet under the Financed By section
- ii) Life membership subscriptions are deferred income and treated as a long term liability in Balance Sheet with subsequent amounts transferred periodically to Income and Expenditure Account
- iii) Subscriptions in arrears are shown in the Balance Sheet as a current asset
- iv) Subscriptions in advance are a current liability in the Balance Sheet

d) i)	Highway Charity Club: Refreshments Income Statement for year ended 31 December 2002		
	Sales		30 000
	<u>Less Cost of Sales</u>		
	Opening stock	1 650	
	Add: Purchases	13 500	
		15 150	
	<u>Less: Closing stock</u>	1 200	13 950
	Gross profit		16 050
	<u>Less Operating Expenses</u>		
	Wages	900	
	Electricity	2 500	3 400
	Net operating profit		<u>12 650</u>
ii)	Subscriptions Account		
	Jan 1 Owing b/d	750	Dec 31 Cash – 2001
	Dec 31 Income and Expenditure	3 900	– 2002
	31 Prepaid c/d	600	– 2003
			Dec 31 Owing c/d
		<u>5 250</u>	1 050
	Jan 1 Owing b/d	1 050	<u>5 250</u>
			Jan 1 Prepaid b/d
			600
iii)	Highway Charity Club: Income and Expenditure Account for year ended 31 December 2002		
	<u>INCOME</u>		
	Donations received		7 500
	Refreshments net profit		12 650
	Subscriptions		3 900
			<u>24 050</u>
	<u>Less EXPENDITURE</u>		
	Typist expenses	600	
	Donations to charities	6 750	
	Stationary	300	
	Fuel cost	2 550	
	Grounds man's wages	1 200	
	Dep: Motor vehicles [75 000 × 5%]	3 750	15 150
	Surplus of income over expenditure		<u>8 900</u>
iv)	Highway Charity Club: Balance Sheet as at 31 December 2002		
	<u>Fixed Assets</u>	<u>Cost</u>	<u>Dep</u>
	Motor vehicles	<u>75 000</u>	<u>3 750</u>
	<u>Current Assets</u>		<u>Net</u>
	Stock		1 200
	Subscriptions in arrears		1 050
	Bank		19 400
			21 650
	<u>Less Current Liabilities:</u>		
	Subscriptions in advance		600
	Net current assets		<u>21 050</u>
	Total net assets		<u>92 300</u>
	<u>Financed By</u>		
	Accumulated Fund: Balance b/d [6 000 + 750 + 1 650 + 75 000]		83 400
	Add: Surplus of income over expenditure		8 900
	Balance c/d		<u>92 300</u>

- 2012 a)**
- Surplus is the excess of income over expenditure in a non-profit making organisation while profit is the reward for undertaking risk in a business concern
 - Surplus is the residue that remains after all expenditure for a particular accounting period in a non-profit making organisation has been paid whereas profit is the remainder of income after trading and operating expenses have been deducted
- b)**
- i) Cash Book (Cash Account and Bank Account)
 - ii) Capital ≡ Equity

c) Hardunby Sports and Social Club: Bar Income Statement for the year ended 31 May 2007			
Sales			58 700
<u>Less Cost of Sales</u>			
Opening stock	7 200		
Add: Purchases [6 400 – 26 500 – 3 200]	<u>23 300</u>	30 500	
<u>Less: Closing stock</u>		<u>5 400</u>	25 100
Gross profit			33 600
<u>Less Operating Expenses: Bar wages</u>			<u>17 000</u>
Net profit			<u>16 600</u>
d) Hardunby Sports and Social Club: Income and Expenditure Account for year ended 31 May 2007			
<u>INCOME</u>			
Debenture investments interest earned [10% × 4 500]			450
Subscriptions [500 – 400 – 24 000 + 650 – 700]			23 950
Annual dance	3 000		
<u>Less: Dance expenses</u>	<u>2 500</u>		500
Competition entries	1 400		
<u>Less: Competition prizes</u>	<u>950</u>		450
Pool table takings			650
Profit on lawn mower disposal [100 – 200]			100
Bar net profit			<u>16 600</u>
			42 700
<u>Less EXPENDITURE</u>			
Grounds man's wages [15 000 + 1 500]	16 500		
Maintenance	2 200		
Dep: Pool tables [3 000 × 25%]	750		
Lawn mower [(500 + 200) × 25%]	<u>175</u>		19 625
Surplus of income over expenditure			<u>23 075</u>
e) Hardunby Sports and Social Club: Balance Sheet as at 31 May 2007			
<u>Non-current Assets</u>			
	<u>Cost</u>	<u>Dep</u>	<u>NBV</u>
Buildings	40 000		40 000
Lawn mower [(500 + 200) × {1 & 25%}]	700	175	525
Pool tables	<u>3 000</u>	<u>750</u>	<u>2 250</u>
	<u>43 700</u>	<u>925</u>	42 775
10% Debenture Investments			<u>4 500</u>
			47 275
<u>Current Assets</u>			
Bar stock		5 400	
Subscriptions in arrears		700	
Debenture investments interest receivable		450	
Deposit Account		6 000	
Bank {w1}		<u>25 600</u>	
		38 150	
<u>Less Current Liabilities</u>			
Trade creditors	3 200		
Subscriptions in advance	650		
Grounds man's wages due	<u>1 500</u>	<u>5 350</u>	
Net current assets			<u>32 800</u>
Total net assets			<u>80 075</u>
<u>Financed By</u>			
Accumulated Fund: Balance b/d [(4.5 + 2.5 + 7.2 – 6.4 + 40 + 0.1 + 3 + 0.5 – 0.4)1 000]			51 000
Add: Surplus of income over expenditure			<u>23 075</u>
Balance c/d			74 075
Donation			<u>6 000</u>
			<u>80 075</u>

Working

1. Closing balance	=	Opening balance + Receipts – Payments
	=	2.5 + 3 + 58.7 + 1.4 + 6 + 24 + 0.65 – 26.5 – 17 – 0.95 – 6 – 15 – 0.5 – 2.2

2013 Havers and Cavers: Trading Account extract for the month of May 2008

Sales: Public [$\frac{1}{2} \times 34\,200 \div 60\%$]		28 500
Retailers [$\frac{1}{3} \times 34\,200 \div 75\%$]		15 200
Staff [$(1 - \frac{1}{2} - \frac{1}{3}) \times 34\,200 \div 80\%$]		<u>7 125</u>
Turnover \equiv Total sales at selling price		50 825
<u>Less Cost of Turnover</u>		
Opening stock	3 600	
<u>Add: Purchases</u>	<u>33 000</u>	
	36 600	
<u>Less: Closing stock</u>	<u>2 400</u>	34 200

- 2014 a)**
- Profit converted into fixed assets
 - Profit converted into stock
 - Profit might be there but cash spent on redemption (repayment) of capital instruments e.g. loans
 - Profit might have arisen from part part-exchange of assets which are non-cash transactions
 - Profit tied up in debtors \equiv Goods sold on credit

b) Ivanhoe: Calculation of gross profit for month ended

	30 June	31 July 2007
10% Mark-up sales [$17\,600 \times 10\% \div 110\%$]	–	1 600
20% Gross profit ratio sales [$40\% \times 80\,000 \times 150\% \times 20\%$]	–	9 600
Normal sales [$25\% \div 125\% \times \{80 \& (80 \times 150\% \times 60\% - 17.6)\}1\,000$]	<u>16 000</u>	<u>10 880</u>
Gross profit	<u>16 000</u>	<u>22 080</u>

c) Ivanhoe: Trading Account extract for the month ended

	30 June	31 July 2007
Sales [$80\,000 \times 150\%$]	80 000	120 000
<u>Less Cost of Sales</u>		
Opening stock	6 000	6 600
<u>Add: Purchases</u> {balancing figure}	<u>64 600</u>	<u>101 120</u>
	70 600	107 720
<u>Less: Closing stock</u> {missing figures}	<u>6 600</u>	<u>9 800</u>
Gross profit	<u>16 000</u>	<u>22 080</u>

2015 a) Eagon Beacon: Estimated Trading and Profit and Loss Account for year ending 30 April 2009

Sales		220 000
<u>Less Cost of Sales</u>		
Opening stock	20 000	
<u>Add: Purchases</u> [$70\% \times 220\,000$]	<u>154 000</u>	
	174 000	
<u>Less: Closing stock</u> [missing figure & $120 \div 200 \times 220\,000$]	<u>42 000</u>	<u>132 000</u>
Gross profit [$80 \div 200 \times 220\,000$]		<u>88 000</u>
<u>Less: Operating Expenses</u> [$15\% \times 220\,000$]		<u>33 000</u>
Net profit		<u>55 000</u>

- b) Return on Capital Invested (ROCI) = Net profit \div Capital Invested \times 100%**

i) 2008 ROCI	=	$46\,000 \div 400\,000 \times 100\%$
	=	<u>11.5%</u>
ii) 2009 ROCI	=	$55\,000 \div 400\,000 \times 100\%$
	=	<u>13.75%</u>

- c) i) Expected stock turnover rate = Cost of sales \div Average stock**
- | | | |
|--|-----------|--|
| | = | $132\,000 \times 2 \div (20\,000 + 42\,000)$ |
| | \approx | <u>4.26 times</u> |
- ii) Increase in net profit percentage = $[46 \div 200 - 55 \div 220] \times 100\%$**
- | | | |
|--|---|-----------|
| | = | <u>2%</u> |
|--|---|-----------|

- d)**
- Cut in selling price to fight competition
 - Expensive suppliers of merchandise
 - Government controls on retail/ selling price (selling price ceilings)
 - Increase in carriages \equiv transportation costs on merchandise

- e)**
- Asset utilisation ratios
 - Investors ratios
 - Liquidity ratios

- f) – central statistical office
 – employees
 – suppliers

2016 Ferdi Nand: Forecast Trading and Profit and Loss Account for the year ending 31 December 2008

Sales		480 000
<u>Less Cost of Sales</u>		
Opening stock	80 000	
Add: Purchases {missing figure}	<u>344 000</u>	
	424 000	
<u>Less: Closing stock [80% × 80 000 & 75% × 480 000]</u>	<u>64 000</u>	<u>360 000</u>
Gross profit [25% × 480 000]		120 000
<u>Less: Operating expenses {missing figure}</u>		<u>48 000</u>
Net profit [15% × 480 000]		<u>72 000</u>

Ferdi Nand: Forecast Balance Sheet as at 31 December 2008

	<u>Cost</u>	<u>Dep</u>	<u>Net</u>
Fixed assets [480 ÷ 2 ÷ 60% & 480 ÷ 2 × 40% ÷ 60% & 480 ÷ 2]	<u>400 000</u>	<u>160 000</u>	240 000
<u>Current Assets</u>			
Stock		64 000	
Debtors		90 000	
Bank {missing figure}		<u>6 000</u>	
	[400 000 – 480 000 ÷ 2]	160 000	
<u>Less Current liabilities:</u>			
Trade creditors {missing figure = 160 000 – 50 000}		<u>110 000</u>	
Working capital			<u>50 000</u>
Capital employed			<u>290 000</u>
<u>Financed By</u>			
Capital: Balance b/d {missing figure}			242 000
Add: Net profit		72 000	
Less: Drawings [5% × 480 000]		<u>24 000</u>	<u>48 000</u>
Balance c/d {balancing figure}			<u>290 000</u>

- 2017 a)** – Cut in selling price because of competition
 – Expensive supplies of goods
 – Increase in carriage inwards costs
 – Increase in storage (warehousing) costs
 – Low quality goods sold at a lower price
 – Price controls by the government
 – Reduction of selling price to increase sales volume

b) i) A) Purchases = $60\% \times 140\,000 + 16\,000$
 = \$100 000

B) Payments to creditors = $100\,000 \times 97\frac{1}{4}\% - 5\,000$
 = \$92 250

C) Debtors Control Account

Aug 31 Sales {ii}	28 000	Aug 31 Discount Allowed {ii}	2 100
		Bad Debts {ii}	700
		Bank {missing figure} C)	19 200
		Balance c/d	<u>6 000</u>
	<u>28 000</u>		<u>28 000</u>

ii) Sola Virtus: Projected Trading and Profit and Loss Account for year ending 31 August 2009

Sales: Cash {missing figure = 80% × 140 000}		112 000
Credit [20% × 140 000]		<u>28 000</u>
Turnover		140 000
<u>Less Cost of Sales</u>		
Purchases {missing figure = A}	100 000	
<u>Less: Closing stock [60% × 140 000]</u>	<u>16 000</u>	<u>84 000</u>
Gross profit [40% × 140 000]		56 000
Discount Received [2¾% × 100 000]		<u>2 750</u>
		<u>58 750</u>

<u>Less Operating Expenses</u>		
Sales Commission [4% × 140 000]	5 600	
Dep: Furniture [45% × 5 000]	2 250	
Discount Allowed [1½% × 140 000]	2 100	
Bad Debts [2½% × 140 000 × 20%]	700	
Wages	13 500	
Sundry Expenses	6 600	30 750
Net profit [20% × 140 000]		<u>28 000</u>

iii) **Sola Virtus: Projected Balance Sheet as at 31 August 2009**

<u>Non-current Assets</u>		<u>Cost</u>	<u>Dep</u>	<u>NBV</u>
Premises	44 000			44 000
Furniture	5 000	2 250		2 750
	<u>49 000</u>	<u>2 250</u>		46 750
<u>Current Assets</u>				
Stock		16 000		
Debtors		6 000		
Bank [(60 – 44 – 5 – 92.25 + 112 + 19.2 – 5.6 – 13.5 – 6.6 – 12)1 000]		12 250		
		34 250		
<u>Less Current Liabilities:</u>	Creditors	5 000		
Working Capital				29 250
Capital Employed				<u>76 000</u>
<u>Financed By</u>				
Capital:	Cash			60 000
	Add: Net profit	28 000		
	Less: Drawings [5 000 + 5% × 140 000]	12 000		16 000
	Balance c/d			<u>76 000</u>

2018 a) Single entry accounting is the recording (= recognition) of only one aspect in a transaction which falls short of double entry accounting whereby both the giver and the receiver are identified

b) i) Convertible loan stock is a loan to a company which upon maturity is changed into ordinary shares

ii) **Mhlanga Ltd: Trading and Profit and Loss Account for the year ended 31 March 2004**

Sales			750 000
<u>Less Cost of Sales</u>			
Opening stock [750 000 ÷ 125% × 2 ÷ 15 – 53 600]	26 400		
Add: Purchases {missing figure}	627 200		
Goods available	653 600		
Less: Closing stock [750 000 ÷ 125%]	53 600		600 000
Gross profit [25% ÷ 125% × 750 000]			150 000
Less: Operating costs [15% × 750 000]			112 500
Net profit [5% × 750 000]			<u>37 500</u>

iii) **Mhlanga Ltd: Balance Sheet as at 31 March 2004**

Fixed assets			100 000
<u>Current Assets</u>			
Stock	53 600		
Debtors	42 000		
Bank	54 000		
	149 600		
<u>Less: Current Liabilities:</u>	Creditors [(42 000 + 54 000) ÷ 1.5]	64 000	
Working Capital			85 600
Capital Employed			185 600
<u>Less: Non-current Liabilities:</u>	7% Convertible loan stock		14 000
Equity			<u>171 600</u>
<u>Financed by</u>			
Share capital: Ordinary shares of \$1 each			134 100
Reserves: Profit and Loss			37 500
Shareholders funds			<u>171 600</u>

- c) Matching concept requires revenues and expenses to be recognised in the period to which they pertain by making appropriate adjustments for amounts in arrears as well as those prepaid
- d) The closing stock of \$53 600 was deducted in the Income Statement and shown in the Balance Sheet as a current asset so that this cost will be matched with the sales revenue generated in a future period when the goods are finally sold
- e) – Enables extraction of a Trial Balance
– Facilitates preparation of accounts (summaries = histories) for each accounting aspect
– Makes it easier to trace movement of amounts between accounts
– Simplifies preparation of final statements

2019 a)	Credit sales [1 760 – 110 000 – 720 – 5 500]	114 460
	Cash sales – Banked	18 150
	– Wages	5 280
	– Uncleared deposit	<u>350</u>

Total sales = Turnover 138 240

Credit purchases = 10 095 – 82 400 – 1 500 – 6 400 = 80 205

b) Jesame: Trading and Profit and Loss Account for the year ended 30 April 2007

Sales		138 240
<u>Less Cost of Sales</u>		
Opening stock	3 520	
Add: Purchases	<u>80 205</u>	
	83 725	
<u>Less: Closing stock</u>	<u>3 800</u>	<u>79 925</u>
Gross profit		58 315
<u>Less Operating Expenses</u>		
Rent [215 + 2 640 – (215 + 10)]	2 630	
Advertising [880 – 3 520 – 880]	3 520	
General Expenses	8 230	
Bank Charges	640	
Wages	5 280	
Dep: Machinery [(70 + 5 – 45)1 000]	<u>10 000</u>	<u>30 300</u>
Net profit		<u>28 015</u>

c) Jesame: Balance Sheet as at 30 April 2007

	<u>Cost</u>	<u>Dep</u>	<u>Net</u>
<u>Fixed Assets</u>			
Machinery [(70 + 5 & 70 + 5 – 45)1 000]	<u>75 000</u>	<u>30 000</u>	45 000
<u>Current Assets</u>			
Stock		3 800	
Debtors		5 500	
Rent [215 + 10]		225	
Bank/ Cash {w1}		<u>23 290</u>	
		32 815	
<u>Less: Current Liabilities</u>			
Advertising owing	880		
Creditors	<u>6 400</u>	<u>7 280</u>	
Working Capital			<u>25 535</u>
Capital Employed			<u>70 535</u>
<u>Financed By</u>			
Capital: Balance b/d			50 520
Add: Net profit		28 015	
Less: Drawings – Bank		<u>8 000</u>	<u>20 015</u>
Balance c/d			<u>70 535</u>

Workings

1. Bank/ Cash = 6 + 110 + 18.15 – 82.4 – 2.64 – 8.23 – 3.52 – 8 – 0.64 – 1.5 + 0.35 + 0.72 – 5

2020 a) Dzungu: Trading and Profit and Loss Account for the year ended 31 December 2007

Sales	1 280 000
<u>Less: Returns Inwards</u>	<u>24 000</u>
Turnover [942 000 ÷ 75%]	1 256 000

<u>Less Cost of Sales</u>		
Opening stock	81 000	
Add: Purchases [45 540 – 55 260 – 939 240 – 30 000 – 21 840]	1 000 800	
	1 081 800	
<u>Less: Returns Outwards</u>	30 000	
	1 051 800	
<u>Less: Closing stock</u>	109 800	942 000
Gross profit [25% ÷ 75% × 942 000]		314 000
<u>Less Operating Expenses</u>		
Rent and rates [2.88 – 3.87 – 16.2 + 14.76 + 90 000]	87 570	
Loss on machinery disposal [36 000 – 21 600]	14 400	
Dep: Machinery [15% × (21 600 + 167 400)]	28 350	
Wages	95 940	
Sundry Expenses	39 870	
Discount Allowed	19 480	285 610
Net profit		<u>28 390</u>

- b) Accruals concept is an accounting principle used to treat amounts which are in arrears. Owing amounts at the beginning of an accounting period (e.g. accrued rates \$16 200) are deducted in the current period but outstanding amounts at the end of a financial period are matched (added) to the current reporting period (e.g. accrued rates \$14 760).

The underlying idea is to match the owing (= outstanding) amounts with the period to which they relate or were incurred, not necessarily (as opposed) with the period when they are actually paid or received (cash flows = cash basis accounting).

The accruals concept helps report a more objective profit or loss by taking into account all period's expenses and revenues as long as they pertain to that period.

- c) **Dzungu: Balance Sheet as at 31 December 2007**

	<u>Cost</u>	<u>Dep</u>	<u>Net</u>
<u>Fixed Assets</u>			
Machinery [(21 600 + 167 400) × {1 & 15% & 85%}]	<u>189 000</u>	<u>28 350</u>	160 650
<u>Current Assets</u>			
Stock		109 800	
Debtors		18 900	
Rent prepaid		3 870	
Cash		<u>8 370</u>	
		140 940	
<u>Less Current Liabilities</u>			
Creditors	55 260		
Rates accrued	<u>14 760</u>	<u>70 020</u>	
Working Capital			<u>70 920</u>
Capital Employed			<u>231 570</u>
<u>Financed by</u>			
Capital: Balance b/d [36 + 81 + 14.22 – 45.54 – 16.2 + 2.88 + 5.94]			78 300
Add: Cash			252 000
Net profit			<u>28 390</u>
			358 690
<u>Less: Drawings {d}</u>			<u>127 120</u>
Balance c/d			<u>231 570</u>

- d)

Cash Account			
Jan 1 Balance b/d	5 940	Dec 31 Machinery	167 400
Dec 31 Capital	252 000	Creditors	939 240
Debtors {w1}	1 210 000	Rent and Rates	90 000
		Wages	95 940
		Sundry Expenses	39 870
		Drawings {missing figure}	127 120
		Balance b/d	<u>8 370</u>
	<u>1 467 940</u>		<u>1 467 940</u>
Jan 1 Balance b/d	8 370		

Working

1. Receipts from debtors = {14.22 – 18.9 – 19.48 – 24 – 21.84 + 1 280}1 000

2021 a) A contingent is a potential. It is anything that is likely to happen depending on whether or not a certain future event has occurred or not. (IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*)

A contingent asset is a potential possession to business which may result in future economic benefits flowing into the business. The ownership of such assets depends on occurrence or non-occurrence of a future event. Such assets cannot be recognised in the books

A contingent liability is a potential obligation to pay economic benefits to a party if certain events happen in the future. The probability and possibility of the event occurring are weighed to decide on whether or not to make a disclosure by way of a note to alert/ inform financial statement users

b) An adjusting event is a post-Balance Sheet event that requires amendments to be made to the unpublished financial statements so that they present a true and fair view/ picture of the financial standing of a business at the Balance Sheet date. The event should have been recorded and existed at Balance Sheet date but was not recognised nor recorded

A non-adjusting event is a post-Balance Sheet event which must be disclosed by way of note to all financial statements users as they affect decision making. The event must be of material information which will assist financial statement users to arrive at better and informed decisions

2022 a) Achmed: Calculation of closing stock as at 31 March 2007

Closing stock as at 7 April 2007	92 050
i. Cost of goods sent on customer's approval [1 040 × 75%]	780
ii. Purchases	(9 400)
iii. Cost of special order goods [6 000 × 90%]	5 400
Cost of damaged goods	2 500
Cost of normal sales [(18 760 – 6 000 – 160 – 2 800) × 75%]	7 350
Closing stock as at 31 March 2007	<u>98 680</u>

b) i) *Cost* is the actual amount spent on procuring goods for resale as well as all other amounts spent on bringing those goods to their saleable state such as carriage inwards, customs duty, etc. Cost can also refer to production (manufacturing) cost.

ii) *Net realisable value* is final proceeds of selling goods calculated as the difference between the selling price of goods and their selling expenses which include value of necessary repairs needed to sell the goods

iii) *Cost of purchase* is the actual amount that is payable when acquiring the goods for resale which is shown on the invoice for a credit purchase or on the receipt if it is a cash purchase

iv) *Cost of conversion* refers to all amounts incurred at the factory in the process of transforming the input materials to saleable output comprising direct labour and factory overheads but excluding raw materials (i.e. production cost less cost of raw materials consumed)

2023 a) Kuda: Computation of closing stock as at 30 June 2007

Closing stock as at 15 July 2007	25 600
i. Purchases	(12 500)
ii. Purchases returns	3 900
iii. Cost of damaged goods	4 600
Cost of slow moving goods [15 750 × 40% ÷ 120%]	5 250
Cost of normal sales [(15 750 × 60% – 5 200) ÷ 125%]	3 400
iv. Cost of sales returns [3 500 ÷ 125%]	(2 800)
v. Drawing is kind	5 200
v. Damaged goods overstatement [6 800 – 5 600]	(1 200)
Closing stock as at 30 June 2007	<u>31 450</u>

b) – To ensure a correct computation for the value of cost of sales and gross profit
– To produce reliable final statements which fosters an accurate analysis of financial performance

c) Prudence concept forbids overstatement of assets as well as profits to encourage capital conservatism. If stock is valued at the lower (≡ smaller) value between cost and net realisable value, current asset stock is understated and the gross profit is equally understated since cost of goods sold gets overstated. Potential loss in sales is recognised in the period incurred when net realisable value is used.

2024 Mustapha Deoff: Determination of closing stock as at 31 October

Closing stock as at 9 November		24 500
i. Cost of sales	[8 340 ÷ 125%]	6 672
ii. Purchases at cost price		(7 950)
iii. Returns outwards at cost price		80
iv. Cost of returns inwards	[110 ÷ 125%]	(88)
v. Drawings in kind		200
vi. Cost of goods awaiting collection	[500 ÷ 125%]	(400)
vii. Goods received on sale or return basis		(240)
viii. Damaged goods overstatement	[650 – 400]	<u>(250)</u>
Closing stock as at 31 October		<u>22 524</u>

- 2025 a)**
- Direct costs become part of the final product e.g. raw materials make up product components unlike factory overheads e.g. rent which cannot be traced to the final product
 - Direct costs are variable costs which respond in direct proportion to the level of activity e.g. direct wages per unit while factory overheads are not linked to level of activity e.g. supervisors' salaries
 - Direct costs are part of prime cost e.g. royalties and production cost but factory costs are only part of production cost e.g. factory rent
 - Direct costs are product costs while fixed costs are period costs which are incurred regardless of the level of activity
- b)**
- Employment of highly skilled employees who are expensive to pay
 - Employment of poorly skilled personnel leading to wastages and work-redoes
 - Production at uneconomic levels i.e. diseconomies of scale
 - Unfair apportionment (assignment) of common (shared) costs.
 - Usage of expensive raw materials
 - Usage of poor and outdated technologies which results in wastages and work-redoes

c) i) Siyatotoba Ltd: Manufacturing Account for the year ended 31 December 2003Raw Materials

Opening stock		10 000
Purchases	150 000	
Add: Carriage inwards	<u>6 000</u>	<u>156 000</u>
Raw materials available		<u>166 000</u>
Less: Closing stock		<u>20 000</u>
Cost of raw materials used		<u>146 000</u>
Productive wages		<u>16 000</u>
Prime cost		<u>162 000</u>

Add Factory overheads

Fuel and Light	[(14 + 6)1 000 × 60%]	12 000	
Rent and Rates	[(16 – 2)1 000 × 70%]	9 800	
Repairs to plant and machinery		3 000	
Non- productive wages	[30 000 – 16 000]	14 000	
Dep: Plant and machinery	[257 000 × 10%]	<u>25 700</u>	<u>64 500</u>

Work in progress

Opening stock	8 000	
Less: Closing stock	<u>12 000</u>	<u>(4 000)</u>
Production Cost		<u>222 500</u>
Add: Factory profit {missing figure}		<u>77 500</u>
Market value of finished goods		<u>300 000</u>

ii) Siyatotoba Ltd: Trading and Profit and Loss Account for the year ended 31 December 2003

Sales		492 000
Less: Returns inwards		<u>4 000</u>
Turnover		<u>488 000</u>
Less Cost of Turnover		
Opening stock	7 000	
Add: Market value of finished goods	<u>300 000</u>	
		<u>307 000</u>
Less: Closing stock	<u>18 000</u>	<u>289 000</u>
Gross profit		<u>199 000</u>

<u>Less Operating Expenses</u>		
Fuel and Light [(14 + 6)1 000 × 40%]	8 000	
Salaries administration	11 000	
Rent and Rates [(16 – 2)1 000 × 30%]	4 200	
General administration expenses	15 000	
Salesmen's salaries	<u>9 000</u>	<u>47 200</u>
Operating profit		151 800
<u>Add: Factory profit</u>	<u>77 500</u>	
<u>Less: Increase in provision for unrealised profit [18 000 ÷ 300 000 × 77 500]</u>	<u>4 650</u>	<u>72 850</u>
Overall profit		<u>224 650</u>

iii) **Siyatotoba Ltd: Balance Sheet as at 31 December 2003**

<u>Fixed Assets</u>	<u>Cost</u>	<u>Dep</u>	<u>Net</u>
Freehold premises	400 000		400 000
Plant and machinery	<u>257 000</u>	<u>25 700</u>	<u>231 300</u>
	<u>657 000</u>	<u>25 700</u>	<u>631 300</u>
<u>Current Assets</u>			
Stock: Raw materials		20 000	
Work in progress		12 000	
Finished goods	18 000		
<u>Less: Provision for unrealised profit [77 500 × 18 ÷ 300]</u>	<u>4 650</u>	13 350	
Debtors		20 000	
Rent and Rates prepaid		2 000	
Cash		<u>13 000</u>	
		80 350	
<u>Less Current Liabilities</u>			
Sundry creditors	31 000		
Fuel and Light owing	<u>6 000</u>	<u>37 000</u>	
Working Capital			<u>43 350</u>
Capital Employed			<u>674 650</u>
<u>Financed By: Share capital</u>			<u>450 000</u>
Profit and Loss Account			<u>224 650</u>
Shareholders funds			<u>674 650</u>

2026 a) Laurel and Hardy: Manufacturing and Trading and Profit and Loss and Appropriation Account for the year ended 30 June 2007

Raw materials:	Opening stock		86 160
	<u>Add: Purchases</u>		<u>744 960</u>
	Carriages Inwards		<u>29 280</u>
			860 400
<u>Less: Closing stock</u>			<u>70 800</u>
Cost of raw materials consumed			789 600
<u>Add: Direct Labour [584 640 + 11 040]</u>			<u>595 680</u>
Prime Cost			1 385 280
<u>Add Factory Overheads</u>			
Indirect Labour [250 800 + 8 160]	258 960		
Indirect Materials	51 120		
Factory maintenance	34 080		
Dep: Plant and machinery [408 000 × 25%]	<u>102 000</u>		<u>446 160</u>
<u>Work In Process</u>			
Opening stock	30 240		
<u>Less: Closing stock</u>	<u>37 680</u>		<u>(7 440)</u>
Production Cost	[100%]		1 824 000
<u>Add: Factory profit</u>	[10% × 1 824 000]		<u>182 400</u>
Market value of finished goods	[110% × 1 824 000]		<u>2 006 400</u>
Sales			3 052 800
<u>Less Cost of Sales</u>			
Opening stock	117 600		
<u>Add: Market value of finished goods</u>	<u>2 006 400</u>		<u>2 124 000</u>

Less: Closing stock		<u>108 000</u>	2 016 000
Gross profit			1 036 800
<u>Less Operating Expenses</u>			
Carriage Outwards		18 720	
Administrative expenses [291 600 – 12 720]		278 880	
Selling expenses		201 600	
Increase in provision for doubtful debts [181 200 × 11%]		19 932	
Interest on loan: Laurel [5% × 120 000]		<u>6 000</u>	525 132
Operating profit			511 668
<u>Add: Factory profit</u>			182 400
Decrease in provision for unrealised profit [11 760 – 108 000 × 10% ÷ 110%]			<u>1 942</u>
Overall net profit			696 010
<u>Add: Interest on drawings:</u>	Laurel	670	
	Hardy	<u>1 020</u>	1 690
			<u>697 700</u>
<u>Less: Appropriations</u>			
Salary: Hardy		23 000	
Interest on capital: Laurel [8% × 200 000]		16 000	
	Hardy [8% × 280 000]	<u>22 400</u>	61 400
Residue of profits			636 300
<u>Less: Share of profit:</u>	Laurel [3 ÷ 5 × 636 300]	381 780	
	Hardy [2 ÷ 5 × 636 300]	<u>254 520</u>	<u>636 300</u>

b) Laurel and Hardy: Balance Sheet as at 30 June 2007

	<u>Cost</u>	<u>Dep</u>	<u>Net</u>
<u>Fixed Assets</u>			
Premises	770 000		770 000
Plant and machinery	<u>500 000</u>	<u>194 000</u>	<u>306 000</u>
	<u>1 270 000</u>	<u>194 000</u>	1 076 000
<u>Current Assets</u>			
Stock: Direct materials		70 800	
Work in process		37 680	
Finished goods	108 000		
Less: Prov for unrealised profit [10% ÷ 110% × 108 000]	<u>9 818</u>	98 182	
Debtors	181 200		
Less: Provision for doubtful debts [11% × 181 200]	<u>19 932</u>	161 268	
Administrative expensive expenses		12 720	
Bank		<u>72 720</u>	
		453 370	
<u>Less Current Liabilities</u>			
Creditors	149 280		
Direct labour outstanding	11 040		
Indirect labour outstanding	<u>8 160</u>	<u>168 480</u>	
Working capital			<u>284 890</u>
Capital employed			1 360 890
<u>Less Long-term Liabilities:</u> 5% Loan: Laurel			<u>120 000</u>
Net worth			<u>1 240 890</u>
<u>Financed By</u>			
Capital: Laurel		200 000	
		<u>280 000</u>	480 000
<u>Current Accounts</u>	<i>Laurel</i>	<i>Hardy</i>	
Balance b/d	61 680	48 000	
Loan interest	6 000		
Drawings	(23 400)	(27 400)	
Salary		23 000	
Interest on capital	16 000	22 400	
Share of profit	381 780	254 520	
Interest on drawings	(670)	(1 020)	
Balance c/d	<u>441 390</u>	<u>319 500</u>	<u>760 890</u>
			<u>1 240 890</u>

- c) i) Interest on loan is debited to the Profit and Loss Account and credited to the Current Account. The interest rate of 5% per annum is used when the partnership deed is silent or where no partnership agreement is in existence.
- ii) – created a provision for doubtful debts of 11% to record expenses as soon as they arose
– depreciated plant and machinery by 25% on carrying amount (net book value) to prevent asset overstatement
– subtracted provision for unrealised profit from closing stock of finished goods to record stock at the lower of production cost and net realisable value
- iii) *The following are absent (false) for merchandiser but present for manufacturer:*
– adjustments for factory profit or loss
– maintenance of a Provision for Unrealised Profit Account
– maintenance of the Work-in-Progress (Process) Stock Account
– plant asset kept and shown in Balance Sheet
– preparation of the Manufacturing Account

2027 a) i) Tatenda Ltd: Manufacturing Account for the year ended 30 June 2007

<u>Raw Materials</u>		
Opening stock		44 000
Add: Purchases		<u>192 000</u>
Raw materials available for production		236 000
<u>Less: Closing stock</u>		<u>20 000</u>
Cost of raw materials consumed		216 000
Add: Direct labour		<u>208 000</u>
Prime Cost		424 000
<u>Add Factory Overheads</u>		
Dep: Premises [5% × ¼ × 120 000]	1 500	
Plant and machinery [10% × 75 000]	7 500	
Motor vehicles [25% × ½ × 56 000]	7 000	
Manufacturing overhead: Variable	118 000	
Fixed	<u>78 000</u>	
Production Cost		636 000
Add: Factory Profit [20% × 636 000]		<u>127 200</u>
Market Value of Finished Goods [120% × 636 000]		<u>763 200</u>

ii) Tatenda Ltd: Trading and Profit and Loss Account for the year ended 30 June 2007

Sales		800 000
<u>Less Cost of Sales</u>		
Opening stock	36 000	
Add: Market value of finished goods	<u>763 200</u>	
Goods available for resale	799 200	
<u>Less: Closing stock</u>	<u>48 000</u>	<u>751 200</u>
Gross Profit		48 800
<u>Less Operating Expenses</u>		
Administrative overheads	92 000	
Selling and Distribution expenses	68 000	
Dep: Premises [5% × ¾ × 120 000]	4 500	
Motor vehicles [25% × ½ × 56 000]	7 000	
Increase in provision for bad debts [5% × 26 000]	<u>1 300</u>	<u>172 800</u>
Operating Loss		(124 000)
Add: Factory Profit [20% × 636 000]		<u>127 200</u>
		3 200
<u>Less: Increase in provision for unrealised profit [127 200 ÷ 763 200 × 48 000]</u>		<u>8 000</u>
Overall net loss		(4 800)
<u>Less Appropriations</u>		
Proposed ordinary dividend [0.1 × 100 000 ÷ 0.5]	20 000	
General Reserve	<u>15 000</u>	<u>35 000</u>
Retained loss for the year		(39 800)
Add: Retained Earnings b/d		<u>45 000</u>
Retained Earnings c/d		<u>5 200</u>

iii) **Tatenda Ltd: Balance Sheet as at 30 June 2007**

	Cost	Dep	NBV
<u>Non-current Assets</u>			
Premises	120 000		120 000
Plant and machinery	75 000	33 500	41 500
Motor vehicles	56 000	34 000	22 000
	<u>251 000</u>	<u>67 500</u>	183 500
<u>Current Assets</u>			
Stock: Raw materials		20 000	
Finished goods	48 000		
Less: Provision for unrealised profit [20% ÷ 120% × 48 000]	<u>8 000</u>	40 000	
Debtors	26 000		
Less: Provision for bad debts [26 000 × {5% & 95%}]	<u>1 300</u>	24 700	
Bank		<u>14 000</u>	
		98 700	
<u>Less Current Liabilities</u>			
Creditors	12 000		
Proposed ordinary dividend [0.1 × 100 000 ÷ 0.5]	<u>20 000</u>	<u>32 000</u>	
Working Capital			66 700
Capital Employed			250 200
<u>Less Non-current Liabilities</u>			
10% Loan Stock			<u>20 000</u>
Shareholders funds			<u>230 200</u>
<u>Financed By</u>			
Share Capital: Ordinary share of 0.50 each			100 000
Reserves: Share Premium			40 000
Revaluation [64 000 + 5% × 120 000]			70 000
General Reserve			15 000
Retained Earnings			<u>5 200</u>
Equity			<u>230 200</u>

- b) – To prevent overstatement of the asset closing stock i.e. prudence concept application
– To recognise (= match) the profit in the period in which it is earned i.e. realisation concept
– To report a reliable (= understated) profit after making adjustments for increase or decrease in the provision for unrealised profit i.e. matching concept application

- 2028 a) – amount of salaries to partners
– duties of partners
– interest rates on capitals
– interest rates on drawings
– interest rates on loan from partners
– partners profit and loss sharing ratios

- b) *Additional capital:* business ownership remains with current partners but this places pressure on partners to raise more private funds
Admission of a new partner: may bring in the new equipment needed but results in profits being shared to many people
Hire purchase: allows payments to be done through instalments but ownership will be transferred to the buyer upon payment of final instalment
Leasing: provides the equipment on rental basis but lessor retains possession of the equipment at the end of the lease period
Obtaining a bank loan: which is redeemable once cash is available but requires collateral

- 2029 a) – interest rate on loans provided by partners is 5% per annum
– no interest allowable on partners' capital
– profits and losses to be shared equally

b) **Dian and Amos: Appropriation Account for the year ended 31 October 2007**

Net profit b/d		56 000
Add: Interest on drawings: Dian [(4 000 + 3 500) × 4% ÷ 2]	150	
Amos [3 000 × 2% + 3 500 × 2%]	<u>130</u>	<u>280</u>
		56 280

<u>Less Appropriations</u>			
Interest on capital:	Dian [40 000 × 5%]	2 000	
	Amos [60 000 × 5%]	<u>3 000</u>	5 000
Salary:	Dian		<u>10 000</u>
	Profit available for sharing		41 280
<u>Less:</u>	Share of profit:	Dian [41 280 × 40 000 ÷ (40 000 + 60 000)]	16 512
		Amos [41 280 × 60 000 ÷ 100 000]	<u>24 768</u>
			<u>41 280</u>

c)			
Revaluation Account			
Nov 1 Fittings [12 000 – 10 000]	2 000	Nov 1 Buildings [41 000 – 30 000]	11 000
1 Capital:	Dian	1 Stock [10 000 – 9 000]	1 000
	Amos		
	<u>6 000</u>		
	<u>12 000</u>		<u>12 000</u>

2030 a)			
Capital Account			
May 1 Goodwill {w1}	<i>Annie</i>	<i>Fanny</i>	
	45000	15000	
	<u>120 000</u>	<u>30 000</u>	
			<i>Anne</i>
			<i>Fanny</i>
		May 1 Balance b/d	80 000
		1 Goodwill	<u>40 000</u>
			<u>120 000</u>
		May 1 Balance b/d	75 000
			<u>15 000</u>

Working

1. Goodwill = (40 000 + 20 000) × [¾ & ¼]

b) Annie and Fanny: Profit and Loss Appropriation Account for the year ended 30 April 2000			
Net profit b/d	[85 000 + 500]		85 500
<u>Add:</u>	Interest on drawings: Annie [5% × 10 500]	525	
	Fanny [5% × (9 000 + 500)]	<u>475</u>	<u>1 000</u>
			86 500

<u>Less Appropriations</u>			
Salary:	Fanny		10 000
Interest on capital:	Annie [((120 – (40 + 20))1 000 × ¾) × 10%]	7 500	
	Fanny [((30 – (40 + 20))1 000 × ¼) × 10%]	<u>1 500</u>	<u>9 000</u>
			<u>19 000</u>
Residual profits			67 500
<u>Less:</u>	Share of residual profits:	Annie [67 500 × ¾]	50 625
		Fanny [67 500 × ¼]	<u>16 875</u>
			<u>67 000</u>

c)			
Current Account			
Apr 30 Drawings: Cash	<i>Annie</i>	<i>Fanny</i>	
	10 500	9 000	
	In kind	500	
30 Interest on drawings	525	475	
30 Balance c/d	<u>47 100</u>	<u>18 400</u>	
	<u>58 125</u>	<u>28 375</u>	
			<i>Annie</i>
			<i>Fanny</i>
		Apr 30 Salary	10 000
		30 Interest on capital	7 500
		30 Share of profit	50 625
			<u>16 875</u>
			<u>58 125</u>
		May 1 Balance b/d	47 100
			<u>18 400</u>

- d) – to allow or charge interest on Current Accounts
 – to preserve profit and loss sharing ratio which is based on fixed Capital Account balances

- 2031 a)**
- Amounts of capitals to be contributed
 - Circumstances (≡ conditions) for termination of partnership
 - Duties of each partner
 - Guaranteed minimum shares of profits
 - Interests chargeable and allowable on drawings, current accounts, capitals, loans etc
 - Procedures for settling disputes
 - Profit and loss sharing ratios
 - Salaries payable to partners per annum

b) i)			
Capital Account			
Jan 1 Current Account	<i>Rudo</i>	<i>Chipo</i>	
1 Cash/ Bank		600	
1 Balance c/d	<u>58 000</u>	<u>47 400</u>	
	<u>58 000</u>	<u>48 000</u>	
			<i>Rudo</i>
			<i>Chipo</i>
		Jan 1 Balance b/d	40 000
		1 Goodwill {w1}	12 000
		1 Revaluation {w2}	<u>6 000</u>
			<u>58 000</u>
			<u>48 000</u>

	<i>Rudo</i>		<i>Rudo</i>
Jan 1 Goodwill [30 000 ÷ 3]	10 000	Jan 1 Balance b/d	58 000
1 Balance c/d	<u>48 000</u>		
	<u>58 000</u>		<u>58 000</u>
		Jan 1 Balance b/d	48 000

Capital Account

	<i>Tsitsi</i>	<i>Ngoni</i>		<i>Tsitsi</i>	<i>Ngoni</i>
Jan 1 Balance c/d	29 000		Jan 1 Balance b/d	20 000	
	<u>29 000</u>		1 Goodwill {w1}	6 000	
Jan 1 Goodwill[30 000 ÷ 3]	10 000	10 000	1 Revaluation {w2}	<u>3 000</u>	
1 Balance c/d	<u>19 000</u>	<u>18 000</u>	Jan 1 Balance b/d	29 000	
	<u>29 000</u>	<u>28 000</u>	1 Cash		28 000
				<u>29 000</u>	<u>28 000</u>
			Jan 1 Balance b/d	19 000	18 000

Workings

- Goodwill Account opening = $30\,000 \div (2 \times 2 + 1) \times [2 \& 2 \& 1]$
- Revaluation = $\{100 - 118 + 12 - 10 + 140 - 141 + 40 \times 5\} 1\,000 \div (2 + 2 + 1) \times [2 \& 2 \& 1]$

ii) Rudo, Tsitsi and Ngoni: Profit and Loss Appropriation Account for year ended 31 December 2003

Net profit b/d			72 700
Add: Interest on drawings: Rudo [5% × 16 000]		800	
Tsitsi [5% × 12 000]		600	
Ngoni [5% × 8 000]		<u>400</u>	<u>1 800</u>
			74 500
<u>Less Appropriations</u>			
Interest on Capital: Rudo [48 000 × 10%]	4 800		
Tsitsi [19 000 × 10%]	1 900		
Ngoni [18 000 × 10%]	<u>1 800</u>	8 500	
Salary: Rudo		<u>3 000</u>	<u>11 500</u>
Profit available for division			<u>63 000</u>
Division of profit:			
Rudo [63 000 ÷ 3]			21 000
Tsitsi [63 000 ÷ 3]			21 000
Ngoni [63 000 ÷ 3]			<u>21 000</u>
			<u>63 000</u>

iii)**Current Accounts**

	<i>Rudo</i>	<i>Tsitsi</i>	<i>Ngoni</i>		<i>Rudo</i>	<i>Tsitsi</i>	<i>Ngoni</i>
Dec 31 Drawings	16 000	12 000	8 000	Jan 1 Balance b/d	2 400	1 800	
31 Int. on draw	800	600	400	Dec 31 Int. on Cap	4 800	1 900	1 800
31 Balance c/d	14 400	12 100	14 400	31 Salary	3 000		
	<u>31 200</u>	<u>24 700</u>	<u>22 800</u>	31 Profit share	<u>21 000</u>	<u>21 000</u>	<u>21 000</u>
					<u>31 200</u>	<u>24 700</u>	<u>22 800</u>
				Jan 1 Balance c/d	14 400	12 100	14 400

2032 a)**Capital Account**

	<i>Wilson</i>	<i>Keppel</i>	<i>Betty</i>		<i>Wilson</i>	<i>Keppel</i>	<i>Betty</i>
2005				2005			
May 1 Cash		42 000		May 1 Balanc b/d	40 000	30 000	15 000
1 Balance c/d	52 000		27 000	1 Goodwill	8 000	8 000	8 000
	<u>52 000</u>	<u>42 000</u>	<u>27 000</u>	1 Revaluation	<u>4 000</u>	<u>4 000</u>	<u>4 000</u>
May 1 Goodwill	12 000		12 000	May 1 Balance b/d	52 000		27 000
Apr 30 Drawings	46 000		45 000	Apr 30 Profit share	60 000		60 000
30 Balance c/d	<u>54 000</u>		<u>30 000</u>		<u>112 000</u>		<u>87 000</u>
	<u>112 000</u>		<u>87 000</u>	May 1 Balance b/d	54 000		30 000

b) i)		Revaluation Account	
Nov 1 Plant and Machinery [35 – 32]	3 000	Nov 1 Land and Buildings [290 – 250]	40 000
1 Motor Vehicle [40 – 36]	4 000		
1 Stock [70 – 67.99]	2 010		
1 Debtors [84 – 81]	3 000		
1 Prov for bad debts [81 × 3%]	2 430		
1 Capital: Box [25 560 × 3 ÷ 6]	12 780		
Cox [25 560 × 2 ÷ 6]	8 520		
Gilbert [25 560 ÷ 6]	4 260		
	<u>40 000</u>		<u>40 000</u>

ii)		Capital Account					
Nov 1 Cash/ Bank	Box	Cox	Gilbert	Nov 1 Balance b/d	Box	Cox	Gilbert
1 Loan			20 000	1 Goodwill {w1}	18 000	119 600	137 100
1 Goodwill {w2}	18 000	18 000	127 360	1 Revaluation	12 780	8 520	6 000
1 Balance c/d	<u>217 280</u>	<u>122 120</u>					4 260
	<u>235 280</u>	<u>140 120</u>	<u>147 360</u>		<u>235 280</u>	<u>140 120</u>	<u>147 360</u>
				Nov 1 Balance b/d	217 280	122 120	

Workings

- Goodwill Account opening = $36\,000 \div (3 + 2 + 1) \times [3 \& 2 \& 1]$
- Goodwill Account closure (the new partnership silent on profit sharing ratio) = $36\,000 \div 2$

c) Box and Cox: Balance Sheet as at 1 November 2007

<u>Fixed Assets</u>			
Land and Buildings			290 000
Plant and Machinery			32 000
Motor Vehicles			<u>36 000</u>
			358 000
<u>Current Assets</u>			
Stock		67 990	
Debtors	81 000		
Less: Provision for bad debts	<u>2 430</u>	78 570	
Bank and Cash [43 500 – 20 000 – 10 000]		<u>13 500</u>	
		160 060	
<u>Less Current Liabilities</u>			
Trade creditors		<u>51 300</u>	
Net current assets			<u>108 760</u>
Total net assets			466 760
<u>Less Long-term Liabilities:</u> Loan – Gilbert			<u>127 360</u>
Net worth			<u>339 400</u>
<u>Financed by</u>			
Capital: Box			217 280
Cox			<u>122 120</u>
			<u>339 400</u>

2035 a)

		Revaluation Account	
Oct 31 Machinery [60 000 – 50 000]	10 000	Oct 31 Premises [150 000 – 120 000]	30 000
31 Stock	1 200	31 Prov for bad debts [360 – 260]	100
31 Capital: Chan [18 900 × 2 ÷ 3]	12 600		
Tan [18 900 ÷ 4]	4 725		
Eric [18 900 ÷ 12]	<u>1 575</u>		
	<u>30 100</u>		<u>30 100</u>

b)

		Capital Account					
Oct 31 Loan	Chan	Tan	Eric	Oct 31 Balance b/d	Chan	Tan	Eric
31 Machinery	177 600			31 Loan	144 000	54 000	18 000
31 Balance c/d	20 000	70 725	23 575	31 Revaluation	9 000	4 725	1 575
				31 Goodwill {w1}	12 600	4 725	1 575
					<u>32 000</u>	<u>12 000</u>	<u>4 000</u>
	<u>197 600</u>	<u>70 725</u>	<u>23 575</u>		<u>197 600</u>	<u>70 725</u>	<u>23 575</u>

	Tan	Eric		Tan	Eric
Nov 1 Goodwill {w2}	36 000	12 000	Nov 1 Balance b/d	70 725	23 575
1 Balance c/d	34 725	11 575			
	<u>70 725</u>	<u>23 575</u>	Nov 1 Balance b/d	<u>70 725</u>	<u>23 575</u>
				34 725	11 575

Workings

- Goodwill Account creation = $48\,000 \times [\frac{2}{3} \& \frac{1}{4} \& \frac{1}{12}]$
- Goodwill Account closure = $48\,000 \times [\frac{3}{4} \& \frac{1}{4}]$

c) Tan and Eric: Balance Sheet as at 1 November 2007Non-current Assets

Premises		150 000	
Machinery [50 000 – 20 000]		30 000	
Motor Vehicle		<u>9 000</u>	189 000

Current Assets

Stock [14 200 – 1 200]		13 000	
Debtors	18 000		
Less: Provision for bad debts	<u>260</u>	17 740	
Bank		<u>16 160</u>	
		46 900	
		<u>12 000</u>	

Less Current Liabilities: Creditors

Net current assets			<u>34 900</u>
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Total net assets			223 900
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<u>Less Non-current Liabilities: Loan – Chan</u>			<u>177 600</u>
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Equity			<u>46 300</u>
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Financed By

Capital:	Tan	34 725	
	Eric	<u>11 575</u>	<u>46 300</u>

- d) i) IFRS 3, *Business Combinations*, goodwill is defined as the difference between the purchase consideration (market value = purchase price) and the fair value of the net separable assets being acquired. When a business is acquired, such goodwill is purchased goodwill in the hands = books of the buyer = acquirer. In the books or hand of the seller, the same amount (goodwill) is profit on realisation which is capitalised.

Negative goodwill is purchased goodwill which arises when the purchase price is less than the value of the net separable assets being bought or sold. The seller view this as a capital loss but the buyer views this as a capital gain i.e. records this in the 'Financed By' section of the Balance Sheet as a capital reserve or as an addition to capital.

IFRS 3 states that 'If the difference above is negative, the resulting gain is recognised as a bargain purchase in profit or loss'.

- ii) Writing off goodwill immediately it arises prevents overstatement of assets in line with provisions and requirements of the prudence concept

2036 a)

		Realisation Account		
May 31 Premises		35 000	May 31 Navet Rutabaga Ltd	88 000
31 Machinery		28 000		
31 Stock		16 000		
31 Debtors		3 500		
31 Capital: Pomme		3 667		
Citron		<u>1 833</u>		
		<u>88 000</u>		<u>88 000</u>

		Capital Accounts			
		Pomme	Citron	Pomme	Citron
May 31 Ord. Shar. Cap {w1}	40 000	20 000		May 31 Balance b/d	40 000
31 6% Debentures {w2}	5 000	5 000		31 Current accounts	15 000
31 Share premium	8 000	4 000		31 Realisation profit	3 667
31 Bank	<u>5 667</u>			31 Bank	<u>1 167</u>
	<u>58 667</u>	<u>29 000</u>			<u>58 667</u>
					<u>29 000</u>

iii)		Bank Account	
May 31 Balance b/d	1 000	May 31 Creditors	2 500
31 Cash	6 000	31 Capital: Pomme	5 667
31 Capital: Citron	1 167		
	<u>8 167</u>		<u>8 167</u>
iv)		Navet Rutabaga Ltd Account	
May 31 Realisation	88 000	May 31 Ordinary share capital	60 000
		31 Share premium	12 000
		31 6% Debentures	10 000
		31 Cash	6 000
	<u>88 000</u>		<u>88 000</u>
b) i)	Business Purchase Account		
April 1 Ordinary Share Capital	60 000	April 1 Premises	40 000
16% Debentures	10 000	1 Machinery	25 000
1 Bank (Cash)	6 000	1 Stock	14 000
1 Share premium	12 000	1 Debtors	3 500
	<u>88 000</u>	1 Goodwill	5 500
			<u>88 000</u>
ii)	Navet Rutabaga Ltd: Balance Sheet as at 1 April 2007		
<u>Non-Current Assets</u>			
Premises [40 + 180]	1 000		220 000
Machinery [25 + 80]	1 000		105 000
Motor Vehicles			25 000
Goodwill {bi}			5 500
			<u>355 500</u>
<u>Current Assets</u>			
Stock [14 + 30]	1 000	44 000	
Debtors [3 500 + 9 500]		13 000	
Bank [8 - 6]	1 000	2 000	
		<u>59 000</u>	
<u>Less: Current Liabilities:</u>	Creditors	8 000	
Net current assets			<u>51 000</u>
Total net assets			406 500
<u>Less: Non-Current Liabilities:</u>	6% Debentures		10 000
Net worth			<u>396 500</u>
<u>Financed By</u>			
360 000 Ordinary shares of \$1 each			360 000
Reserves: Share premium		12 000	
Profit and loss		24 500	
Equity			<u>396 500</u>

Workings

1. Ordinary Share Capital = $60\,000 \div 60\,000 \times [40\,000 + 20\,000]$
2. 6% Debentures = $10\,000 \times [\frac{1}{2} + \frac{1}{2}]$
3. Realisation profit = $(88\,000 - 82\,500) \div 60\,000 \times [40\,000 + 20\,000]$

2037 a)

		Realisation Account	
Apr 1 Property	37 950	Apr 1 Cap: Clara - Property	40 480
1 Vehicles	3 565	Anne - Stock	5 520
1 Furniture	920	- Debtors	10 580
1 Stock	15 640	Betsy - Vehicle	1 150
1 Debtors	18 285	1 Bank: Vehicles	1 661
1 Goodwill [4 140 × (5 + 3 + 2) ÷ 5]	8 280	Furniture	646
1 Dissolution expenses: Cap - Anne	575	Stock	9 383
Bank	925	1 Discount Received [5 290 - 4 900]	390
		1 Cap: Anne [16 330 × 5 ÷ 10]	8 165
		Betsy [16 330 × 3 ÷ 10]	4 899
		Clara [16 330 × 2 ÷ 10]	3 266
	<u>86 140</u>		<u>86 140</u>

		Capital Account							
		Anne	Betsy	Clara			Anne	Betsy	Clara
Apr 1	Property			40 480	Apr 1	Balance b/d	26 220	16 330	11 270
	1 Stock	5 520				1 Mortgage loan			17 250
	1 Debtors	10 580				1 Goodwill	4 140	2 484	1 656
	1 Vehicle		1 150			1 Dissolution	575		
	1 Realisation	8 165	4 899	3 266		1 Bank			13 570
	1 Bank	6 670	12 765						
		<u>30 935</u>	<u>18 814</u>	<u>43 746</u>			<u>30 935</u>	<u>18 814</u>	<u>43 746</u>

		Bank Account							
Apr 1	Realisation: Vehicles			1 661	Apr 1	Creditors			4 900
	Furniture			646		1 Dissolution expenses			920
	Stock			9 383		1 Cap: Anne			6 670
	1 Cap: Clara			13 570		Betsy			12 765
				<u>25 260</u>					<u>25 260</u>

- 2038 a) i) $\frac{\text{Ordinary dividend per share} \times 100\%}{\text{Market price per ordinary share}}$
- ii) $\frac{\text{Profit after tax less Preference dividend}}{\text{Number of ordinary shares}}$
- iii) $\frac{\text{Market price per ordinary share}}{\text{Earnings per share}}$

b) Option 1			
Interest on 6% debentures	[6% × 800]1 000		\$48 000
Dividend on 10% preference shares	[10% × 400]1 000		\$40 000
Dividend on \$1 ordinary shares	[200 – 48 – 40]1 000		\$112 000
Ordinary share dividend percentage	[112 ÷ 800] × 100%		14%
Price per ordinary share	[1 × 14 ÷ 12]		\$1.17
Option 2			
Dividend on 10% preference shares	[800 000 × 10%]	\$80 000	\$80 000
Dividend on \$1 ordinary shares	{[150 & 200] – 80}1 000	\$70 000	\$120 000
Ordinary share dividend percentage	[70 & 120] ÷ 1 200 × 100%	5.83%	10%
Price per ordinary share	[5.83 & 10] × 1 ÷ 12	\$0.49	\$0.83

- 2039 a) i) Dividend yield is dividend per ordinary share divided by market price per ordinary share. This is the return an investor receives (gets) if a share were to be purchased today. This is the compensation for taking risk associated ordinary shares measured on cash flow basis.
- ii) Interest cover is profit before interest and tax divided by interest charge for the period. This is the measure of the ability of an enterprise to pay interest charges on long-term liabilities. It shows the number of times a business is able to pay interest using pre-tax profit.
- iii) Ordinary dividend cover is profit after tax less preference dividend divided by total ordinary dividend or earnings per share (EPS) divided by ordinary dividend per share (DPS). It measures and reveals the number of times the company can pay the same dividend that particular period.
- iv) Earnings per share are profits after tax less preference dividend divided by the number of ordinary shares in issue. This reveals the maximum amount a company can pay out as ordinary dividend.
- v) Price earnings ratio is market value per ordinary share divided by the earnings per share (EPS). It shows the number of years it would take to buy an ordinary share using the maximum dividend receivable, assuming all profits are distributed.

- b) Manushi Plc has better earnings per share of \$0.93 compared to Gadji Plc with \$0.65, meaning that Manushi Plc has the ability and potential to declare and pay a larger dividend per share than Gadji Plc. Manushi Plc can declare and pay an extra \$0.28 = \$0.93 – \$0.65 dividend per share over and above Gadji Plc.

Gadji Plc has a large price earnings ratio of 14 against that of 8 for Manushi Plc. Market price per ordinary share of Gadji Plc is \$9.10 = \$0.65 × 14 and that of Manushi Plc is \$7.44 = \$0.93 × 8. A higher earnings per share as well as a higher market price per share for Gadji Plc implies that the company is perceived to be doing better than Manushi Plc whose earnings per share together with market value are lower.

Dividend yield is larger for Gadji Plc at 6.2% in contrast to Manushi Plc with 3.9%. The dividend per share for Gadji Plc is $\$0.5642 \equiv 6.2\% \times \9.10 and that of Manushi Plc is $\$0.29016 \equiv 3.9\% \times \7.44 . This means that investors in Gadji Plc are getting a larger dividend compared to Manushi Plc by $\$0.27404$ per share.

When compared together, the dividend per share (DPS) and the earnings per share (EPS), Gadji Plc is paying out as dividends most of its profits with a dividend payout ratio of 86.8% ($\$0.5642 \div \$0.65 \times 100\%$) of earnings unlike Manushi Plc with a dividend payout ratio of 31.2% ($\$0.29016 \div \$0.93 \times 100\%$). What is implied by this is that Manushi Plc is ploughing back (reinvesting) most of its profits while in Gadji Plc there is little reinvestment of profits.

Ordinary dividend cover is lower at Gadji Plc at 1.7 times and higher in Manushi Plc at 3.2 times. Again, this points to high dividend payout ratio with little profits being retained in Gadji Plc. This is exact opposite of the case of Manushi Plc which is paying a small dividend and retaining most of the profits. Manushi Plc is better able to maintain its dividend payout ratio than Gadji Plc especially when trading results are poor.

The interest cover for Gadji Plc is 4 times and that of Manushi Plc is 15 times. There is excessively high protection of interest payment of 15 times in Manushi Plc which suggests inefficiency. A 4 times interest cover suggests that Gadji Plc is a medium geared company while a 15 times interest cover for Manushi Plc implies that the company is lowly geared.

- 2040 a)** Kuh Lin Hills Plc's ordinary dividend rate = $\frac{\text{Total ordinary dividend paid and proposed} \times 100\%}{\text{Ordinary share capital}}$
 = $(300 - 8\% \times 1\,000 - 5\% \times 500) \div 2\,000 \times 100\%$
 = 9.75%
- b) i)** Capital gearing refers to the extent or level to which a company or a firm is financed by fixed cost capital or debt funds such as debentures, convertible loan stocks, bank loans, preference share capital, etc. Gearing is calculated by dividing fixed cost funds with total capital.
- ii)** Ben Evviss has higher gearing, with $\$2\,500\,000 \equiv (2\,000 + 500)\$1\,000$ debt compared to Kuh Lin Hills Plc with $\$1\,500\,000 \equiv (1\,000 + 500)\$1\,000$. Both business have same total capital which is $\$3\,500\,000$ ($2\,000 + 1\,000 + 500 \equiv 1\,000 + 2\,000 + 500$) $\$1\,000$
- c)** Ben Evviss's ordinary dividend rate = $(300 - 2\,000 \times 8\% - 500 \times 5\%) \div 1\,000 \times 100\%$
 = 11.5%
- d)** It is better to be a preference shareholder because preference shares are less risky relative to ordinary shares. Preference shareholders earn a fixed dividend before ordinary shareholders get theirs. Dividend paid to ordinary shareholders is the residue, which will not be available if profits are falling. The little profits available are used to pay debenture interest first then preference dividends.
- e)**
- Ordinary shares are part of equity (for owners) while debentures are gearing (borrowed funds)
 - Ordinary shares are riskiest form of investment but debentures are safest form of investment
 - Ordinary shares may or may not get an after-tax dividend appropriation but debentures always get a fixed pre-tax debenture interest.

2041 a) Worryfree Business Plc: Trading and Profit and Loss and Appropriation Account for the year ended 31 October 2007

	\$000	\$000
Sales		970
<u>Less: Cost Of Sales</u>		
Opening stock	80	
<u>Add: Purchases</u>	<u>240</u>	
	320	
<u>Less: Closing stock</u>	<u>50</u>	<u>270</u>
Gross profit		700
<u>Less: Operating Expenses</u>		
Wages [230 + 8]	238	
Rent	65	
Bad debts	8	
General expenses	36	
Advertising [68 - 4]	64	
Depreciation: Fixed assets [(900 - 100) × 20%]	160	
Increase in provision for bad debts [6 - 2]	<u>4</u>	<u>575</u>
Net profit before interest		125

Return On Capital Employed	Asset use ratio
= $\frac{\text{Net profit before interest} \times 100\%}{\text{Fixed assets} + \text{Working capital}}$	= $\frac{\text{Sales}}{\text{Assets}}$
= $125 \div 814 \times 100\%$	= $970 \div (640 + 314)$
= <u>15%</u>	= <u>1 time \equiv Once</u>
Return on shareholders funds	Fixed assets utilisation
= $\frac{\text{Net profit after interest} \times 100\%}{\text{Share capital} + \text{Reserves}}$	= $\frac{\text{Sales}}{\text{Fixed assets}}$
= $117 \div 669 \times 100\%$	= $970 \div 640$
= <u>17%</u>	= <u>1.5 times</u>

- ii) Worrifree Business Plc has got a lower gross profit of 72% compared with the average 75%. \$3 in every \$100 is lost from gross profit by Worrifree Business Plc i.e. it is less profitable.

Average net profit ratio is 25% but that of Worrifree is 13% meaning that there is poor management of operating expenses resulting in extra running cost of \$12 per every \$100.

Current ratio for 2:2:1 for Worrifree Business Plc while the average is 1.5:1 meaning that there are many idle current resources which need to be profitably invested somewhere.

Worrifree Business Plc has a 1.9:1 quick ratio and the average is 1:1. Again there is inefficiency in the use of highly liquid current assets. A normal ratio should be about 0.8:1

The average stock turn is a very short at 6 days but that of Worrifree is 88 days which signify a very slow movement of stock is very slow in Worrifree (i.e. it takes 88 days to sell stock)

Debtors turnover for Worrifree Business Plc is 75 days while the average is 27 days, meaning that the credit customers are given unnecessarily too long credit period which is risky and prone to bad debts

Worrifree Business Plc has a small return on capital employed of 15% compared to average of 36% which means it less to invest in Worrifree Business Plc and more to invest outside.

Average asset use ratio is 2 times and that of Worrifree Business Plc is once. There is poor use of assets to generate sales in Worrifree Business Plc.

Return on shareholders funds in Worrifree Business is 15% and average is 25% implying that the share holders Worrifree Business Plc are poorly rewarded.

Utilisation of fixed assets is small in Worrifree Business Plc at 1.5 times but the average is bigger and 3 times meaning that there is lower utilisation of fixed assets to generate profits.

2042 a) Survival Ltd: Trading and Profit and Loss and Appropriation Account for year ended 31 December

	2002		2003		2003	
	\$000	\$000	\$000	\$000	\$000	\$000
Sales		600		1 045		771
Less: Cost of sales		<u>380</u>		<u>600</u>		<u>440</u>
Gross profit		220		445		331
Less: <u>Operating Expenses</u>						
Administrative costs	26		80		70	
Distribution costs	28		70		50	
Depreciation	<u>10</u>	<u>64</u>	<u>16</u>	<u>166</u>	<u>18</u>	<u>138</u>
Net profit before finance costs		156		279		193
Less: Finance costs		<u>16</u>		<u>8</u>		<u>—</u>
Net profit after finance costs		140		271		193
Less: Proposed dividends		<u>16</u>		<u>10</u>		<u>7</u>
Retained profit for the year		124		261		186
Add: Retained profit b/d		<u>9</u>		<u>133</u>		<u>394</u>
Retained profit c/d		<u><u>133</u></u>		<u><u>394</u></u>		<u><u>580</u></u>

b) Survival Ltd: Balance Sheet as at 31 December

	2002		2003		2004	
	\$000	\$000	\$000	\$000	\$000	\$000
<u>Fixed assets</u>						
Equipment at cost		260		426		469
Less: Accumulated depreciation		<u>10</u>		<u>26</u>		<u>54</u>
Net Book Value		250		400		415

	2002		2003		2004	
	\$000	\$000	\$000	\$000	\$000	\$000
<u>Current assets</u>						
Stock	100		160		210	
Debtors	31		62		70	
Bank	—	131	—	222	85	365
Total assets		<u>381</u>		<u>622</u>		<u>780</u>
Capital and Liabilities						
<u>Current liabilities</u>						
Creditors	60		54		15	
Proposed dividends	16		10		7	
Bank overdraft	<u>16</u>	92	<u>24</u>	88	<u>—</u>	22
<u>Long-term liabilities:</u>						
16% Debentures		100		50		—
<u>Capital and reserves</u>						
Ordinary share capital	56		90		178	
Profit and loss	<u>133</u>	<u>189</u>	<u>394</u>	<u>484</u>	<u>580</u>	<u>758</u>
		<u>381</u>		<u>622</u>		<u>780</u>

- c) Asset utilisation ratio shows how assets are linked to the generation of sales revenue. In 2002 the to asset utilisation ratio is $1.57 = 600 \div 381$ times, but that of 2003 is $1.68 = 1\ 045 \div 622$ times while that of 2004 is $0.99 = 771 \div 780$ times. Asset utilisation ratio slightly went up in 2003 then sharply dropped in 2004 which means assets are increasing with no corresponding increase in sales revenue.

Gearing refers to the amount of borrowed capital in the company found by expressing debt as percentage of sum of debt and equity. Gearing for 2002 is $34.6\% = 100 \div (100 + 189) \times 100\%$, that for 2003 is $9.4\% = 50 \div (50 + 484)$ and that for 2004 is $0\% = 0 \div (0 + 758)$. The numerator which represents debt has been decreasing over the 3 years suggesting that the company was redeeming (buying back \equiv re-purchasing) its fixed cost capital.

Gross profit percentage (margin) is a profitability ratio whereby gross profit is expressed as a percentage of sales. Margin ratio for 2002 is $36\frac{2}{3}\% = 220 \div 600 \times 100\%$ and that for 2003 is $42.58\% = 445 \div 1\ 045 \times 100\%$ while that for 2004 is $42.93\% = 331 \div 771 \times 100\%$. The gross profit percentage has been increasing which suggests that either cheaper suppliers have been found or costs directly associated with the cost of sales have been minimised e.g. carriage inwards, storage costs etc.

The working capital is the net current assets found by deducting current liabilities from current assets. In 2002, working capital was $\$39\ 000 = \$(131 - 92)1\ 000$, while that of 2003 is $\$134\ 000 = \$(222 - 88)1\ 000$ and that of 2004 is $\$343\ 000 = \$(365 - 22)1\ 000$. The working capital has rapidly been enlarging over the years as a result of increasing current assets and shrinking of current liabilities. This implies that there are much idle current assets which need to be re-invested somewhere else profitably.

- d) — Competitors: for benchmarking purposes so that they may improve on their performance
 — Employees: these have interest in profitability of business as this may have direct bearing on the annual bonuses and salary increments

- 2043 a) i) A rights issue refers to issue of new shares to the existing ordinary shareholders in proportion to their current shareholding, resulting in cash inflows, debiting of the Bank Account and crediting of the Ordinary Share Capital Account and at times the Share Premium Account. Normally the issue price is below the prevailing market price but certainly not below the par (face \equiv nominal \equiv stated) value. The cut in price is because no prospectus is issued.
- ii) Bonus issue refers to issue of free shares to the existing ordinary shareholders in proportion to their current shareholding by capitalising \equiv debiting \equiv reducing reserves and crediting (increasing) the Ordinary Share Capital Account. The transaction is non-cash in nature. The amounts are dealt with at share nominal value.

b) **Badlirun Company: Balance Sheet as at 30 November 2000**

Fixed assets	[600 + 15]		615 000
Current assets	[185 + 350 \times (1 + 5) \div 6 \div 4 \times 1.2]	311 000	
Less: Current liabilities	[96 + 15 + 350 \times 0.08]	<u>139 000</u>	
Net current assets			<u>172 000</u>
Total net assets			<u>787 000</u>

Financed ByShare Capital

525 000 Ordinary shares of \$1 each $[350 \times (1 + 5) \times \frac{1}{4}]$	525 000
225 000 6% Preference shares of \$1 each $[180 \times 1.5 \div 1.2]$	<u>225 000</u>
	750 000

Reserves

Share premium $[75 - 350 \div 5 + \{180 \times 1.5 \div 1.2 + 350 \times (1 + 5) \div 5 \times \frac{1}{4}\} \times 0.2]$	71 000
Profit and loss $[84 - 80 \times 0.5 - 350 \times 0.08]$	<u>(34 000)</u>
Shareholders funds	<u>787 000</u>

- 2044 a)**
- Bonus issue shares are all receivable by the respective allottee while rights issue shares may be waived/ passed by a shareholder who does not wish to exercise the pre-emptive right to another shareholder.
 - Bonus issues capitalise \equiv reduce reserves by debiting \equiv transferring them to the credit side of the Ordinary Share Capital Account whereas rights issues may increase or have no effect on reserves depending on whether the shares are being issued at a premium.
 - Bonus issues do not have effect on gearing level since they do not affect equity but a rights issue decreases \equiv improves gearing level because it increases equity (the ordinary share capital and/ or share premium increases by being credited)
 - In a bonus issue there are no cash flows but in a rights issue there cash inflows whereby the Bank Account is debited

b) Muntu Ltd: Balance Sheet as at 31 March 2004Fixed Assets

Premises	900 000
Equipment $[345 + 65]$	410 000
Vehicles	<u>205 000</u>
	1 515 000

Current Assets

Stock $[250 \times 90\%]$	225 000
Debtors	146 000
Bank $[100 - 25\% \times 246 + 620 \div 5 \times 1.3]$	<u>199 700</u>
	570 700

Less: Current Liabilities

Creditors $[96 + 65]$	<u>161 000</u>
Working capital	<u>409 700</u>
Capital employed	1 924 700

Less: Non-Current Liabilities

6% Debentures	<u>240 000</u>
	<u>1 684 700</u>

Financed ByShare Capital

818 400 Ordinary shares of \$1 each $[620 \times (1 + 5) \div 5 \times (1 + 10) \div 10]$	818 400
184 500 4% Preference shares of \$1 each $[246 \times 75\%]$	<u>184 500</u>
	1 002 900

Reserves

Revaluation $[900 - 750 - 10\% \times 250]$	125 000
Share premium $[60 + 620 \div 5 \times 0.3]$	97 200
Capital redemption $[25\% \times 246]$	61 500
General reserve $[190 - 620 \times (1 + 5) \div 5 \div 10]$	115 600
Retained earnings $[344 - 25\% \times 246]$	<u>282 500</u>
Shareholders funds	<u>1 684 700</u>

- 2045 a)** Straight-line method charges fixed \equiv equal amounts of depreciation to the Income Statement over the life of the asset while the reducing balance method charges amounts which tend to decrease over the life of the asset.

Straight-line method is useful for assets whose productive life is evenly spread over the years while the reducing \equiv declining balance method assumes that asset usage decreases with the asset's presence \equiv stay in business.

The straight-line method overstates profits when the asset is new and understates profits when the asset is old relative to reducing balance method which understates profits when asset is new and overstates profit when asset is old.

b) Chidembo Ltd: Balance Sheet as at 30 September 2002

<u>Fixed Assets</u>	<i>Cost</i>	<i>Dep</i>	<i>NBV</i>
Freehold land and buildings	250 000		250 000
Plant and equipment $[(120 - 300 \times 10\%) \div 90\% + 300 \times 10\%]$	300 000	130 000	170 000
Motor vehicles	<u>180 000</u>	<u>90 000</u>	<u>90 000</u>
	<u>730 000</u>	<u>220 000</u>	510 000
 <u>Current Assets</u>			
Stock	[320 + 15 \div 125%]	332 000	
Trade debtors	[230 - 15]	215 000	
Prepayments		10 000	
Bank		<u>160 000</u>	
		717 000	
 <u>Less: Current Liabilities</u>			
Trade creditors	190 000		
Proposed ordinary dividends	[450 \times (1 + 3) \div 3 \times 10%]	60 000	
Accruals		<u>30 000</u>	
Net current assets		<u>280 000</u>	437 000
Net total assets			<u>947 000</u>
 <i>Financed By</i>			
<u>Share Capital</u>			
Ordinary shares f \$1 each	[450 \times (1 + 3) \div 3]		600 000
<u>Reserves</u>			
Revaluation	[250 - 190]	60 000	
Share premium		100 000	
Capital redemption	[300 - 450 \div 3]	150 000	
Profit and loss	{w1}	<u>37 000</u>	347 000
Equity			<u>947 000</u>

Working

1. Profit and loss = $110 - 10\% \times (120 - 300 \times 10\%) \div 90\% - 15 \times 25\% \div 125\% - 10\% \times 450 \times (1 + 3) \div 3$

c) Capital reserves cannot be distributed as dividends while revenue reserves can be used for declaring and paying dividends. Capital reserves arise from capital reconstruction exercises such as the issue of new shares, revaluation of assets, redemption of capital instruments etc. Revenue reserves of the other hand arise from the Appropriation Account as profits being ploughed back (re-invested) e.g. asset replacement reserve, foreign exchange reserve, general reserve, merger reserve, etc. Capital reserves have minimal uses such as issue of bonus (scrip) shares whereas revenue reserves have many uses among which are dividend payment as well as bonus (capitalisation) issues. Companies Act 24:03 sanctions the creation of capital reserves which is not the case with revenue reserves.

- 2046 a)**
- For issue of bonus (scrip) shares
 - To write off discount on issue of debentures
 - To write off preliminary (formation \equiv incorporation \equiv set-up) costs/ expenses
 - To write off premium on redemption of shares

- b)**
- i) Revenue reserve
 - ii) Revenue reserve
 - iii) Capital reserve

- 2047 a)**
- amount of dividend payable on ordinary shares depends on directors' discretion but the dividend payable on preference shares is fixed
 - ordinary shares are entitled to a dividend after preference shareholders while preference shares get their dividend before ordinary shareholders
 - ordinary shares are part of equity whilst preference shares are part of gearing
 - ordinary shares are the riskiest form of investment while preference shares are relatively a safer form of investment when compared to ordinary shares
 - ordinary shares belong to actual owners of the company but preference shares belong to lenders of finance to the company
 - ordinary shares represent voting powers but preference shares having no voting rights

- b) Share premium is the extra amount charged \equiv levied over and above the share face (par) value raised to supplement capital to finance company activities. Share premium is a result of market value being greater than the nominal (face) value.

Uses of share premium include:

- for issue of bonus shares as fully paid ordinary shares
 - write off discount on issue of shares
 - write off premium on issue of debentures
- c) i) Convertible debentures are loans issued by a company with a condition that upon maturity, the holders would become ordinary shareholders and cease being long-term liabilities with debenture amount being changed on predetermined terms into an agreed number of ordinary shares.
- ii) – Gives lenders the chance to become owners of the company
- Debenture interest is always fixed all the times and being an ordinary shareholder results in a large dividend when profits are increasing
- Does not put pressure on company to raise funds to redeem the loans upon maturity
- Loss in purchasing power of the principal loan amount is compensated by ordinary share certificates which one would have acquired at a relatively higher market value

- d) i) **Medusa Limited: Balance Sheet as at 1 January 2008**

<u>Fixed Assets</u>		
Property		350 000
Equipment [385+ 650]		<u>1 035 000</u>
		1 385 000
<u>Current Assets</u>		
Stock	108 500	
Debtors	171 500	
Bank [210 – 175 – 650 + 700]	<u>85 000</u>	
	365 000	
<u>Less: Current Liabilities</u>		
Creditors	<u>87 500</u>	
Net current assets		<u>277 500</u>
Total net assets		1 662 500
<u>Less: Long-Term Liabilities</u>		
10% Convertible Debentures		<u>700 000</u>
Shareholders funds		<u><u>962 500</u></u>
Financed By		
<u>Share Capital</u>		
679 000 Ordinary shares of \$1 each $[525 + (350 \times 1.05 - 175) \div (1 + 0.25)]$		679 000
<u>Reserves</u>		
Share premium $[52.5 - 350 \times 0.04 + (350 \times 1.05 - 175) \div 1.25 \times 0.25]$		77 000
Capital redemption $[350 - (350 \times 1.05 - 175) \div 1.25]$		196 000
Profit and loss $[210 - 350 \times 1.01 + (350 \times 1.05 - 175) \div 1.25]$		<u>10 500</u>
Equity		<u><u>962 500</u></u>

- ii) A capital redemption reserve is created to protect creditors when internal sources of cash are used to redeem capital instruments (shares) thereby reducing the normal working capital position. Profits that would have otherwise been payable out to shareholders as dividends are reduced by debiting the Profit and Loss Account and crediting (transferring them to) Capital Redemption Reserve Account. In so doing, additional cash payments for dividends are reduced, which ultimately restores working capital position of the business.

2048 a)

Matambo Ltd: General Journal

i.	Ordinary share capital $[240\ 000 \times (1 - 0.5)]$	120 000	
	Capital reduction		120 000
	<u>Being the write-down of face value from \$1 to \$0.50</u>		
ii.	12% Preference share capital $[100\ 000 \times (1 - 0.5)]$	50 000	
	Capital reduction		50 000
	<u>Being the write-down of par value from \$1 to \$0.50</u>		
iii.	Capital reduction	80 000	
	Profit and loss		80 000
	<u>Being the elimination of Profit and Loss Account balance</u>		

iv.	Capital reduction		40 000	
	Goodwill			40 000
	<i>Being elimination (closure) of the Goodwill Account</i>			
v.	Capital reduction		10 000	
	Stock	[55 000 – 45 000]		10 000
	<i>Being a revaluation of stock</i>			
vi.	Capital reduction		10 000	
	Debtors			10 000
	<i>Being the write of debtors as irrecoverable</i>			
vii.	Capital reduction		30 000	
	Tangible fixed assets			30 000
	<i>Being correction of fixed assets overstatement</i>			
b) Matambo Ltd: Balance Sheet as at 1 September 2007				
	<u>Fixed Assets</u>			
	Tangibles	[200 – 30]		170 000
	<u>Current Assets</u>			
	Stock		45 000	
	Debtors	[68 – 10]	58 000	
	Bank		<u>37 000</u>	
			140 000	
	<u>Less: Current Liabilities</u>			
	Creditors		<u>40 000</u>	
	Net current assets			<u>100 000</u>
	Total net assets			<u>270 000</u>
	<u>Less: Non-Current Liabilities</u>			
	12% Debentures			<u>100 000</u>
	Shareholders funds			<u>170 000</u>
	<i>Financed By</i>			
	<u>Share capital</u>			
	240 000 Ordinary shares of \$0.50 each			120 000
	100 000 12% Preference shares f \$0.50 each			<u>50 000</u>
				<u>170 000</u>
c)	i)	Provision are amounts set aside from the Income Statement (Profit and Loss Account) in line with the provisions of prudence concept for an expense known to have been incurred but whose exact amount cannot be ascertained with substantial accuracy		
	ii)	A liability is a financial obligation for a business which when due would result in economic benefits flowing \equiv moving out of the entity at a future date.		
d)	i)	A reserve for the replacement of fixed assets is an appropriation of profits whereby profits available for dividend payment are removed \equiv transferred from the Profit and Loss Account and is thereby ploughed back resulting in cash they represent being retained in the business for use to acquire new fixed assets. Such a reserve is there a form of finance and therefore shown in the 'Financed By' section of the Balance Sheet		
		Provision for depreciation is a means of trying to match the cost of the fixed asset consumed with the revenue generated in a period. Depreciation is an expense debited to the Income Statement so as to report a more accurate profit after taking into account a non-cash expense. In the Balance Sheet, the provision for depreciation is shown as a deduction on fixed assets so as to give them a fair net book value after taking into account aggregate loss in value on existing fixed assets.		
	ii)	A fixed asset replacement reserve is a revenue reserve arising from the Appropriation Account and is therefore profit. Such a reserve can be credited back to the Income Statement for distribution as a dividend. When the asset it represents is acquired, the cash is no longer available but converted to (tied-up in) fixed assets, and in this case the reserve can be used for bonus issues of shares.		
2049	a)	– Helps explain the differences and the links \equiv relationship between liquidity and profitability state		
		– Shows the sources and uses of cash which are important in predicting future cash flow position		

b) **Curio City Plc: Cash Flow Statement for the year ended 31 May 2007**OPERATING ACTIVITIES

Net profit before interest and tax	[11 + 70 × 5% + 20]		34 500
<u>Non-cash items adjustments</u>			
Loss on motor vehicle disposal		1 000	
Depreciation: Plant and machinery	[40 – 85]	45 000	
Fixtures and fittings	[15 – 30]	15 000	
Motor vehicles	[10 – 14 – 8 + 3 + 1]	8 000	
Increase in provision for bad debts		<u>5 000</u>	<u>74 000</u>
Net cash inflow before working capital adjustments			108 500
<u>Working capital adjustments</u>			
Increase in stock	[90 – 110]	(20 000)	
Increase in debtors	[120 – 140 – 5]	(25 000)	
Increase in trade creditors	[60 – 72]	<u>12 000</u>	<u>(33 000)</u>
Net cash inflow after working capital adjustments			75 500
Debenture interest paid	[70 × 5%]		(3 500)
Value Added Tax (VAT) paid			<u>(30 000)</u>
Net cash inflow from operating activities			42 000
<u>INVESTING ACTIVITIES</u>			
Acquisition ≡ purchase of plant and machinery	[160 – 180]	(20 000)	
Purchase ≡ acquisition of motor vehicles	[40 – 50 – 8]	(18 000)	
Proceeds from motor vehicles disposals		<u>3 000</u>	
Net cash outflow from investing activities			(35 000)
<u>FINANCING ACTIVITIES</u>			
Issue of 5% debentures	[50 – 70]	20 000	
Redemption ≡ repurchase of bank loan		(10 000)	
Issue of ordinary shares	[390 – 400]	10 000	
Repurchase ≡ redemption of 10% preference shares		(30 000)	
Premium on issue of ordinary shares	[10 – 12]	2 000	
Dividend paid: Preference		(3 000)	
Ordinary	[10 + 16]	(26 000)	
Net cash outflow from financing activities			<u>(37 000)</u>
Decrease in cash and cash equivalents			(30 000)
Balance b/d			<u>20 000</u>
Balance/ (overdraft) c/d			<u>(10 000)</u>

2050 a) A Cash Flow Statement is a liquidity statement meant to disclose sources and uses of cash between two Balance Sheet dates and the resultant changes in cash and cash equivalents. It is meant to assist the financial statements users to predict potential future cash flows and assess the likely solvency position.

b) **B. O. Ring Ltd: Balance Sheet as at 31 December 2006**

<u>Non-Current Assets</u>				
		<i>Cost</i>	<i>Dep</i>	<i>Net</i>
		\$000	\$000	\$000
Premises		1 200	150	1 050
Plant and machinery	[800 + 200 & 265 + 160]	1 000	425	575
Motor vehicles	[600 + 120 + 5 – 10 – 15 & 140 – 10 + 70]	<u>700</u>	<u>200</u>	<u>500</u>
		<u>2 900</u>	<u>775</u>	<u>2 125</u>
<u>Current Assets</u>				
Stock	[255 + 35]		290	
Debtors	[345 – 5]		340	
Prepayments	[17 + 3]		20	
Bank	[280 + 110]		<u>390</u>	
			1 040	
<u>Less: Current Liabilities</u>				
Creditors	[350 – 50]	300		
Taxation		200		
Ordinary dividends	[(600 × (1 + 6) ÷ 6 + 200) × 0.15]	<u>135</u>	<u>635</u>	
Working capital				<u>405</u>
Capital employed				2 530

<u>Less: Non-Current Liabilities</u>			
10% Debentures	[300 – 100]		<u>200</u>
Shareholders funds			<u>2 330</u>
Financed By			
<u>Share Capital</u>			
900 000 Ordinary shares of \$1 each	[600 × (1 + 6) ÷ 6 + 200]		900
200 000 8% Preference shares of \$1 each	[300 – 100]		<u>200</u>
			1 100
<u>Reserves</u>			
Revaluation	[950 – 1 200]	250	
Share premium	[200 – 600 ÷ 6 + 200 × (1.5 – 1)]	200	
Capital redemption		100	
Debenture redemption		100	
General reserve	[150 + 65]	215	
Profit and loss	{w1}	<u>365</u>	<u>1 230</u>
			<u>2 330</u>

Workings

1. Profit and loss = $687 + 314 - 200 - (600 \times \{1 + 6\} \div 6 + 200) \times 0.15 - 65 - 100 \times 2 - 106 + 90 - 20$

c) Profits are subtracted because they are a non-cash gain since in the Income Statement they were added. Losses are added to reverse the deduction made in the Income Statement because they are a non-cash expense. The action done in the Income Statement is reversed because the Income Statement is based on matching and accruals concept basis whereas the Cash Flow Statement is based on cash basis.

2051 a) Flexible budgets are prepared during the implementation phase of the main budgets. Flexible budgets are derived from the master = static budgets when budgets are adjusted to match actual level of activity. Fixed costs remain unchanged but variable costs are adjusted to represent proportion to level of activity.

b) Direct materials @ 60% capacity = \$378 000
 If variable, then @ 70% capacity = $\$378\,000 \times 70\% \div 60\% = \$441\,000$
∴ Direct materials are variable
 Direct wages @ 70% capacity = \$189 000
 If variable, then @ 80% capacity = $\$189\,000 \times 80\% \div 70\% = \$216\,000$
∴ Direct wages are variable
 Production overhead @ 80% capacity = \$448 000
 If variable, then @ 70% capacity = $\$448\,000 \times 70\% \div 80\% = \$392\,000 \neq 412\,000$
∴ Production overhead are semi variable

Administration overhead @ 60% capacity = @ 70% capacity = @ 80% capacity = \$315 000

∴ Administration overheads are fixed

Selling and distribution overheads @ 70% capacity = \$441 000

If variable, then @ 60% capacity = $\$441\,000 \times 60\% \div 70\% = \$378\,000 \neq 423\,000$

∴ Selling and distribution overheads are semi-variable

b) Production overhead

<u>Capacity (%)</u>	<u>Total cost</u>	<u>Fixed cost (\$000)</u>	<u>Variable cost (\$000)</u>
60	\$376 000	$376 - 216 = 160$ ③	$36 \times 60\% \div 10\% = 216$ ⑦
70	\$412 000	$412 - 252 = 160$ ⑥	$36 \times 70\% \div 10\% = 252$ ⑤
80	\$448 000	$448 - 288 = 160$ ④	$36 \times 80\% \div 10\% = 288$ ③
80 – 70 = 70 – 60 = 10 ①			$412 - 376 = 448 - 412 = 36$ ②

Selling and distribution overhead

Fixed component = $423\,000 - (423\,000 - 441\,000) \div (60\% - 70\%) \times 60\%$

= \$315 000

Variable component @ 60% capacity = $(441\,000 - 423\,000) \div (70\% - 60\%) \times 60\%$
 = \$108 000

Variable component @ 70% capacity = $(423\,000 - 459\,000) \div (60\% - 80\%) \times 70\%$
 = \$126 000

Variable component @ 80% capacity = $(441\,000 - 459\,000) \div (70\% - 80\%) \times 80\%$
 = \$144 000

d) Mushonga Ltd: Budgeted Marginal Costing Income Statement

(50% capacity = 63 000 ÷ 50% ÷ 70% units = 45 000 units)

Sales [1 798 + (1 798 – 1 654) ÷ (70% – 60%) × (50% – 70%) ÷ (100% – 20%)] 1 887 500

Less: Variable cost of sales

Direct materials	[378 × 50% ÷ 60%]	315 000	
Direct wages	[189 × 50% ÷ 70%]	135 000	
Production overhead	[(376 – 448) × 50% ÷ (60% – 80%)]	180 000	
Selling and distribution	[(441 – 423) × 50% ÷ (70% – 60%)]	90 000	
	[(1 942 – 1 798) ÷ (80% – 70%) × 50%]		<u>720 000</u>
Contribution			1 167 500

Less: Fixed costs

Production overhead	[448 – (412 – 448) ÷ (70% – 80%) × 80%]	160 000	
Administration overhead		315 000	
Selling and distribution	[441 – (459 – 441) ÷ (80% – 70%) × 70%]	315 000	
	[1 654 – (1 942 – 1 654) ÷ (60% – 70%) × 60%]		<u>790 000</u>
Net profit	[1 942 – (1 942 – 1 654) ÷ (80% – 60%) × (80% – 50%) × 20% ÷ 80%]		<u>377 500</u>

- 2052 a) i) – to plan for uses of cash = investments when surpluses are anticipated
 – to plan in advance for sources of cash (e.g. loans) when outages = shortages are expected
 – to show liquidity position of business in the budget period (foreseeable future)
- ii) – defer payments with agreement of creditors
 – issue capital instruments e.g. loans, shares, etc
 – reduce debtor turnover days
 – sell idle/ redundant/ surplus fixed assets
- b) i) Failure to utilise cash discounts from suppliers of goods and services since payments to creditors are significantly increasing
- ii) – How long it will take to fully repay the loan
 – How long it will take to fully pay for the fixed assets

- 2053 a) A Cash Budget helps a business to plan on possible remedies to adopt = take during periods forecasted to have cash deficits and thus reduce or prevent the probable cash shortages. Cash Budget reveals when a business might have idle cash and this alerts management to timeously plan on alternative profitable forms of investments. Overall, a Cash Budget shows the most likely liquidity position of the business.

b) Roland Putter: Cash Budget for three months to 31 July 2000RECEIPTS

	May	June	July
Sales: 1st month [125% × 60% × 95% × (201 & 213 & 204)]	143 213	151 763	145 350
2nd month [20% × 97½% × (294 & 125% × {201 & 213})]	57 330	48 994	51 919
3rd month [15% × (262.3 & 294 & 125% × 201)]	39 345	44 100	37 688

Total receipts**239 888 244 857 234 957**PAYMENTS

Purchases: 1st month [80% × 97½% × (204 & 198 & 192)]	159 120	154 440	149 760
2nd month [20% × (213 & 204 & 198)]	42 600	40 800	39 600
Wages [4% × 125% × (201 & 213 & 204)]	10 050	10 650	10 200
Drawings	1 000	1 000	1 000
Overheads [4% × 40% × 125% × (201 & 213 & 204)]	4 020	4 260	4 080
Creditor: Coffee machine [2 ÷ 4]	500	500	

Total payments**217 290 211 650 204 640**

Net receipts/ (payments)

22 598 33 207 30 317

Balance/ (overdraft) b/f

(27 000) (4 402) 28 805

Balance/ (overdraft) c/f

(4 402) 28 805 59 122

- 2054 a) Cost of material for a unit = 427 750 ÷ 12 500 = **\$34.22**
- b) Actual direct labour cost for 12 500 units = 31 250 × 16.20 = **\$506 250**
- c) Flexed budget (standard) direct materials cost = 6.1 × 5.5 × 12 500 = **\$419 375**
- d) Flexed budget (standard) direct labour cost = 2.75 × 15 × 12 500 = **\$515 625**
- e) Direct material price variance = 419 375 – 427 750 = **(\$8 375) Unfavourable**

f) Direct labour rate variance = $515\,625 - 506\,250 = \underline{\underline{\$9\,375\text{ Favourable}}}$

g) Reason for unfavourable material price variance

- Better/ higher quality materials
- Expensive suppliers
- Scarcity of materials pushing price up to equilibrium

Reasons for favourable direct labour rate variance

- Flooding of labour market forcing wage rates to go down
- Use of cheaper \equiv unskilled labour
- Wage rate controls by government

h) Flexed budget total cost = $419\,375 + 515\,625 = \underline{\underline{\$935\,000}}$

i) Difference between standard and actual total cost = $935\,000 - (427\,750 + 506\,250)$
 = $(8\,375) + 9\,375$
 = \$1 000 Favourable

j) Answers to h) are quantitative results but for management purposes (accounting), there is also need of qualitative information which cannot be expressed in financial terms such as the morale of the employees, suitability of the machinery, etc.

2055 a) Butane Ltd: Forecast Income Statement for the month ending 30 April 2008

	i) Master Budget		ii) Flexed Budget	
	\$000	\$000	\$000	\$000
Sales [160 × (8 & 9)]		1 280		1 440
Less: Cost of sales				
Materials: Methane [30 × (8 & 9)]	240		270	
Propane [50 × (8 & 9)]	400		450	
Labour [40 × (8 & 9)]	<u>320</u>	<u>960</u>	<u>360</u>	<u>1 080</u>
Profit		<u>320</u>		<u>360</u>

b) i) Sales price variance = Flexed budget sales – Actual sales
 = $\{1\,440 - 1\,350\}1\,000$
 = \$90 000 Adverse

ii) Sales volume variance = Master budget sales – Flexed budget sales
 = $\{1\,280 - 1\,440\}1\,000$
 = (\$160 000) Favourable

iii) Materials quantity variance = [Standard quantity – Actual quantity] × Standard price
 = $[30 \times 9\,000 - 29\,700 \times 10] + [50 \div 20 \times 9\,000 - 455\,400 \div 22] \times 20$
 = \$9 000 Favourable

iv) Material price variance = [Standard price – Actual price] × Actual quantity
 = $[10 \times 29\,700 - 267\,300] + [20 - 22] \times 455\,400 \div 22$
 = (\$11 700) Adverse

v) Labour rate variance = [Standard Rate – Actual Rate] × Actual Hours
 = $80 \times 4\,500 - 378\,000$
 = (\$18 000) Adverse

vi) Labour efficiency variance = [Standard hours – Actual hours] × Standard rate
 = $40 \times 9\,000 - 4\,500 \times 80$
 = \$0 No variance

2056 a) Flexible budgets are prepared to enable practical and logical comparisons of actual results with budgeted results at the same level of activity. The master \equiv original \equiv static budgets are adjusted in terms of level of activity but the prices and rates remain as targeted (standard).

b) Morsel Ltd: Absorption Costing Statement

	Flexed budget		Actual	(Over)/ Under spending
Production (% of 100 000 units)	90%	95%	95%	
Raw materials	396 000	418 000	416 000	2 000
Direct labour	<u>225 000</u>	<u>237 500</u>	<u>235 500</u>	<u>2 000</u>
Prime cost	621 000	655 500	651 500	4 000
Power	36 000	38 000	38 500	(500)

	Flexed budget		Actual	(Over)/ Under spending
Production (% of 100 000 units)	90%	95%	95%	
Heating: Fixed	1 000	1 000	1 000	–
Variable	2 700	2 850	2 950	(100)
Communication: Fixed	1 200	1 200	1 200	–
Variable	3 600	3 800	4 100	(300)
Maintenance	72 000	76 000	77 000	(1 000)
Indirect labour: Fixed {w1}	37 500	37 500	37 500	–
Variable	11 250	11 875	12 000	(125)
Insurance	2 500	2 500	2 550	(50)
Total cost	818 750	830 225	828 300	1 925

Working 1. Fixed indirect labour cost = $48\,750 \div (75\% + 25\% \times 90\,000 \div 100\,000) \times 75\%$

- 2057 a)**
- First In First Out (FIFO)
 - Highest In First Out (HIFO)
 - Last In First Out (LIFO)
 - Next In First Out (NIFO)
 - Simple Average Cost (AVCO)
 - Specific identification
 - Standard costing

b) Weighted AVCO

October	RECEIPTS		ISSUES		STOCK		
	Quantity	Price/kg	Job	Quantity	Quantity	Av. Co. (\$)	Balance (\$)
1	3 000	\$12.00			3 000	12.00	36 000
3	4 000	\$12.10			7 000	12.05714...	84 400
4			23	5 000	2 000	12.05714...	24 114
7	6 000	\$12.20			8 000	12.16425	97 314
14			24	1 000	7 000	12.16425	85 150
15			23	3 000	4 000	12.16425	48 657
18	5 000	\$12.30			9 000	12.23966...	110 157
22				2 500	6 500	12.21646...	79 407
23			25	3 000	3 500	12.21646...	42 758
25			23	1 000	2 500	12.21646...	30 541
26	10 000	\$12.20			12 500	12.20328	152 541
27			25	5 000	7 500	12.20328	91 525
27			24	3 000	4 500	12.20328	54 915

Total material cost

Job 23:	October 4	[5 000 × 12.05714...]	60 286
	15	[3 000 × 12.16425]	36 493
	25	[1 000 × 12.21646...]	12 216
			108 995
Job 24:	October 14	[1 000 × 12.16425]	12 164
	27	[3 000 × 12.20328]	36 610
			48 774
Job 25:	October 23	[3 000 × 12.21646...]	36 649
	27	[5 000 × 12.20328]	61 016
			97 665

c) Job 24 Cost card/ record/ sheet

Cost of materials {b}			48 774
Direct labour: Normal	[160 × 8.8]	1 408	
Overtime	[(200 – 160) × 8.8 × 1.5]	528	1 936
Prime cost			50 710
Overheads: Fixed	[4 × 200]	800	
Variable		650	1 450
Total cost			52 160
Add: Profit	[52 160 × 25% ÷ 75%]		17 387
Selling price	[52 160 ÷ 75%]		69 547

- 2058 a) i) Cost refers to the amount spent on buying/ procuring raw materials and saleable goods including expenses incurred that are directly linked with the merchandise such as carriage inwards, storage, etc as well as conversion expenses where raw materials are processed into finished goods
- ii) Net realisable value is the difference between the anticipated = expected selling price and expected selling expenses to be incurred when selling the goods
- iii) Last In First Out (LIFO) is a stock valuation method based on stack = pile approach which attempts to match cost of goods sold with the revenues generated by assuming that most recently acquired merchandise is sold before the old stock meaning that closing stock is based on outdated prices
- iv) First In First Out (FIFO) is a stock valuation method based on the queue approach which assumes that oldest stock is sold first before recently purchased goods resulting in cost of sales which does not reflect current prices but a closing stock figure based on latest prices
- v) Average Cost (AVCO) is a stock valuation method whereby identical products are valued at a price determined each time new stock is received by dividing total cost of the goods by the sum of units of goods in hand (weighted AVCO) or by averaging the prices (simple AVCO)

b) i) LIFO

Date	RECEIPTS				
	Jan1	Jan 10	Feb 3	Mar 6	Mar 26
Price/ Unit	\$25	\$28	\$30	\$32	\$40
Quantity	5 100	1 490	2 310	3 800	1 000
Jan 30	(1 510)	(1 490)			
	3 590	-			
(ISSUES)	(1 690)		(2 310)		
Feb 21	1 900		-		
Mar 15				(700)	
				3 100	
Mar 30				(1 450)	(1 000)
				1 650	-
Closing stock	=	25 × 1 900 + 32 × 1 650			
	=	\$100 300			

ii) FIFO

Date	PURCHASES				
	Jan 1	Jan 10	Feb 3	Mar 6	Mar 26
Price/ Unit	\$25	\$28	\$30	\$32	\$40
Quantity	5 100	1 490	2 310	3 800	1 000
Jan 30	(3 000)				
	2 100				
(SAES)	(2 100)	(1 490)	(410)		
Feb 21	-	-	1 900		
Mar 15			(700)		
			1 200		
Mar 30			(1 200)	(1 250)	
				2 550	
Closing stock	=	2 550 × 32 + 1 000 × 40			
	=	\$121 600			

iii) AVCO [Weighted]

Date	RECEIPTS		ISSUES	STOCK		
	Units	Price/Unit		Units	Av. Co. (\$)	Balance (\$)
Jan 1	5 100	\$25		5 100	25	127 500
10	1 490	\$28		6 590	25.67830...	169 220
30			3 000	3 590	25.67830...	92 185
Feb 3	2 310	\$30		5 900	27.37033...	161 485
21			4 000	1 900	27.37033...	52 004
Mar 6	3 800	\$32		5 700	30.45684...	173 604
15			700	5 000	30.45684...	152 284
26	1 000	\$40		6 000	32.04733...	192 284
30			2 450	3 550	32.04733...	113 768

c) Siya–so Ltd: Trading Account for the year ended 28 February 2008		
Sales		117 000
<u>Less: Cost of sales</u>		
Opening stock	30 000	
<u>Add: Purchases</u>	<u>80 000</u>	
	110 000	
<u>Less: Stock lost in fire</u> {missing figure}	<u>21 000</u>	
	89 000	
<u>Less: Closing/ salvaged stock</u>	<u>11 000</u>	<u>78 000</u>
Gross profit [117 000 × 50% ÷ 150%]		<u>39 000</u>

2059 a) i) Baked Bean Butty Company: Absorption Costing Manufacturing and Trading Accounts for the year ended 30 April			
	<u>1999</u>	<u>2000</u>	
Direct materials [230 × 0.17 & 250 × 0.19]	39 100		47 500.00
Direct labour [230 × 0.12 & 250 × 0.14]	<u>27 600</u>		<u>35 000.00</u>
Prime cost	66 700		82 500.00
<u>Add: Factory costs</u>			
Overheads: Variable [230 × 0.08 & 250 × 0.09]	18 400	22 500.00	
Fixed	<u>29 900</u>	<u>31 850.00</u>	<u>54 350.00</u>
Production cost	<u>115 000</u>		<u>136 850.00</u>
Sales [230 × 0.9 & 250 × 0.9]	207 000		228 000.00
<u>Less: Cost of sales</u>			
Opening stock [8 × 0.5]	4 000	4 000.00	
<u>Add: Production cost</u>	<u>115 000</u>	<u>136 850.00</u>	
	119 000	140 850.00	
<u>Less: Closing stock {w1}</u>	<u>4 000</u>	<u>9 853.20</u>	<u>130 996.80</u>
Net profit	<u>92 000</u>		<u>97 003.20</u>

ii) Baked Bean Butty Company: Marginal Costing Manufacturing and Trading Account for the year ended 30 April			
	<u>1999</u>	<u>2000</u>	
Direct materials	39 100		47 500
Direct labour	27 600		35 000
Overheads: Variable	<u>18 400</u>		<u>22 500</u>
Production cost	<u>85 100</u>		<u>105 000</u>
Sales	207 000		228 000
<u>Less: Variable cost of sales</u>			
Opening stock [(0.17 + 0.12 + 0.08) × 8]	2 960	2 960	
<u>Add: Production cost</u>	<u>85 100</u>	<u>105 000</u>	
Good available for resale c/f	88 060	107 960	
Goods available for resale b/f	88 060	107 960	
<u>Less: Closing stock {w2}</u>	<u>2 960</u>	<u>7 560</u>	<u>100 400</u>
Contribution	121 900		127 600
<u>Less: Fixed factory overhead</u>	<u>29 900</u>		<u>31 850</u>
Net profit	<u>92 000</u>		<u>95 750</u>

- b) Direct labour is a variable cost which responds to the level of activity. When production is nil, then direct labour costs are equal to zero. Direct labour cannot be treated as a fixed cost because its a product cost and not a period cost

Workings

- Closing stock for 1999 = $115\,000 \div (230\,000) \times (8\,000 + 230\,000 - 230\,000)$
- Closing stock for 2000 = $136\,850 \div (230) \times (8 + 230 - 230 - 240 + 250)$
- Closing stock for 1999 = $(0.17 + 0.12 + 0.08) \times (230\,000 - 230\,000 - 8\,000)$
- Closing stock for 2000 = $(0.19 + 0.14 + 0.09) \times (230 - 230 - 240 + 250 + 8)$

- 2060 a)
- Absorption costing treats all production costs as product costs whereas marginal costing treats only variable production costs as product costs
 - Absorption costing does not group costs into fixed and variable but marginal costing groups costs into fixed and variable costs
 - Absorption costing closing stock is larger than marginal costing closing stock
 - Absorption costing gives gross and net profit but marginal costing gives contribution and net profit

- Absorption costing matches production cost with revenues while marginal costing matches all fixed costs with the current period
 - Closing stock under absorption costing includes fixed costs while that of marginal costing has only variable costs
- b)
- | | | | | |
|---------------------------------------|---|--------------------------------------|---|-----------------|
| 2002 Closing stock units | = | 4 500 – 4 200 | = | 300 units |
| 2002 Absorption costing closing stock | = | [36 000 ÷ 4 500 + 10 + 15 + 7] × 300 | = | <u>\$12 000</u> |
| 2002 Marginal costing closing stock | = | (10 + 15 + 7) × 300 | = | <u>\$9 600</u> |
| 2003 Closing stock units | = | 300 – 4 400 + 4 800 | = | 700 units |
| 2003 Absorption costing closing stock | = | (43 200 ÷ 4 800 + 12 + 18 + 9) × 700 | = | <u>\$33 600</u> |
| 2003 Marginal costing closing stock | = | (12 + 18 + 9) × 700 | = | <u>\$27 300</u> |

c) **Bindu Ltd: Absorption Costing Income Statement for the year ended 30 June**

	2002		2003	
Sales [4 200 × 47 & 4 400 × 51]	197 400		224 400	
<u>Less: Total cost of sales</u>				
Opening stock	–		12 000	
Direct materials [10 × 4 500 & 12 × 4 800]	45 000		57 600	
Direct labour [15 × 4 500 & 18 × 4 800]	67 500		86 400	
Manufacturing fixed costs	36 000		43 200	
Var prod overhead [7 × 4 500 & 9 × 4 800]	<u>31 500</u>		<u>43 200</u>	
	180 000		242 400	
<u>Less: Closing stock</u>	<u>12 000</u>	<u>168 000</u>	<u>33 600</u>	<u>208 800</u>
Gross profit	29 400		15 600	
<u>Less: Operating Expenses</u>				
Administration and marketing	<u>11 400</u>		<u>13 680</u>	
Net profit	<u>18 000</u>		<u>1 920</u>	

d) **Bindu Ltd: Marginal Costing Income Statement for the year ended 30 June**

	2002		2003	
Sales	197 400		224 400	
<u>Less: Variable cost of sales</u>				
Opening stock	–		9 600	
<u>Add: Direct materials</u>	45 000		57 600	
Direct labour	67 500		86 400	
Variable production overhead	<u>31 500</u>		<u>43 200</u>	
	144 000		196 800	
<u>Less: Closing stock</u>	<u>9 600</u>	<u>134 400</u>	<u>27 300</u>	<u>169 500</u>
Contribution	63 000		54 900	
<u>Less: Fixed costs</u>				
Manufacturing	36 000		43 200	
Administration and marketing	<u>11 400</u>	<u>47 400</u>	<u>13 680</u>	<u>56 880</u>
Net profit/ (loss)	<u>15 600</u>		<u>(1 980)</u>	

- 2061 a)
- employee four fully time employees to produce 40 000 = 4 × 10 000 units
 - hire part-time employees now whose produce is for stock piling to meet potential future demand
 - horizontal integration (acquire ≡ buy business of competitor)
 - sell the additional units on behalf of competitor on a commission basis (act as a broker)

b) **Sidi el Rahman: Income Statement for current production**

Sales [80 000 × 10]			800 000	
<u>Less: Cost of sales</u>				
Materials [80 000 × 3]			240 000	
Labour [8 × 8 × 5 × 52 × 6]			99 840	
Variable overheads [80 000 × 1.8]			144 000	
Fixed costs			<u>160 000</u>	<u>643 840</u>
Net profit			<u>156 160</u>	

c) Additional profit for **option A** = Sales – Purchases
 = $40\,000 \times (10 - 8)$
 = **\$80 000**

Side el Rahman: Income Statements for options B & C

<i>Option</i>		<u>B</u>	<u>C</u>
Sales	[40 000 × 10]	400 000	400 000
<u>Less: Cost of sales</u>			
Materials	[40 000 × 3]	120 000	120 000
Labour:			
Bonus scheme	{w1}	89 920	
Extra employees	{w2}		58 240
Variable overheads	[40 000 × 1.8]	<u>72 000</u>	<u>72 000</u>
Additional profit		<u>118 080</u>	<u>149 760</u>

The additional profits generated by **option A** are \$80 000, by **option B** are \$118 080 and those by **option C** are \$149 760. Since fixed costs would not change as a result of a change in level of activity, only the relevant variable costs were put into consideration together with the increase in sales.

Based on profitability, it is best to adopt = implement = take **option C** since this alternative yields largest returns when compared to other options. It is cheaper for Sid el Rahman to employ additional four workers for night-shift which result in a cut in labour costs by \$31680 (= \$89 920 – \$58 240) had option B been taken in favour of option C. \$31 680 is the difference between the biggest profit and the second largest profit (\$149 760 – \$118 080) as a result of all other costs being identical. Buying from outside (option A) is by far too unfavourable on profitability.

Working

1. Bonus scheme labour = $99\,840 \times 40\,000 \div 80\,000 + 40\,000$
2. Additional labour cost = $4 \times 8 \times 5 \times 52 \times (6 + 1)$

- 2062 a) i)** Variable costs are expenses which respond to changes in the level of activity and are often directly linked with each unit of production made. Raw materials are an example of a variable cost which is a constituent of the cost unit
- ii) Fixed costs are overheads/ expenses which do not respond to changes in the level of activity but remain constant and are referred to as period costs because they are incurred regardless with the production activity. Factory rent is a fixed cost incurred whether or not there was production

b) i) Greg Ltd: Budgeted Profit and Loss Account for 2008

Sales		[1 350 × 90% × 120 ÷ 90]	1 620 000
<u>Less: Cost of sales</u>			
Direct materials		[270 × 120 ÷ 90]	360 000
Direct labour		[360 × 120 ÷ 90]	480 000
Production overheads:	Variable	[36 × 120 ÷ 90]	48 000
	Fixed		<u>150 000</u>
Gross profit			<u>1 038 000</u>
<u>Less: Operating Expenses</u>			
Distribution overheads:	Variable	[108 × 120 ÷ 90]	144 000
	Fixed		<u>60 000</u>
Net profit			<u>204 000</u>

ii) Greg Ltd: Budgeted Profit and Loss Account for the year 2008

Sales		[1 350 × 120%]	1 620 000
<u>Less: Marginal cost of sales</u>			
Materials:	Direct	[270 × 120%]	324 000
	Packaging	[1.5 × 90 × 120%]	162 000
Direct labour		[360 × 120%]	432 000
Production overheads		[36 × 120%]	43 200
Distribution overheads		[108 × 120%]	<u>129 600</u>
Contribution			<u>1 090 800</u>
<u>Less: Fixed costs</u>			
Production overheads		150 000	
Distribution overheads		<u>60 000</u>	<u>210 000</u>
Net profit			<u>319 200</u>

iii) Greg Ltd should reduce the unit selling price by 10% and produce at full capacity instead of improving the product packing at unit cost of \$1.50 and increase sales volume by 20%/ since profits are increased to \$378 000 by \$12 000 from current profits of \$366 000. The other option actually decreases profits to \$319 200 by \$46 800

c) i) Unit variable cost = $(65\ 000 - 89\ 000) \div (19\ 000 - 27\ 000)$
 = \$3

ii) Total variable cost for February 2008 = $(89\ 000 - 65\ 000) \div (27\ 000 - 19\ 000) \times 19\ 000$
 = \$57 000

Total variable cost for March 2008 = $(65\ 000 - 89\ 000) \times 27\ 000 \div (19\ 000 - 27\ 000)$
 = \$81 000

iii) Monthly fixed costs = $89\ 000 - (89\ 000 - 65\ 000) \div (27\ 000 - 19\ 000) \times 27\ 000$
 = \$8 000

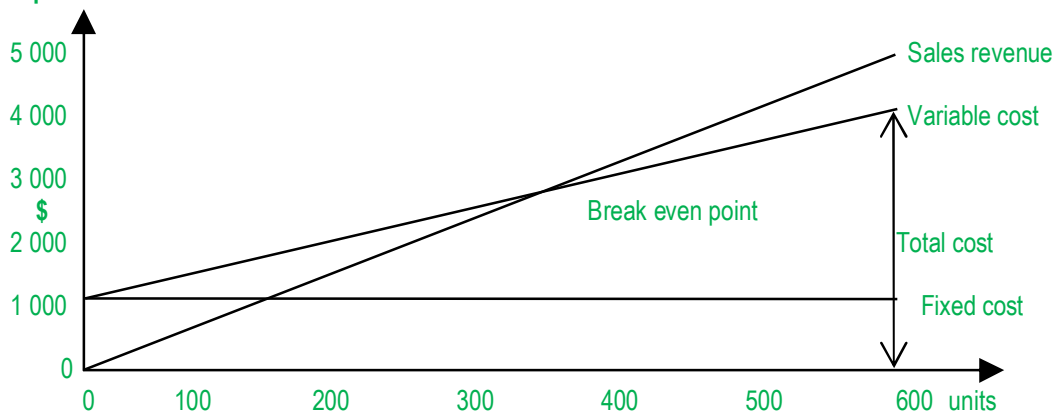
2063 a) Annual profit/ (loss) = $(250 - 150 - 10 \times 2 - 15) \times 60\ 000$
 = \$3 900 000

b) New profit/ (loss) = $(200 - 10 \times 120\% - 15 - 150 \times 80\%) \times 60\ 000$
 + $(200 - 10 \times \{130\% + 120\% - 150 \times 80\% - 150 \times 80\% - 300\ 000 - 300\ 000)$
 = \$4 530 000

Additional profit = $4\ 530\ 000 - 3\ 900\ 000$
 = \$630 000

- c) – *Availability of key resources*: such as cash to timeously pay for materials, labour and additional fixed costs. Ready availability of materials for additional production is also critical
- *Corporate social responsibility issues*: such as noise pollution at night which may result in the locals resenting and accusing the company thereby adversely affecting goodwill and reputation
- *Government rules and regulations*: as they specify the maximum number of working hours per day for an individual employee and are concerned with healthy and safety at workplace
- *Morale of the employees*: as this directly impacts on their performance and efficiency. Unhappy or dissatisfied employees are likely to give management problems and increase overhead costs

2064 a) Hiper Ltd: Break-even chart



b) Break-even point units = $\frac{\text{Fixed costs}}{\text{Contribution per unit}}$
 = $1\ 000 \div (7.5 - 4.5)$
 = 334 units

Break-even point in sales value = $\text{Fixed costs} \div \text{Contribution sales ratio}$
 = $1\ 000 \times 7.5 \div (7.5 - 4.5)$
 = \$2 500

c) Margin of safety units = $\text{Sales units} - \text{Break-even units}$
 = $600 - 334$
 = 266 units

Margin of safety sales = $\text{Total sales} - \text{Break-even sales}$
 = $600 \times 7.5 - 2\ 500$
 = \$2 000

- d) Profit = Contribution – Fixed costs
 = $800 \times (7.5 - 4.5) - 1\,000 \times 120\%$
 = **\$1 200**
- e) – *Behaviour of costs is linear over the relevant range*: yet this is affected by bulk purchases discounts and other business agreements
 – *Costs are strictly fixed and variable*: but this is not always the case as some are semi-variable, step-variable, etc e.g. electricity which is variable but not in direct proportion to activity level
 – *Fixed costs are constant over the relevant range*: yet this is not the case as fixed costs may subsequently change within the relevant range but not frequently or rapidly
 – *Efficiency is constant*: this is not the case because of diseconomies of scale and materials and labour are not uniform all the times
 – *No bulk purchases discounts*: assumes that sales revenue line is oblique or straight which is not the case where there are cash discounts as well as volume discounts

2065 a) Direct labour hours = $(13\,000 + 2\,000) \times 2 + 5\,000 \times 3$
 = **45 000 hours**

- b) A key factor is any event or activity or limitation which places a restriction (constraint = hindrance) on the firm in its attempts to meet its targets such as shortage of materials, absence of capacity or technology

	Standard	Office	Boardroom
Marginal cost	$40 + 16 + 10 = 66$	$80 + 24 + 30 = 134$	$200 + 16 + 10 = 226$
Contribution/ unit	$100 - 66 = \mathbf{\$34}$	$155 - 134 = \mathbf{21}$	$250 - 226 = \mathbf{24}$
Contribution/ hour	$34 \div 2 = \mathbf{\$17}$	$21 \div 3 = \mathbf{\$7}$	$24 \div 2 = \mathbf{\$12}$

	Standard	Office	Boardroom
Marginal cost	$40 + 16 + 10 + 12 = 78$	$80 + 24 + 30 + 12 = 146$	$200 + 16 + 10 + 12 = 238$
Contribution/ unit	$100 - 8 - 78 = \mathbf{\$14}$	$155 - 8 - 146 = \mathbf{1}$	$250 - 8 - 238 = \mathbf{4}$
Contribution/ hour	$14 \div 2 = \mathbf{\$7}$	$1 \div 3 = \mathbf{\$0.33}$	$4 \div 2 = \mathbf{\$2}$

e) i)	Product	Hours available	Contribution
		{a} 45 000	
Boardroom:	Uk	$[6\,000 \times 2]$ (12 000)	$[6\,000 \times 24]$ 144 000
	Africa	$[13\,000 \times 2]$ (26 000)	$[13\,000 \times 4]$ 52 000
		7 000	
Standard:	Uk	$[3\,500 \times 2]$ (7 000)	$[3\,500 \times 34]$ 119 000
			315 000
			Less: Fixed costs 200 000
			Net profit 115 000

ii)	Product	Hours available	Contribution
		{a} 45 000	
Boardroom:	Uk	$[6\,000 \times 2]$ (12 000)	$[6\,000 \times 24]$ 144 000
	Africa	$[13\,000 \times 2]$ (26 000)	$[13\,000 \times 4]$ 52 000
Office:	Uk	$[1\,000 \times 3]$ (3 000)	$[1\,000 \times 21]$ 21 000
	Africa	$[1\,000 \times 3]$ (3 000)	$[1\,000 \times 1]$ 1 000
		1 000	
Standard:	Uk	$[500 \times 2]$ (1 000)	$[5\,00 \times 34]$ 17 000
			235 000
			Less: Fixed costs 200 000
			Net profit 35 000

- 2066 a) A key factor is anything which restricts (prevents) a business from achieving its set targets and should be put into consideration first when preparing budgets since the business cannot go beyond it

- b) Contribution is the difference between sales and variable costs that covers fixed costs first then becomes profit once fixed costs have been settled

c)	Eff	Zet	Plus
Contribution per unit	$43 - 15 - 10$	$50 - 10 - 25$	$36 - 6 - 20$
= Sales – marginal cost	= \$18	= \$15	= \$10
d) Contribution per kilogram	$18 \div 15 \times 30$	$15 \div 10 \times 30$	$10 \div 6 \times 30$
= Contribution /unit ÷ kg/ unit	= \$36	= \$45	= \$50
e) Ranking	3	2	1

Product	Quantity	Materials available (kgs)		Contribution	
			500		
Plus	1 000	$[1\ 000 \times 6 \div 30]$	(200)	$[1\ 000 \times 10]$	10 000
			300		
Zet	900	$[900 \times 10 \div 30]$	(300)	$[900 \times 15]$	13 500
Total contribution					23 500
<u>Less: Fixed costs</u>					
Premises rentals				6 000	
Rates				1 800	7 800
					<u>15 700</u>

2067 a) Term *equivalent production units* refers to work in process \equiv progress (WIP) expressed as complete \equiv finished units of production e.g. 300 units that are 25% complete represent 75 complete units ($300 \times 25\%$)

b)	Cost element	Equivalent WIP	Total units	Total cost	Unit cost
	Process A {d}	$[500 \times 100\%]$ 500	$[1\ 000 + 500]$ 1 500	18 000	$[18\ 000 \div 1\ 500]$ 12.0
	Direct materials	$[500 \times 100\%]$ 500	$[1\ 000 + 500]$ 1 500	5 000	$[5\ 000 \div 1\ 500]$ 3.3
	Conversion cost	$[500 \times 80\%]$ 400	$[1\ 000 + 400]$ 1 400	3 200	$[3\ 200 \div 1\ 400]$ 2.3

c) i)	Process A	$[500 \times 12]$	6 000
	Direct materials	$[500 \times 3.3\dots]$	1 667
	Conversion cost	$[400 \times 2.2857\dots]$	914
	Work in progress		<u>8 581</u>

ii) Cost of completed units = $1\ 000 \times (12 + 3.3\dots + 2.2857)$
= **\$17 619**

d) i)	Process A Account			
	Units	\$	Units	\$
Direct materials	1 500	10 000	Process B	1 500
Conversion cost		8 000		18 000
	<u>1 500</u>	<u>18 000</u>		<u>1 500</u>
				<u>18 000</u>

ii)	Process B Account			
	Units	\$	Units	\$
Process A	1 500	18 000	Finished goods	1 000
Direct materials		5 000	WIP c/d	500
Conversion cost		3 200		17 619
	<u>1 500</u>	<u>26 200</u>		<u>8 581</u>
WIP b/d	500	8 581		<u>26 200</u>

c) A by-product is incidental \equiv minor product which arises from production of the main product and has got a relatively small sales value e.g. grease in crude oil refinery whilst a waste product is output with no sales value but might have disposals value e.g. wood chips / shavings in a furniture workshop

2068 a)

- a more accurate and reliable valuation of outputs depends on knowledge of product costs
- decision on whether to make \equiv manufacture or to buy \equiv drop \equiv outsource depends on knowledge of product costs
- product costs are also important \equiv useful for pricing decisions
- some products costs are controllable and therefore knowledge of such can bring a firm competitive advantage over rivals by minimising them

b)

- jobs are not expected to recur whereas processes are repetitive and continuous
- job costing maintains a single Work In Progress Account while process costing has many accounts
- jobs meet customer specifications while process produce standardised products
- jobs normally start and end within one accounting period but processes continue indefinitely
- output of job costing is unique whereas that of process costing is homogeneous \equiv identical
- output of job costing is not usually transferred from one department to the next as in process costing

c) Equivalent units are the representative complete units for work in progress \equiv process (WIP) e.g. 800 units which are 60% are represented by 480 complete (\equiv equivalent) units i.e. $800 \times 60\%$. Equivalent units are important \equiv needed \equiv useful in the correct determination the value of both the WIP and the value of the finished units.

d) i)	Process A Account						
		Kg	\$		Kg	\$	
	Materials	1 200 × 3]	1 200	3 600	Normal loss	{w1} 120	156
	Direct labour	[600 × 4]		2 400	Process B	{w2} 1 050	7 140
	Overheads	[600 × 2.5]		<u>1 500</u>	Abnormal loss	<u>30</u>	<u>204</u>
			<u>1 200</u>	<u>7 500</u>		<u>1 200</u>	<u>7 500</u>
ii)	Cost element	Equivalent WIP	Total units	Total cost	Unit cost		
	Process A	[250 × 100%]	250	[250 + 800] 1 050	7 140	6.80	
	Direct labour {iii}	[250 × 50%]	125	[125 + 800] 925	1 200	1.30	
	Overheads {iii}	[250 × 40%]	100	[100 + 800] 900	900	<u>1.00</u>	
	Cost per kg of Chomp					<u>9.10</u>	

Workings

1. Normal loss = $10\% \times 1\,200 \times [1 + 1.3]$
2. Cost of normal output = $(7\,500 - 156) \div (1\,200 \times 90\%) \times 1\,050$
3. Finished goods = $(6.8 + 1.29729... + 1) \times 800$
4. Work in progress = $250 \times 6.8 + 125 \times 1.29729... + 100$

iii)	Process B Account					
		Kg	\$		Kg	\$
	Process A	1 050	7 140	Finished goods	{w3} 800	7 278
	Direct labour	[300 × 4]	1 200	Work In Process c/d	{w4} 250	1 962
	Overheads	[300 × 3]	<u>900</u>			
		<u>1 050</u>	<u>9 240</u>		<u>1 050</u>	<u>9 240</u>
	Work-in-Process	b/d 250	1 962			

- 2069 a)**
- Capital expenditure centres on acquisition of expensive fixed assets while revenue expenditure is concerned with payment of day to day operating \equiv running expenses
 - Capital expenditure decisions are difficult to reverse whereas revenue expenditure decisions are easy to reverse or correct
 - Capital expenditure involves very large \equiv huge amounts of cash outlays while revenue expenditure involves relatively smaller amounts
 - Capital expenditure is shown in the Balance Sheet while revenue expenditure is recorded in the Income Statement

b) i)	<u>Year</u>	<u>Savings</u>
	1	[800 × 40 – 10 000 – 5 000 – 2 000]
	2	[800 × 40 × 120% – (10 000 + 5 000 + 2 000) × 110%]
	3	[800 × 40 × 120% ² – (10 000 + 5 000 + 2 000) × 110% ²]
	4	[800 × 40 × 120% ² × 110% – (10 000 + 5 000 + 2 000) × 110% ³]
	5	[800 × 40 × 120% ² × 110% ² – (10 000 + 5 000 + 2 000) × 110% ³ × 105%]
		15 000 000
		19 700 000
		25 510 000
		28 061 000
		31 998 450

ii) Payback period

<u>Year</u>	<u>Cash flow</u>	<u>Balance</u>
0	(50 000 000)	(50 000 000)
1	[110 000 – 50 000]	[(50 000) + (60 000)] (110 000 000)
1	15 000 000	[(110 000) + 15 000] (95 000 000)
2	19 700 000	[(95 000) + 19 700] (75 300 000)
3	25 510 000	[(75 300) + 25 510] (49 790 000)
4	28 061 000	[(49 790) + 28 061] (21 729 000)
5	31 998 450	

- Payback period = $4 \text{ years } 21\,729\,000 \div 31\,998\,450 \times 12 \text{ months}$
 = **4 years 8 months**
 OR = $4 \times 21\,729\,000 \div 31\,998\,450$
 = **4.689 years**

iii) Net Present Value

- = Cash flow × Discount factor
 = $-50\,000\,000 + 0.909 \times (15\,000\,000 - 60\,000\,000) + 0.826 \times 19\,700\,000 + 25\,510\,000 \times 0.751$
 $+ 28\,061\,000 \times 0.683 + 0.621 \times (31\,998\,450 + 10\,000\,000)$
 = **(\$10 228 090)**

- c) The SDA should continue to hire the bus because the net present value of owning the bus is negative. An investment with a negative NPV at cost of capital should be rejected. Again the payback period is too long (almost equal with that of the lifespan of the investment) meaning that there is great risk associated with the investment
- d) – it ignores cash flows beyond the payback =recoupment period
– it ignores the pattern of cash flows for projects with the same payback period
– it ignores time value of money
- 2070 a) – Culture and morals affect acceptance or rejection of investments
– Investments may undermine or strengthen the goodwill and reputation of an organisation
– Morale and employee satisfaction contributes significantly toward success or failure of investments
– Social and political implications may have strong bearing and influence for or against the decisions
- b) – DCF is additive for combined projects to determine overall net present value (NPV) which feature is not supported by payback period
– DCF rejects all investments with negative present value at the cost of capital since overall they result in cash out flows although payback period might have favoured these
– DCF takes into account = consideration all cash flows up to the end of the project unlike payback period which is interest in the cash flows only up to the time the investment = outlay is recouped
– DCF takes time value of money into account = consideration because purchasing power of money decreases with time while payback period does not
– DCF uses realistic discount rates (cost of capital) which are absent in payback period
- c) **Axis**
- | Year | Cash flow | Balance |
|----------------|---|----------|
| 0 | (30 000) | (30 000) |
| 1 | $[52\,000 \times (0.6 - 0.35) - 4\,000]$ 9 000 | (21 000) |
| 2 | $[52\,000 \times (0.6 - 0.35) - 4\,000]$ 9 000 | (12 000) |
| 3 | $[52\,000 \times (0.6 - 0.35) - 4\,500]$ 8 500 | (3 500) |
| 4 | $[52\,000 \times (0.6 - 0.35) - 4\,500]$ 8 300 | |
| 5 | $[52\,000 \times (0.6 - 0.35) - 4\,500]$ 8 000 | |
| Payback period | = 3 years $3\,500 \div 8\,300 \times 12$ months | |
| | = 3 years 5 months | |
- Beacon**
- | Year | (Outlay)/ Cash inflows | Balance |
|----------------|---|----------|
| 0 | (35 000) | (35 000) |
| 1 | $[52\,000 \times (0.6 - 0.37) - 4\,000]$ 7 960 | (27 040) |
| 2 | $[52\,000 \times (0.6 - 0.37) - 4\,000]$ 7 960 | (19 080) |
| 3 | $[52\,000 \times (0.6 - 0.37) - 4\,200]$ 7 760 | (11 320) |
| 4 | $[52\,000 \times (0.6 - 0.37) - 4\,500]$ 7 460 | (3 860) |
| 5 | $[52\,000 \times (0.6 - 0.37) - 4\,700]$ 7 260 | |
| Payback period | = 4 years $3\,860 \div 7\,260 \times 12$ months | |
| | = 4 years 6 months | |
- Courier**
- | Year | Net receipts/ (payments) | Balance |
|----------------|---|----------|
| 0 | (40 000) | (40 000) |
| 1 | $[52\,000 \times (0.6 - 0.36) - 4\,000]$ 8 480 | (31 520) |
| 2 | $[52\,000 \times (0.6 - 0.36) - 4\,000]$ 8 480 | (23 040) |
| 3 | $[52\,000 \times (0.6 - 0.36) - 4\,100]$ 8 380 | (14 660) |
| 4 | $[52\,000 \times (0.6 - 0.36) - 4\,200]$ 8 280 | (6 380) |
| 5 | $[52\,000 \times (0.6 - 0.36) - 4\,400]$ 8 080 | |
| Payback period | = 4 years $6\,380 \div 8\,080 \times 12$ months | |
| | = 4 years 9 months | |
- d) Axis NPV = $[0.917 + 0.842] \times 9\,000 + 0.772 \times 8\,500 + 0.708 \times 8\,300 + 0.65 \times [8\,000 + 7\,000] - 30\,000$
= **\$8 019**
- Beacon NPV = $[0.917 + 0.842] \times 7\,960 + 0.772 \times 7\,760 + 0.708 \times 7\,460 + 0.65 \times [7\,260 + 9\,000] - 35\,000$
= **\$843**
- Courier NPV = $[0.917 + 0.842] \times 8\,480 + 0.772 \times 8\,380 + 0.708 \times 8\,280 + 0.65 \times [8\,080 + 11\,000] - 40\,000$
= **(\$350)**

- e) Axis taxi should be acquired because it has the shortest payback period of 3 years 5 months which means it is associated with the least risk in terms of recovering the initial investment = outlay. In addition taxi Axis cash flow patterns reflect largest cash inflows at the beginning which get smaller with time.

Taxi Axis should be purchased because it has largest positive net present value of \$8 019.40 with Beacon being the next second and last alternative with NPV of \$843.04 but Courier taxi should be rejected (= not be accepted) because it has a negative NPV of \$363.08.

Overall, Axis taxi result in the purchase price of \$35 000 being repaid in 3 years 5 months from the outset of the investment. At the end of five years, Axis taxi increases cash flows of the firm by \$8 019.40

2071 Scenario 1

Kane: Revised Trading and Profit and Loss Account for the year ended 30 September 2006

Sales	[400 – 8 – 3]	389 000
<u>Less: Cost of sales</u>	[220 – 23 + 32 – 5.6 + 4 – 4.2 + 0.6]	<u>223 800</u>
Gross profit		165 200
<u>Less: Operating expenses</u>		
Selling and distribution expenses	32 000	
Administration expenses	[103 + 1.6 – 0.6 + 2½% × (43.6 – 8 – 1.6) – 3 + 12 × 0.7³]	<u>105 966</u>
Net profit		<u>27 234</u>

Kane: Revised Balance Sheet as at 30 September 2006

	<i>Cost</i>	<i>Dep</i>	<i>Net</i>
Fixed assets [210 – 12 & 111 – 12 × (1 – 0.7³)]	<u>198 000</u>	<u>103 116</u>	94 884
<u>Current Assets</u>			
Stock [36 + 5.6 – 4 + 4.2 – 0.6]		41 200	
Trade debtors [43.6 – 8 – 1.6]	34 000		
<u>Less: Provision for doubtful debts [(43.6 – 8 – 1.6) × 2½%]</u>	<u>850</u>	33 150	
Bank and Cash		<u>12 000</u>	
		86 350	
<u>Less: Current Liabilities</u>			
Creditors		<u>27 000</u>	
Working capital			59 350
Capital employed			<u>154 234</u>
<u>Financed By</u>			
Capital: Balance b/d [140 – 23 + 32]			149 000
<u>Add: Net profit</u>		27 234	
<u>Less: Drawings</u>		<u>(22 000)</u>	
Balance c/d			<u>154 234</u>

Scenario 2

a) Kane and Abel: Budgeted Trading and Profit and Loss Account for the year to 30 September 2008

Sales	[325 + 300]	625 000
<u>Less: Cost of sales</u>	[325 ÷ 133⅓% + 300 × 60%]	<u>423 750</u>
Gross profit		201 250
<u>Less: Operating Expenses</u>		
Selling and distribution:	Variable [5% × 625]	31 250
	Fixed [(32 – 31.25) × 102%]	765
Administration [103 + 14]		117 000
Loan interest: Kane [20 × 10%]		<u>2 000</u>
Net profit		50 235
<u>Less: Appropriations</u>		
Salary: Abel		8 000
Interest on capital: Kane [10% × 80]		8 000
Abel [10% × 40]		<u>4 000</u>
Profit for sharing		30 235
<u>Less: Share of profit:</u>	Kane [30 235 ÷ 2]	15 117.50
	Abel [30 235 ÷ 2]	<u>15 117.50</u>
		<u>30 235</u>

b)

REPORT ON PARTNERSHIP PROPOSAL

TO: Kane
FROM: XX

Background

The decision to remain a sole-proprietor or to form a partnership centres on comparing financial returns = rewards of these two options.

Findings

- a) Sole-proprietorship returns are:
- | | | |
|------------------------|-----------|-----------------|
| • 2006 net profit | 27 234.00 | {Scenario 1} |
| • 2007 net profit | 22 000.00 | |
| • expected 2008 profit | 18 333.33 | [22 000 ÷ 120%] |
- b) Expected rewards in a partnership are:
- | | |
|-----------------------|------------------|
| • Loan interest | 1 000.00 |
| • Interest on capital | 8 000.00 |
| • Share of profit | 15 117.50 |
| | <u>24 117.50</u> |

Recommendations

Based on the above listed findings, it is financially advisable to be in a partnership since returns will increase by \$5 784.17 from \$18 333.33 to \$24 117.50. Sole-trading profit is likely to decrease continuously by 20%, while partnership business is promising to expand; therefore being in partnership with Abel is advisable.

XX, Financial advisor

Scenario 3a) **K & A Ltd: Balance Sheet as at 1 November 2007**Fixed Assets

Tangibles		85 000
Goodwill	[170 – 85 – 31 – 37.65 + 21.3]	<u>37 650</u>
		122 650

Current Assets

Stock		31 000
Debtors		37 650
Bank	[20 × (170 – 20 × 10% ÷ 8%) ÷ 100]	<u>29 000</u>
		97 650

Less: Current Liabilities

Creditors		<u>21 300</u>
Net current assets		<u>76 350</u>
Total net assets		199 000

Less: Long-Term Liabilities

8% Debentures	[20 × 10% ÷ 8%]	<u>25 000</u>
Shareholders funds		<u>174 000</u>

Financed By

Ordinary share capital	[100 + 20]	120 000
Share premium	[(170 – 20 × 10% ÷ 8% – 100) ÷ 100 × {100 + 20}]	<u>54 000</u>
Equity		<u>174 000</u>

- b) i) Capital instruments are securities issued by a company to investors when raising finance from the investors such as share options, share warrants, preference shares, convertible loan stocks, etc
- ii) – Debentures
– Ordinary shares
- c) Bonus issues are shares given to existing ordinary shareholders free of charge in proportion to their current shareholding. K & A Ltd can do this by debiting the share premium reserve and crediting Ordinary Share Capital Account by the nominal dollar amount represented by the total number of shares being issued
- d) Rights issues are when existing ordinary shareholders are given exclusive privilege to subscribe for new shares on issue in proportion to their current shareholding to preserve = retain their control, ownership as well as voting powers. K & A Ltd can do this to raise additional cash to improve working capital position or for business expansion purposes = reasons
- e) Provisions are amounts written off the Income Statement for expenses whose amounts are estimated as no cash is paid for them but the loss is associated with the current period. Reserves are profits ploughed back into the business or additional funds raised in a reconstruction exercise meant to finance activities of the company.

Scenario 4

- a) Interest cover = Profit before interest and tax ÷ Interest payable
 = $50 \div 2$
 = **25 times**
- b) Dividend cover = (Profit after tax – Preference dividend) ÷ Ordinary dividend
 = $(36 - 8) \div 12$
 = **2.33 times**
- c) Earnings per share (EPS) = (Profit after tax – Preference dividend) ÷ Number of ordinary shares
 = $(36 - 8) \div 120$
 = **\$0.23**
- d) Price earnings ratio (PER) = Market price ÷ EPS
 = $1.80 \div (36 - 8) \times 120$
 = **7.7 years**
- e) Dividend yield = Dividend per ordinary share ÷ Market price × 100%
 = $12 \div 120 \div 1.8 \times 100\%$
 = **5.56%**
- f) Earnings yield = Earnings per share ÷ Market price × 100%
 = $(36 - 8) \div 120 \div 1.8 \times 100\%$
 = **12.96%**

Scenario 5**REPORT ON DIFFERENCES BETWEEN BUDGETED AND ACTUAL PROFITS**

TO: Kane and Abel, shareholders

FROM: XX, Cost accountant

INTRODUCTION

The master (static) budgets were prepared based on targeted level of 10 000 units but the actual level of activity was 18 000 units.

INCOME STATEMENTS

	Master Budget 10 000 units	Flexed Budget 18 000 units	Actual 18 000 units	
Level of activity	10 000 units	18 000 units	18 000 units	
Revenue	300 000	540 000	504 000	
<u>Less: Cost of sales</u>				
Direct materials	60 000	108 000	119 408	
Direct labour	132 000	237 600	233 450	
Fixed overheads	<u>70 000</u>	<u>70 000</u>	<u>70 000</u>	<u>422 858</u>
Net profit	<u>38 000</u>	<u>124 400</u>	<u>81 142</u>	

VARIANCES

- a) Quantity variance = Master budget total cost – Flexed budget total cost
 = $262\,000 - 415\,600$
 = **(\$153 600) Adverse**
- b) Sales price variance = Flexed budget revenue – Actual revenue
 = $540\,000 - 504\,000$
 = **(\$36 000) Adverse**
- c) Direct materials usage variance = [Standard quantity – Actual quantity] × Standard price
 = $[10\,000 \times 18\,000 \div 10\,000 - 17\,560] \times 60\,000 \div 10\,000$
 = **\$2 640 Favourable**
- d) Direct materials price variance = [Standard price – Actual price] × Actual materials
 = $60\,000 \div 10\,000 \times 17\,560 - 119\,408$
 = **(\$14 048) Adverse**
- e) Direct labour efficiency variance = [Standard hours – Actual hours] × Standard rate
 = $132\,000 \times 18\,000 \div 10\,000 - 23\,000 \times 11$
 = **(\$15 400) Adverse**
- f) Direct labour rate variance = [Standard rate – Actual rate] × Actual hours
 = $11 \times 23\,000 - 233\,450$
 = **\$19 550 Favourable**

PROFIT RECONCILIATION STATEMENTS**a) Reconciliation of master budget profit to actual profit**

Master budget profit	38 000	
Quantity variance	(153 600)	Adverse
Sales: Price variance	(36 000)	Adverse
Volume variance [300 – 540]	240 000	Favourable
Direct materials: Usage variance	2 640	Favourable
Price variance	(14 048)	Adverse
Direct labour: Efficiency variance	(15 400)	Adverse
Rate variance	19 550	Favourable
Actual profit	<u>81 142</u>	

b) Reconciliation of flexed budget profit to actual profit

Flexed budget profit	124 400	
Sales: Price variance	(36 000)	Adverse
Direct materials: Usage variance	2 640	Favourable
Price variance	(14 048)	Adverse
Direct labour: Efficiency variance	(15 400)	Adverse
Rate variance	19 550	Favourable
Actual profit	<u>81 142</u>	

EXPLANATIONS**a) Differences between profits**

The master budget profit is \$38 000 while the actual profit is \$81 142 because of adverse and favourable changes in either the volumes = quantity = efficiency or the rates = prices or both quantity and prices. The sum of volume variances and price variances gave an overall \$43 142 = \$81 142 – \$38 000 difference.

Flexed budget profit is \$124 400 which is \$43 258 = \$124 400 – \$81 142 more than actual profit. Overall, the business failed to achieve its expected profit at a level of 18 000 units. Only prices = rates contributed toward the differences in the profits because budgeted and actual results are at the same level of activity.

b) Relationships amongst variances

The adverse sales price variance of \$36 000 contributed to the decrease in expected profit resulting from:

- a cut in selling price to increase sales volume
- a reduction in selling price in response to competitor actions
- control of selling price by governments (setting of price ceilings)

Total direct materials variance is \$11 408 unfavourable (= \$2 640 F + \$14 048 A) caused by buying

- expensive supplies of inputs which increased costs by \$14 048
- higher quality materials which reduced wastages by \$2 640

Total direct labour variance is \$4 150 favourable (= \$15 400 A + \$19 550 F), a result of

- employment of less skilled workforce which was cheaper to pay by \$19 550
- excess working hours costing an additional \$15 400

XX

Certified cost and management accountant

2072 Scenario 1**a) Profit and Loss and Appropriation Account for the six months ended**

	31 March 2001		30 September 200	
	Muswe & Chinyanga		Muswe, Chinya & Dehwe	
Gross profit {w1}		142 800		214 200
Discount received [4 200 × ½]		<u>2 100</u>		<u>2 100</u>
		144 900		216 300
<u>Less: Operating Expenses</u>				
Discount allowed [7 350 ÷ 2]	3 675		3 675	
Dep: Fix & Fittings [½ × 84 000 × 10%]	4 200		4 200	
Motor Vehicle [105 000 × 25% ÷ 2]	13 125		13 125	
Rates [21 000 × ½]	10 500		10 500	
Wages and salaries [75 600 ÷ 2]	37 800		37 800	
Motor vehicles exp [37 800 × ½]	18 900		18 900	
Postage & stationary [10 500 ÷ 2]	<u>5 250</u>	<u>93 450</u>	<u>5 250</u>	<u>93 450</u>

	Muswe & Chinyanga			Muswe, Chinya & Dehwe		
Profit for appropriation			51 450			122 850
Add: Interest on drawings:	Muswe {w2}	315		315		
	Chinyanga {w2}	210		210		
	Dehwe {w2}	—	525	315	840	
			51 975		123 690	
Less: Interest on capital:	Muswe {w3}	8 505		8 955		
	Chinyanga {w3}	5 985		6 210		
	Dehwe {w3}	—	14 490	2 993	18 158	
Residual profit			37 485		105 532	
Less: Share of profit:	Muswe [² / ₃ & ⁴ / ₇]	24 990		60 304		
	Chinyanga [¹ / ₃ & ² / ₇]	12 495		30 152		
	Dehwe [¹ / ₇]	—	37 485	15 076	105 532	

b)

Capital Accounts

	Muswe	Chinya	Dehwe		Muswe	Chinya	Dehwe
Mar 31 Balance c/d	155 400	100 800		Oct 1 Balance b/d	113 400	79 800	
				Mar 31 Goodwill {w4}	42 000	21 000	
	<u>155 400</u>	<u>100 800</u>			<u>155 400</u>	<u>100 800</u>	
April 1 Goodwill {w5}	36 000	18 000	9 000	April 1 Balance c/d	155 400	100 800	
1 Balance c/d	119 400	82 800	39 900	1 Bank			48 900
	<u>155 400</u>	<u>100 800</u>	<u>48 900</u>		<u>155 400</u>	<u>100 800</u>	<u>48 900</u>
				April 1 Balance c/d	119 400	82 800	39 900

Current Accounts

	Muswe	Chinya	Dehwe		Muswe	Chinya	Dehwe
Mar 31 Drawings {w6}	6 300	4 200		Oct 1 Balance b/d	12 200	10 300	
31 Int on draw	315	210		Mar 31 Int on cap	8 505	5 985	
31 Balance c/d	39 080	24 370		31 Share of pro	24 990	12 495	
	<u>45 695</u>	<u>28 780</u>			<u>45 695</u>	<u>28 780</u>	
Spt 30 Drawings {w6}	6 300	4 200	6 300	April 1 Balance c/d	39 080	24 370	
30 Int on draw	315	210	315	Spt 30 Int on cap	8 955	6 210	2 993
30 Balance c/d	101 724	56 322	11 454	30 Share of pro	60 304	30 152	15 076
	<u>108 339</u>	<u>60 732</u>	<u>18 069</u>		<u>108 339</u>	<u>60 732</u>	<u>18 069</u>
				Oct 1 Balance c/d	101 724	56 322	11 054

c) Muswe, Chinyanga and Dehwe: Balance Sheet as at 30 September 2001

	Cost	Dep	Net
Fixed Assets			
Freehold premises	280 000		280 000
Fixtures and fittings [25 200 + 84 000 × 10%]	84 000	33 600	50 400
Motor vehicles [52 500 + 105 000 × 25%]	105 000	78 750	26 250
	<u>469 000</u>	<u>112 350</u>	356 650
Current Assets			
Stock	31 100		
Debtors	28 400		
Bank	10 050	69 550	
Less: Current Liabilities			
Creditors		14 600	
Working capital			54 950
Capital employed			<u>411 600</u>
Financed by			
Capital:			
Muswe		119 400	
Chinyanga		82 800	
Dehwe		39 900	242 100
Current accounts:			
Muswe		101 724	
Chinyanga		56 322	
Dehwe		11 454	169 500
Equity			<u>411 600</u>

Workings

1. Gross profit = $357\,000 \div 1\,020 \times [1\,020 - 612 \& 612]$

2.	Intrest on drawings:	Muswe=	$12\,600 \div 2 \times 10\% \times \frac{1}{2}$
		Chinyanga	$= 8\,400 \times \frac{1}{2} \times 10\% \div 2$
		Dehwe	$= 6\,300 \times 10\% \times \frac{1}{2}$
3.	Interest on capital:	Muswe=	$15\% \div 2 \times [113\,400 \& 113\,400 + 63\,000 \times (\frac{2}{3} - \frac{4}{7})]$
		Chinyanga	$= 15\% \times \frac{1}{2} \times [79\,800 \& 79\,800 + 63\,000 \times (\frac{1}{3} - \frac{2}{7})]$
		Dehwe	$= 15\% \div 2 \times [39\,900]$
4.	Opening goodwill	=	$63\,000 \times [\frac{2}{3} \& \frac{1}{3}]$
5.	Closing goodwill	=	$63\,000 \times [\frac{4}{7} \& \frac{2}{7} \& \frac{2}{7}]$
6.	Drawings:	Muswe	$= 12\,600 \div 2$
		Chinyanga	$= 8\,400 \times \frac{1}{2}$

Scenario 2

a)		Realisation Account		
	Sep 30 Freehold premises	280 000	Sep 30 Creditors	39 200
	30 Fixtures and fittings	67 200	30 Gatora (Pvt) Ltd [300 + 60 × 10 ÷ 8]	375 000
	30 Motor vehicles	30 000	30 Capital: {w1} Muswe	10 000
	30 Stock	25 890	Chinyanga	5 000
	30 Debtors	21 840	Dehwe	10 000
	30 Bank	14 270		
		<u>439 000</u>		<u>439 000</u>

b) Gatora (Pvt) Ltd: Balance Sheet as at 1 October 2002

<u>Non-Current Assets</u>		
Freehold premises		280 000
Fixtures and fittings		67 200
Motor vehicles		<u>30 000</u>
		377 200
<u>Current Assets</u>		
Stock	25 890	
Debtors	21 840	
Bank	14 270	
	<u>62 000</u>	
<u>Less: Current Liabilities</u>		
Creditors		<u>39 200</u>
Net current assets		<u>22 800</u>
Total net assets		400 000
<u>Less: Non-Current Liabilities</u>		
8% Debentures [60 × 10% ÷ 8%]		<u>75 000</u>
Equity		<u>325 000</u>
Financed By		
300 000 Ordinary shares of \$1 each		300 000
Capital reserve = Negative goodwill [300 + 60 × 10% ÷ 8% – 377.2 – 62 + 39.2]		<u>25 000</u>
Shareholders funds		<u>325 000</u>

- c)
- A partnership has limited life span while a company has an infinite life span
 - A partnership has unlimited liability meaning that in the event of liquidation, the debts of the business spill over to personal assets = property of partners whereas in a company, there is limited liability implying that shareholders forfeit = lose share capital at most
 - Actions of one partner affect the whole partnership which is not the case with a company
 - Cannot raise more capital than company
 - Difficulty of admission of new partner(s)
 - Difficulty of dissolution
 - Partnerships are characterised by conflicts among partners making decisions slower in contrast to companies where appointed board of directors carry out professional and speedy decisions

Working

1. Share of profit = $(414\,200 - 377\,200 - 62\,000) \div (2 + 1 + 2) \times [2 \& 1 \& 2]$

Scenario 3**a) Disclosure requirements for fixed assets**

- Balance Sheet shows fixed assets at net book value
- Depreciation method

- Economic \equiv productive \equiv useful life
- Historical or revaluation cost at the beginning of a period
- Acquisitions made during the period
- Disposals made during the period
- Revaluations during the period
- Closing balance at the end of the year at cost
- Aggregate depreciation at the start of the period
- Depreciation charge for the period
- Depreciation on disposed assets
- Revaluation effect on depreciation
- Depreciation balance at the end of the period
- Net book value at the end of the period for each fixed asset class

b) Contents of auditors report

- Address to shareholders, not board of directors
- Statement that International Auditing Standards were applied
- Statement that proper accounting records are kept
- Statement that the final financial statements are based on those records
- Statement that the accounts comply with provisions of Companies Act 24:03
- Statement that International Accounting Standards were complied with
- Opinion on whether accounts were prepared in accordance with law
- Opinion on whether Income Statement shows a true and fair view of the profit or loss
- Opinion on whether Balance Sheet gives a true and fair view of the financial position

Scenario 4

a) i) Average accounting rate of return =
$$\frac{\text{Average annual profit} \times 100\%}{\frac{1}{2} (\text{Initial outlay} + \text{Scrap}) + \text{Further working capital}}$$

A's ARR = $(10 + 15 + 20 + 30 + 5) \div 5 \times 2$
= **32%**

B's ARR = $(16 + 25 + 35 + 10 + 5) \div 5 \times 2$
= **36.4%**

- ii) Depreciation per annum = $100 \text{ million} \times 20\% = \20 million
Annual cash flows = Net profit + Depreciation charge

Year	A			B		
	Profit	Cash flow	Balance	Profit	Cash flow	Balance
0		(100)	(100)		(100)	(100)
1	10	[10 + 20]	30	16	[16 + 20]	36
2	15	[15 + 20]	35	25	[25 + 20]	45
3	20	[20 \times 2]	40	35	[35 + 20]	55
4	30	[30 + 20]	50	10		30
5	5	[5 + 20]	25	5		25

A's payback period = $2 \text{ years } 35 \div 40 \times 12 \text{ months}$
= **2 year 10.5 months**

Or **2.875 years**

B's payback period = $2 \text{ years } 19 \div 55 \times 12 \text{ months}$
= **2 years 4.1 months**

Or **2.345 years**

iii)

Year	A		B	
	Cash flow \$000	Disc Fact @ 15%	D.C.F. \$000	Disc Fact @30%
0	(100 000)	1.000	(100 000)	1.000
1	30 000	0.870	26 100	0.769
2	35 000	0.756	26 460	0.592
3	40 000	0.658	26 320	0.455
4	45 000	0.572	25 740	0.350
5	25 000	0.497	12 425	0.269
	Net Present Value (NPV)		17 045	
				(15 535)

$$\begin{aligned} & \text{B's NPV @15\%} \\ & = 36\,000 \times 0.87 + 45\,000 \times 0.756 + 55\,000 \times 0.658 + 30\,000 \times 0.572 + 25\,000 \times 0.497 - 100\,000 \\ & = \underline{\underline{\$32\,115}} \end{aligned}$$

$$\begin{aligned} & \text{B's NPV @ 30\%} \\ & = 36\,000 \times 0.769 + 45\,000 \times 0.592 + 55\,000 \times 0.455 + 30\,000 \times 0.35 + 25\,000 \times 0.269 - 100\,000 \\ & = \underline{\underline{(\$5\,856)}} \end{aligned}$$

$$\text{iv) IRR} = \frac{+\text{ve Disc Fac} + \frac{(-\text{ve Disc Fac} \text{ minus } +\text{ve Disc Fac}) \times +\text{ve NPV}}{+\text{ve NPV} + |-\text{ve NPV}|}$$

$$\begin{aligned} \text{A's IRR} & = 15\% + (30\% - 15\%) \times 17\,045 \div (17\,045 + 15\,535) \\ & = \underline{\underline{22.8\%}} \end{aligned}$$

$$\begin{aligned} \text{B's IRR} & = 30\% - (30\% - 15\%) \times 5\,856 \div (32\,115 + 5\,856) \\ & = \underline{\underline{27.7\%}} \end{aligned}$$

- b) Gatora (Pvt) Ltd should purchase machine **B** instead of machine **A**.

Accounting rate of return for machine **B** is greater than that of machine **A** by 4.4% (= 36.4% – 32%) which means that machine **B** is more profitable than machine **A**. An extra profit of \$11 million would be made if machine **B** is acquired.

The payback period for machine **B** is shorter than that of machine **A** by 6.4 months (2 year 10.5 months – 2 years 4.1 months). This means machine **B** has a lower risk of recovering \equiv recouping the outlay although both machines would repay the investment in the third year.

At the cost of capital of 15%, machine **B** has the biggest NPV of \$32 115 000 compared to that of machine **A** of \$17 045 000. Machine **B** is favourable since overall it increases cash inflows by \$15 070 000 after taking into account the time value of money.

Machine **B** has the highest IRR of 27.7% which is 12.7% more than the required rate of return of 15% and 4.9% more than that of machine **A** which is 22.8%. This means it will take an increase of 12.7% in the cost of capital before NPV can become nil \equiv zero for machine **B** which is advantages relative to machine **A**.

All the four methods of investment appraisal favour machine **B**.

2073 Scenario 1

- a) **Shava: Balance Sheet {extract} as at 31 December Year 0**

Financed By		
Capital:	Bank	250 000
	Add: Cash (300 000 – 200 000)	100 000
	Net profit {missing figure}	<u>92 000</u>
		442 000
	Less: Drawings (3 600 × 12)	<u>43 200</u>
	Balance c/d {w1}	<u>398 800</u>

- b) **Shava: Trading and Profit and Loss Account for the year ended 31 December Year 1**

Sales (966 000 ÷ 60%)		1 610 000
Less Cost of Sales		
Opening stock	30 000	
Add: Purchases [1 000(960 – 67 + 83)]	<u>976 000</u>	
Goods available	1 006 000	
Less: Drawings in kind – Electric fittings	<u>4 000</u>	
Good available for resale	1 002 000	
Less: Closing stock	<u>36 000</u>	<u>966 000</u>
Gross profit [966 000 × 40%/(100% – 40%)]		644 000
Less Operating Expenses		
Loan interest (200 000 × 15%)	30 000	
Selling and administration expenses {w2}	387 000	
Dep: Delivery vehicles [1 000(180 + 120 – 240)]	60 000	
Bad debts	42 000	
Provision for bad and doubtful debts [1 000(102 – 42) × 2½%]	1 500	<u>520 500</u>
Net profit		<u>123 500</u>

- b) – Shows the ability of a business to generate positive cash flows
 – Help assess the ability of the business to meet its obligations e.g. paying loan interests
 – Reveals the business' need for external funding/ financing
 – Helps explain the difference between reported profits and liquidity position
 – Shows the causes of change in cash and cash equivalents during a period

Scenario 3

a) Option 1

Advantages

- Shava retains absolute (100%) ownership of business
- This is relatively simple and faster

Disadvantages

- Shava might not have adequate surplus private assets worth selling
- There might be no ready buyers of private assets to timeously raise the needed funds

Option 2

Advantages

- Method is relatively faster
- The loan can be repaid once it has generated sufficient cash inflows

Disadvantages

- Loan interest reduces the final profits
- Loan will need to be redeemed/ repaid at maturity

Option 3

Advantages

- Shoko is not paid interest on the funds
- Shoko will not be refunded the funds

Disadvantages

- Profits will be shared
- Shava will lose 100% control of the business

- b) – *Arrange for bank overdraft:* This is short term borrowing and allows a business to meet its small financial obligations which arise without notice. The overdraft facility has got a shallow limit.
- *Dispose surplus fixed assets:* Selling idle or redundant fixed assets brings in needed cash. The value tied up (locked) in fixed assets is converted back into cash.
- *Get a loan:* The business borrows money on a long term basis. The amount borrowed depends on the size of the expenditure to be financed.
- *Maintain minimum stock levels:* Selling the extra stock generates the needed liquid resources.

Scenario 4

a) i) Payback period

Advantages

- Can compare relative risks of different projects
- Cash flow is less subjective than profitability
- Highlights the size and timing of cash flows
- Relatively simple to calculate

Disadvantages

- Life expectancy of project is ignored as well as cash flows beyond payback period
- Projects with same payback period may have different cash flow patterns
- Simple pay back period ignores time value of money

Net present value

Advantages

- Can be used to assess viability of additive projects
- Takes time value of money into account

Disadvantages

- It is widely thought that cash flows are discounted to net present value to allow for inflation but that is not so as discounting factor is cost of capital not rate of inflation
- Requires complex computation of discounting factors

Advantages of internal rate of return

- Gives rate of return on discounted cash flows
- Shows the maximum cost of capital at which to borrow external finance

Disadvantages

- Complex to calculate using formula
- Less accurate when two positive NPV's are used
- Requires calculation of two different net present values

b) i)	<u>Year</u>	<u>Cash inflows (outflows)</u>	<u>Balance</u>
	0	60 000 ÷ 2	(30 000)
	1	60 000 – 30 000	(30 000)
	1	1 000(2 – 2 – 3)	= 15 000
	2	1 000(2 × 115% – {2 + 3} × 110%)	= 17 500
	3	1 000(2 × 1.15 ² – {2 + 3} × 1.1 ²)	= 20 400
	4	1 000(2 × 1.15 ³ – {2 + 3} × 1.1 ³)	= 23 762.5
	5	23 762.5 × 110%	= 26 138.75
	Payback period	= 3 + 7 100 ÷ 23 762.5	≈ 3.3 years
		= 3 years 7100 ÷ 23 762.5 × 12months	≈ 3 years 3.6 months
ii) NPV @ 12% factor			
	=	–30 000 × [1 + 0.893] + 15 000 × 0.893 + 17 500 × 0.797 + 20 400 × 0.712 + 23 762.5 × 0.636 + [26 138.75 + 10 000] × 0.567	
	=	\$20 680.92	
NPV @ 30% factor			
	=	–30 000 + [–30 000 + 15 000] × 0.769 + 17 500 × 0.592 + 20 400 × 0.455 + 23 762.5 × 0.35 + [26 138.75 + 10 000] × 0.269	
	=	(\$4 454.80)	
iii) Internal rate of return = 12% + $\frac{(30\% - 12\%) \times 20\,680.92}{20\,680.92 + 4\,454.80}$			
		≈ <u>26.81%</u>	

- c) Shava should invest in the new security system. At the end of 3.6 years, Shava would have recouped or recovered the initial outlay of \$60 000 but would enjoy usage of system for a total of 5 years. If old system is in use, \$100 000 (\$20 000 × 5 years) would be spent on security. Net present value of the new system is positive (\$20 680.92) at the cost of capital of 12% which mean an increase cash flows. Internal rate of return is 26.81% which is greater that the cost of capital of 12% by 14.81% implying that extra cash shall flow into the business after settling interests on borrowed capital.

2074 Scenario 1

a)	Realisation Account			
	Dec 31 Freehold property	330 000	Dec 31 Capital: Motor vehicles	30 000
	31 Plant and equipment	120 000	31 Trade creditors	127 500
	31 Furniture and fittings	15 000	31 Accruals	7 500
	31 Motor vehicles	15 000	31 Tantan Ltd	600 000
	31 Investments	50 000		
	31 Stock	35 600		
	31 Trade debtors	120 000		
	31 Bank	49 400		
	31 Capital	<u>30 000</u>		
		<u>765 000</u>		<u>765 000</u>
b)				
	Capital Account			
	Dec 31 Realisation: Motor vehicles	30 000	Dec 31 Balance b/d	600 000
	31 Ordinary share capital	500 000	31 Realisation profit	30 000
	31 Share premium [600 – 500]	<u>100 000</u>		
		<u>630 000</u>		<u>630 000</u>
c) Tantan Ltd: Balance Sheet as at 1 January 2000				
<u>Fixed Assets</u>				
Tangibles:	Freehold property	300 000		
	Plant and equipment	75 000		
	Furniture and fittings	<u>15 000</u>		390 000
Intangibles:	Goodwill [600 – 390 – 50 – 205 + 135]			90 000
Investments				<u>50 000</u>
				<u>530 000</u>

<u>Current assets</u>			
Stock		35 600	
Trade debtors		120 000	
Bank		<u>49 400</u>	
		205 000	
<u>Less: Current Liabilities</u>			
Trade creditors	127 500		
Accruals	<u>7 500</u>	<u>135 000</u>	
Net current assets			<u>70 000</u>
Total net assets			<u>600 000</u>
<i>Financed By</i>			
<u>Share capital</u>			
Ordinary shares of \$1 each		<u>600 000</u>	500 000
Reserve: Share premium [600 – 500]			<u>100 000</u>
Equity			<u>600 000</u>

Scenario 2**a) Tantan Ltd: Calculation of closing stock as at 31 December 2000**

Opening stock	{Scenario 1}		35 600
i. Purchases			330 000
ii. Cost of sales	[382 ÷ 133 ¹ / ₃ %]		(286 500)
iii. Returns outwards			(17 000)
Cost of returns inwards	[7 200 ÷ 133 ¹ / ₃ %]		5 400
iv. Stolen goods			(20 000)
v. Valueless stock			(7 400)
vi. Sales of sale or return	[part of closing stock = ignore in this case]		
Closing stock as at 31 December 2000			<u>40 100</u>

b) Tantan Ltd: Trading Account for the year ended 31 December 2000

Sales			382 000
<u>Less: Returns inwards</u>			<u>7 200</u>
Turnover			374 800
<u>Less: Cost of turnover</u>			
Opening stock		35 600	
Add: Purchases	330 000		
<u>Less: Returns outwards</u>	<u>17 000</u>	<u>313 000</u>	
		348 600	
<u>Less: Stolen goods</u>	20 000		
Valueless goods	<u>7 400</u>	<u>27 400</u>	
Good available for resale		321 200	
<u>Less: Closing stock</u> {a}		<u>40 100</u>	<u>281 100</u>
Gross profit	[281 100 × 33 ¹ / ₃ %]		<u>93 700</u>

- c) Stock valuation basis is principle of lower = smaller value between cost and net realisable value which is in line with prudence concept

Scenario 3**a) Tantan Ltd: Balance Sheet as at 31 December 2002**

<u>Non-Current Assets</u>			
Freehold property	[1 400 – 600 – 400 + 240 + 500]	1 140 000	
Plant and equipment		540 000	
Furniture and fittings		<u>20 000</u>	1 700 000
<u>Current Assets</u>			
Stock	[1 260 – 310]	950 000	
Trade debtors	[740 – 120]	<u>620 000</u>	
		1 570 000	
<u>Less: Current Liabilities</u>			
Trade creditors	[1 660 – 800]	860 000	
Bank overdraft	[(1 120 + 800 × 30% + 100) × 25%]	<u>365 000</u>	<u>1 225 000</u>
Net current assets			<u>345 000</u>
Total net assets			<u>2 045 000</u>

Less: Non-Current Liabilities

Trade creditors	[800 × 70%]	560 000	
10% Loan stock	[500 – 1 500 + 75% × (1 120 + 800 × 30% + 100)]	95 000	655 000
Net worth			<u>1 390 000</u>

Financed by

<u>Share capital</u>		<u>Authorised</u>	<u>Issued</u>
Ordinary shares of \$1 each		600 000	600 000

Reserves

Capital restructuring [1 500 – 600 – 400 + 240 + 500 – 700 + 540 – 310 – 120]	650 000		
Retained profits	140 000		790 000
Equity			<u>1 390 000</u>

b) REPORT ON COMPUTERISED ACCOUNTING SYSTEMS

TO: Management
FROM: Information Technology Officer

Introduction

Traditionally, businesses have maintained manual accounting system. However, since the advents of the computer age, accounting packages running on computers have been developed.

Advantages of computerised accounting systems

The merits of having a computerised accounting system include:

- ability of computers to hold large volumes of data, which manually would require tomes of books;
- accounting data can be kept on several storage media e.g. hard drives, memory sticks, CDs, etc;
- accounting data can be shared and viewed simultaneously on several work stations;
- accuracy of calculations done electronically unlike manual system prone to arithmetical errors;
- automatic generation of management reports;
- budgeting and forecasting is made easier by utilising the 'what if' facilities;
- data or figures out of range can be quickly queried by the software;
- computers do not go on sick leave, holidays, etc;
- errors can be quickly tracked and reversed automatically;
- fast = speedy preparation of statements which process is lengthy = slow if done manually;
- formulae can be incorporated into the package to automatically calculate ratios;
- on-line systems can automatically update stock and accounting records at the point of sale;
- reduction in accounting wages and salaries as fewer employees are required;
- soft copies can be dumped to printers into hard copies of accounting records;
- uniformity of processing accounting data.

Limitations of computerised accounting systems

The shortfalls associated with the usage of computerised accounting systems include:

- accounting data is at risk of computer crashing, hacking, sniffing, Trojans, viruses, worms, etc;
- error in input results in faulty output i.e. garbage in garbage out;
- employee who operates the packages need training for effective use;
- expensive in terms of security costs, back-ups and other peripherals needed to run the system;
- package cannot be used where there is no electricity, except for laptops with internal power supply;
- programming errors lead to incorrect preparation of financial statements and reports;
- software cannot make human judgments and decisions;
- software needs to be upgraded and registered periodically;
- there is need for physical data input into the system even where scanners and barcodes are in use

Scenario 4**a) Tantan Ltd: Cash Budget for three months ending 31 May 2003**

<u>RECEIPTS</u>		<i>March</i>	<i>April</i>	<i>May</i>
Sales: Cash		410 000	600 000	800 000
Credit		820 000	600 000	200 000
Total receipts		<u>1 230 000</u>	<u>1 200 000</u>	<u>1 000 000</u>
<u>PAYMENTS</u>				
Credit purchases			220 000	420 000
10% Loan stock redemption {Scenario 2}		95 000		
Wages	[300 × (100% & 110% & 110%)]	300 000	330 000	330 000



		March	April	May
Administration		150 000	150 000	150 000
Equipment	[500 – 300]	200 000		
Rent	[360 ÷ 4]	90 000		
Total payments		<u>835 000</u>	<u>700 000</u>	<u>900 000</u>
Net receipts/ (payments)		395 000	500 000	100 000
Balance/ (overdraft) b/d		<u>(200 000)</u>	<u>195 000</u>	<u>695 000</u>
Balance c/d		<u>195 000</u>	<u>695 000</u>	<u>795 000</u>

- b) i) Requirements of an effective budgetary control system include:
- Budget period
 - Budget committee
 - Budget manual
 - Clearly defined targets and objectives
 - Conducive and properly defined organisational structure
 - Cooperation of all employees and management in budget implementation
 - Encouragement of responsibility accounting (management by exception)
 - Participation of all employees and management in budgeting and budgetary control
 - Periodic review of progress
 - Revision of standards
 - Sufficient accounting records coupled with adequate and feasible procedures
- ii) – *cash shortage*: issue capital instruments or reduce debtor collection periods
- *expected sales quantity*: number of units is increased by cutting \equiv lowering selling price or by carrying out advertising or improving packaging
- *limited direct labour hours*: additional labour is hired i.e. use of casual employees or temps to supplement on the short fall, increase automation \equiv mechanisation or offer higher pay rates
- *factory space*: make extensions or relocate factory
- *plant capacity*: additional plant can be acquired by purchase, hire-purchase or leased; or alternatively improvements to expand output are recommended
- *raw materials availability*: alternative/ substitute materials can be ordered or liaise in advance with suppliers or procure materials from various suppliers

2075 Scenario 1

a) Net book value = $[\text{Cost} - (\text{Cost} - \text{Scrap}) \div \text{Useful life} \times 6 \div 12 \text{ months}] \times \text{Remaining life}$
 = $[8\ 000 - (8\ 000 - 1\ 500) \div 5 \times \frac{1}{2}] \div 3$
 = **\$2 450**

b) Loss on disposal = Net book value – Sales proceeds
 = 2 450 – 2 000
 = **\$450**

- c) Depreciation is the loss in value of a tangible fixed asset over its productive business life due to wear, tear and usage. Upon acquisition on 1 July 2004, \$8 000 purchase price was treated as capital expenditure by debiting Motor Vehicles Account and shown in Balance Sheet as fixed asset at the end of the accounting period since benefits will be derived from its usage over many years. The provision account debited the Profit and Loss Account with depreciation, an estimated \equiv improvised expense, to spread that historical cost of \$8 000 over the economic life and by so doing matching the cost of asset consumed with the income \equiv revenues generated. Except depreciation expense was charged, profit reported by the Income Statement would be overstated which contravenes the prudence concept.

Scenario 2

a) **Mr X: Income Statement for the year ended 31 December 2007**

Sales		92 000	
<u>Less: Cost of sales</u>			
Opening stock		1 500	
<u>Add: Purchases</u>	{missing figure}	<u>40 700</u>	
		42 200	
<u>Less: Closing stock</u>		<u>2 200</u>	<u>40 000</u>
Gross profit	[92 000 \times 130% \div 230%]		52 000

<u>Less: Operating expenses</u>			
Loss on equipment		1 500	
Loss of disposal of motor vehicle	{1b}	450	
Bad debts		500	
Increase in provision for uncollectible debts	[(1 700-500) × 2½%]	30	
Depreciation: Equipment	[10% × (16 250 + 5 000 - 1 500 - 2 450)]	1 730	
Fixtures and fittings	[2 000 × 10%]	200	
Sundry expenses	{missing figure}	17 230	21 640
Net profit before interest	[33% × 92 000]		30 360
<u>Less: Loan interest</u>	[10% × 4 000 × 6 ÷ 12]		200
Net profit after interest			<u>30 160</u>

Mr X: Balance Sheet as at 31 December 2007

<u>Fixed Assets</u>				
Equipment	[16 250 + 5 000 - 1 500 - 2 450]	Cost 17 300	Dep 1 730	NBV 15 570
Fixtures and fittings		<u>2 000</u>	<u>200</u>	<u>1 800</u>
		<u>19 300</u>	<u>1 930</u>	17 370
<u>Current Assets</u>				
Stock			2 200	
Debtors	[1 700 - 500]	1 200		
<u>Less: Provision for uncollectable debts</u>	[2½% × 1 200]	<u>30</u>	1 170	
Advertising			3 000	
Bank and Cash			<u>12 620</u>	
			18 990	
<u>Less: Current Liabilities</u>				
Trade creditors		2 800		
Loan interest	[10% × 4 000 × ½]	<u>200</u>	<u>3 000</u>	
Working capital				<u>15 990</u>
Capital employed				33 360
<u>Less: Long-term liabilities</u>				
10% Loan				<u>4 000</u>
Net worth				<u>29 360</u>
<u>Financed By</u>				
Capital:	Balance b/d			20 000
	<u>Add: Net profit</u>		30 160	
	<u>Less: Drawings</u>	[400 × 52]	<u>20 800</u>	<u>9 360</u>
	Balance c/d			<u>29 360</u>

b) i) Return on capital employed (ROCE) = $\frac{\text{Net profit before interest} \times 100\%}{\text{Fixed assets} + \text{Working capital}}$

<i>2006 ROCE</i>	<i>2007 ROCE</i>
= $26\ 000 \div 20\ 000 \times 100\%$	= $30\ 360 \div 33\ 360 \times 100\%$
= 130%	= 91%

Margin percentage	=	Gross profit ÷ Sales × 100%
<i>2006 Margin</i>		<i>2007 Margin</i>
= $48\ 000 \div 87\ 500 \times 100\%$		= $[52\ 000 \div 92\ 000 \equiv 130\% \div 230\%] \times 100\%$
= 54.86%		= 56.52%

Overhead percentage	=	Operating expenses ÷ Sales × 100%
<i>2006 Overhead percentage</i>		<i>2007 Overhead percentage</i>
= $22\ 000 \div 87\ 500 \times 100\%$		= $21\ 640 \div 92\ 000 \times 100\%$
= 25.14%		= 23.52%

ii) **REPORT ON PROFITABILITY**

TO: Mr X, Proprietor
FROM: Y, Financial Accountant

Background

Compensation for undertaking enterprising risk is profit. Profitability measures reflect the returns or rewards associated with the business uncertainty as ratios.

Findings

The following are profitability ratios for two consecutive years ended 31 December:

	<u>2006</u>	<u>2007</u>
i) Return on capital employed	130%	91%
ii) Margin percentage	54.86%	56.52%
iii) Overhead percentage	25.14%	23.52%

Comments

Return on capital employed by 39% in 2007 meaning that 2006 had great rewards on money invested on long term than 2007. The margin percentage increased by 1.66% in 2007 implying there were better cost cutting measure in 2007 than in 2006. This is ascertained by a decrease in operating expenses \equiv overhead percentage of 1.62% which suggests a further better management of costs. The fall in ROCE is therefore a result of increased borrowings, i.e. loan on 1 July, which diluted returns per investment unit

- c) A customer who goes out of business is a bad debt. *Prudence concept* requires expense recognition for this. *Matching concept* requires this loss to be identified in appropriate accounting period. Bad debts expense was treated in 2007 because the customer went out of business that year. If this event occurred on 15 January, then **IAS 10, Post Balance Sheet events**, would be referred to. If the debtor existed at Balance Sheet date, then this *condition* of being a bad debt existed but without the knowledge Mr X. In that case, the event is treated as an *adjusting post Balance Sheet event* requiring the reported profit and Balance Sheet figure for debtors to be corrected. If the customer was not a debtor on 31 December 2007, nothing is done in 2007 the bad debt is recognised in 2008
- d) i) Mr X treated the advertising total cost as a prepayment \equiv current asset. The advertising campaign is assumed to start yielding rewards in the future, most probably starting early 2008. The matching concept applies in this case as it requires expenditure incurred now but with benefits expected to flow into the business well in the future to be systematically identified with corresponding gains.
- ii) Accountants' proposed treatment would be to write off a portion of the total cost in the period of the campaign to the Income Statement and to record the respective prepayment as a current asset in the Balance Sheet if it relates to a future period.
- The accountants' treatment recommendable because it is objective in the sense that it complies with the generally accepted accounting principles (GAAP) while the treatment of Mr X is subjective.

Scenario 3

Mr X

5 Innisfree Rd
Matsheumhlope
Bulawayo

20 February 2008

John & Co
Registered Accountant
30440 Entumbane
Bulawayo

Dear Sir

ANSWERS AND EXPLANATIONS TO ACCOUNTING QUESTIONS AND MATTERS

In response to your letter dated 15 February 2008, I am writing to respond to the questions and queries raised therein:

- i. Assets are recorded in books and shown in the Balance Sheet at their original \equiv *historical costs* which can be vouched against business documents such invoices and receipts for *objectivity* purposes. When amounts shown in Balance Sheet *materially* distort the *true and fair view*, revaluation is sanctioned and carried out by a registered profession. Use of any other amounts is against *historical cost concept* and *subjective* as no two people can agree on the same amount which cannot be supported by a primary source document. Using realisable value (selling price) breaches the *prudence concept* when assets get overstated. As a *going concern*, a business must show its assets at cost less aggregate depreciation to give the net book value (\equiv carrying amount).

If the business no longer has a foreseeable future, then its assets must be shown in the Balance Sheet at their net realisable values (market values). Use of such amounts is only recommended when the business is expected to cease business activities within 12 months.

- ii. The **business entity concept** defines the boundaries \equiv limits of a business in terms of liability. Although a sole-trader business is not separate from its owner, the proprietor's personal dealings intersecting with the business are treated as **drawings**. Drawings reduce capital (resources in a business which belong to the owner). Increase in capital is a result of profits being ploughed back to help the business expand.

Taking part of the capital to the extent of a \$20 000 loan would seriously cripple the liquidity position of the business. The possessions of a business are **assets** and they are financed by **capital** and **liabilities**. Not all resources in a business belong to the owner, liabilities are amounts lent to the business by outsiders. It is therefore not true that all the resources belong to you.

In the event of financial difficulty and subsequent liquidation, it is the creditors' \equiv liabilities that are paid first before the owner is repaid the capital. As the owner, you are therefore advised to take a separate loan for improving your home. Taking \$20 000 from the business will prejudice other investors, the liabilities.

- iii. **Goodwill** is the excess of market value of the net separable assets. There are two types of goodwill, one is non-purchased and the other is purchased goodwill. **IFRS 3, Business Combinations** forbids the recording of **non-purchased \equiv inherent goodwill** since it lacks historical cost and its **money measurement** is very subjective. Only purchased goodwill can be recorded \equiv recognised in the books of accounts. This arises from a purchase or acquisition of an existing business. **Positive goodwill** is purchased goodwill arises when the purchase considerations is greater than the fair value of the assets taken over and is recorded in the Balance Sheet as an intangible fixed assets which is amortised in the Income Statement in equal instalments over period not exceeding 20 year. **Negative goodwill \equiv capital reserve** is a form of purchased goodwill which is a result of purchase price being lower than the set separable assets acquired. This amount is **capitalised**.

Further questions and requests for explanations are welcome.

Yours faithfully

John

Scenario 4

a) Poppers Ltd: Reconciliation of net operating profit to net cash flow from operations			
Net profit before interest and tax			5 354 000
<u>Non-cash items adjustments</u>			
Depreciation		800 000	
Loss on fixed assets disposal	[2 700 – 2 695]	<u>5 000</u>	<u>805 000</u>
Net cash inflow before working capital adjustments			6 159 000
<u>Working capital adjustments</u>			
Increase in stock	[5 689 – 5 540]	(149 000)	
Increase in trade debtors	[1 985 – 1 930]	(55 000)	
Increase in trade creditors	[3 220 – 3 040]	<u>180 000</u>	<u>(24 000)</u>
Net cash inflow from operations			6 135 000
Interest paid	{bi}		(15 000)
Taxation paid			<u>(2 248 000)</u>
Net cash inflow from operating acting activities			3 872 000

- b) i) Interest paid = $[11 + 9 - 5]1\ 000 = \underline{\underline{\$15\ 000}}$
- ii) Dividend paid = $[538 + 1\ 969 - 648]1\ 000 = \underline{\underline{\$1\ 859\ 000}}$

iii) Fixed Assets at Cost Account				
Balance b/d		16 000 000	Disposals	2 700 000
Revaluation	[2 700 – 2 600]	100 000	Balance c/d	19 000 000
Cash	{balancing figure}	<u>5 600 000</u>		
		<u>21 700 000</u>		<u>21 700 000</u>
Payments for acquisition of fixed assets	=	<u>\$5 600 000</u>		

Scenario 5

a) i)		Year	Net receipts/ (payments)	Balance
	0	[22 000 ÷ 2]	(11 000)	(11 000)
	1	[22 000 – 11 000]	(11 000)	(22 000)
	1	[10 000 – 2 600 – 1 800]	5 600	(16 400)
	2	[10 000 – (2 600 + 1 800) × 105%]	5 380	(11 020)
	3	[10 000 – (2 600 + 1 800) × 1.05 ²]	5 149	(5 871)
	4	[10 000 × 1.1 – (2 600 + 1 800) × 1.05 ² × 103%]	6 003.47	
	5	[10 000 × 110% – (2 600 + 1 800) × 1.05 ² × 1.03 ²]	5 853.5741	

- Payback period = $3 \text{ years } 5 \text{ 871} \div 6 \text{ 003.47} \times 12 \text{ months} \equiv 3 \text{ \& } 5 \text{ 871} \div 6 \text{ 003.47}$
 = **3 years 11.7 months** = **3.98 years**
- ii) NPV @ 10% factor = $-11 \text{ 000} \times [1 + 0.909] + 5 \text{ 600} \times 0.909 + 5 \text{ 380} \times 0.826 + 5 \text{ 949} \times 0.752 + 6 \text{ 003.47} \times 0.683 + [5 \text{ 853.574 } 1 + 3 \text{ 500}] \times 0.621$
 = **\$2 311.12**
- NPV @ 20% factor = $[5 \text{ 600} - 11 \text{ 000}] \times 0.833 + 5 \text{ 380} \times 0.694 + 5 \text{ 149} \times 0.579 + 6 \text{ 003.47} \times 0.483 + [5 \text{ 853.574 } 1 + 3 \text{ 500}] \times 0.402 - 11 \text{ 000}$
 = **(\$2 123.40)**
- iii) Internal rate of Return (IRR)
 = +ve NPV Disc Fac + $\frac{(-\text{ve NPV Disc Fac minus +ve NPV Disc Fac}) \times +\text{ve NPV}}{+\text{ve NPV} + \text{modulus}(-\text{ve NPV})}$
 = $10\% + \frac{(20\% - 10\%) \times 2 \text{ 311.118 } 526 \text{ 1}}{2 \text{ 311.118 } 526 \text{ 1} + 2 \text{ 123.396 } 201 \text{ 8}}$
 = **15.21%**
- b) Mr X should purchase extra equipment because:
- after 3 years 11.7 months ($\equiv 3.98$ years), the initial outlay of \$22 000 would have been recouped
 - additional cash flows beyond payback period would improve his business liquidity position by a total of \$9486.0441 \equiv \$6 003.47 + \$5 853.5741 – \$5 871
 - cash inflows are large at the start of the investment until the outlay recovery date
 - the net present value is positive (reject if negative) at the cost of capital
 - the positive NPV would increase the overall cash inflows by \$2 311.12 after taking time value of money into account
 - the internal rate of return is 15.21% which means cash flows would be equal to nil \equiv zero if the cost of capital was 15.21% implying that there is addition return of 5.21% since cost of capital is 10%.

2076 Scenario 1

a)

		Buncles Ltd: Journal Proper		
i.	Suspense	[1 076 – 1760]	684	
	Debtors: Abel			684
ii.	Creditors: Sara	[650 × 2]	1 300	
	Debtors: Sara			1 300
iii.	Income Statement: Purchases		1 500	
	Suspense			1 500
iv.	Suspense	[480 × 2]	960	
	Debtors			480
	Creditors			480
v.	Income Statement: Sales	[1 070 – 1 700]	630	
	Debtors: Charley			630
vi.	Income Statement: Discount Allowed		500	
	Discount Received		500	
	Suspense [500 × 2]			1 000
vii.	Income Statement: Unrealised profit	[2 450 × 40% ÷ 140%]	700	
	Stock	[2 450 ÷ 140%]	1 750	
	Debtors: Pomeroy			2 450

b)

		Suspense Account	
	Difference as per Trial Balance	856	
i.	Debtors: Abel	684	
iv.	Debtors	480	
iv.	Creditors	480	
		<u>2 500</u>	
iii.	Income Statement: Purchases		1 500
vi.	P & L: Discount Allowed		500
vi.	P & L: Discount Received		500
			<u>2 500</u>

c) i) **Buncles Ltd: Calculation of corrected gross profit**

	Gross profit per draft Trading Account	130 000
iii.	Purchases undercast	(1 500)
v.	Sales overcast	[1 070 – 1 700] (630)
vii.	Unrealised profit: Sales overcast	(2 450)

	Closing stock undercast	[2 450 ÷ 140%]	1 750
	Corrected gross profit		<u>127 170</u>
ii)	Buncles Ltd: Calculation of revised operating profit		
	Operating profit per draft Profit and Loss Account		40 000
iii.	Purchases understated		(1 500)
v.	Sales overstated	[1 070 – 1 700]	(630)
vi.	Discount allowed overstated		300
vi.	Discount received understated		300
vii.	Unrealised profit	[2 450 × 40% ÷ 140%]	700
	Revised operating profit		<u>39 170</u>
iii)	Buncles Ltd: Computation of corrected net working capital		
	Net working capital per draft Balance Sheet		107 836
i.	Debtors overcast: Abel	[1 076 – 1 760]	(684)
ii.	Set off error: Creditors overcast: Sara	[650 × 2]	(1 300)
	Debtors overcast: Sara	[650 + 650]	(1 300)
iv.	Cr balance: Debtors overcast		(480)
	Creditors undercast		(480)
v.	Debtors overcast: Charley		(630)
vii.	Closing stock understated	[2 450 ÷ 140%]	1 750
vii.	Debtors overstated		(2 450)
	Corrected net working capital		<u>102 262</u>

Scenario 2**a) Buncles Ltd: Trading and Profit and Loss Account for the year ended 30 September 2007**

Sales: Normal		876 750
Damaged goods	[39 000 × 140% ÷ 3]	18 200
Turnover	[80 000 – 53 750 – 9 024 – 912 176]	894 950
<u>Less: Cost Of Turnover</u>		
Opening stock		73 000
Add: Purchases	{missing figure}	704 809
Dep: Warehouse machinery	[10% × (20 – 17)1 000]	300
		<u>778 109</u>
<u>Less: Closing stock</u>		<u>112 859</u>
Gross profit	[40% ÷ 140% × 876 750 – 39 000 + 18 200]	665 250
Discount received		229 700
Operating Income		<u>3 460</u>
<u>Less: Operating Expenses</u>		<u>233 160</u>
Discount allowed		9 024
Selling and distribution expenses		84 000
Administration expenses		72 000
Dep: Delivery vehicles	[10% × (70 – 40)1 000]	3 000
General office equipment	[10% × (38 – 32)1 000]	600
		<u>168 624</u>
Net profit		64 536
<u>Less: Appropriations</u>		
Ordinary dividend: Interim		16 000
Proposed	[0.24 × 100 000]	24 000
General reserve		<u>10 000</u>
Retained profit for the year		<u>14 536</u>

- b)**
- A cut in selling prices to increase sales volume
 - Clearance 'sale'
 - Control of price by government
 - Expensive suppliers of goods for resale
 - Increase in other costs directly associated with goods for resale such as carriages ≡ transportation inwards, storage ≡ warehousing costs,
 - Sell of lower quality products
- c)** General reserves are profits ploughed back (re-invested) into the business to help finance the activities of the business by reducing the profits available for dividend payment. General reserves are revenue in their nature and therefore distributable i.e. they can be credited back to the Profit and Loss Account.

A general reserve is non-specific and in addition to improving the gearing level of a company, they can be used for the following:

- future dividend payment
- issuing bonus shares as fully paid shares
- writing off reconstruction losses

Scenario 3

- a) i) FIFO stands for **First In First Out**. This is a method of stock valuation that assumes that goods are sold in chronological = logical order of arrival. Oldest batches of merchandise are sold first before the recently purchased ones. Cost of goods sold is based on outdated prices while closing stock value is based on latest market prices. FIFO uses the queue approach.
- ii) LIFO stands for **Last In First Out**. LIFO method of stock valuation is based on pile = stack principle that assumes that recently purchased (newest) goods are sold before older goods = reverse order of arrival. Cost of issues is based on current market prices while value of closing stock is outdated
- iii) AVCO stands for **Average Cost**. The average is either a simple average cost of different prices or a weighted = linked to total cost of goods and the total number of units in hand. The average cost is calculated by dividing the sum of prices by the number of prices or the total cost of goods by the total number of units. A new average is calculated whenever new goods are bought i.e. no average is calculated when goods are issued or sold.

b) i) FIFO

DATE	RECEIPTS					
	O/S	May 1	June 1	July 1	Aug 1	Sept 1
Price/ Unit	\$21.20	\$21.75	\$22.00	\$22.80	\$23.21	\$24.85
Quantity	4 150	2 200	2 350	2 550	2 400	2 300
May 31	(2 000)					
June 30	2 150					
July 31	(2 150)					
July 31	-	(2 200)				
Aug 31		-	(2 350)			
Sept 30			-	(2 550)		

Closing stock = $2\,400 \times \$23.21 + 2\,300 \times \24.85

= **\$112 859**

{= Scenario 2}

ii) LIFO

DATE	PURCHASES					
	O/S	May 1	June 1	July 1	Aug 1	Sept 1
Price/ Unit	\$21.20	\$21.75	\$22.00	\$22.80	\$23.21	\$24.85
Quantity	4 150	2 200	2 350	2 550	2 400	2 300
May 31		(2 000)				
June 30		200	(2 150)			
July 31			200	(2 200)		
July 31				350		
Aug 31					(2 350)	
Aug 31					50	
Sept 30				(200)	(50)	(2 300)
Sept 30				150	-	-

Closing stock = $4\,150 \times \$21.20 + 200 \times (\$21.75 + \$22) + 150 \times \22.80

= **\$100 150**

iii) Weighted AVCO

DATE	RECEIPTS		ISSUED Quantity	STOCK		
	Quantity	Price/Unit		Quantity	Av. Co. (\$)	Balance (\$)
O/S	4 150	\$21.20		4 150	21.20	87 980
May 1	2 200	\$21.75		6 350	21.390 551 181...	135 830
31			2 000	4 350	21.390 551 181...	93 049

DATE	RECEIPTS		ISSUED Quantity	STOCK		Balance (\$)
	Quantity	Price/Unit		Quantity	Av. Co. (\$)	
Jun 1	2 350	\$22.00		6 700	21.604 328 358...	144 749
30			2 150	4 550	21.604 328 358....	98 300
July 1	2 550	\$22.80		7 100	22.033 802 816...	156 440
31			2 200	4 900	22.033 802 816...	107 966
Aug 1	2 400	\$23.21		7 300	22.420 547 945...	163 670
31			2 350	4 950	22.420 547 945...	110 982
Sep 1	2 300	\$24.85		7 250	23.191 310 344...	168 137
30			2 550	4 700	23.191 310 344...	108 999

c) FIFO gives the highest profit because it overstates the closing stock thereby understating the cost of sales

Scenario 4

a) **Buncles Ltd: Cash Budget for the for months ending 31 January 2008**

RECEIPTS	October	November	December	January
Sales [35% × (78 & 80 & 84 & 75)]	27 300	28 000	29 400	26 250
Debtors: Month [0.6×98%×(77.5 & 78 & 80 & 84)]	45 570	45 864	47 040	49 392
2 months [5% × (76.1 & 77.5 & 78 & 80)]	3 805	3 875	3 900	4 000
Total receipts	<u>76 675</u>	<u>77 739</u>	<u>80 340</u>	<u>79 642</u>
PAYMENTS				
Creditors [(80 & 84 & 75 & 76) ÷ 140%]	57 143	60 000	53 571	54 286
Wages [7 × (1 & 105% & 1.05 & 105%)]	7 000	7 350	7 350	7 350
Bonus [4% × {(77.5 & 78 & 80 & 84) – 70}]	300	320	400	560
Other expenses [6 × [1 & 1 & 107% & 1.07]]	6 000	6 000	6 420	6 420
Fixed assets			16 000	
Ordinary dividend {Scenario 2 = 0.24 × 100 000}			24 000	
Total payments	<u>70 443</u>	<u>73 670</u>	<u>107 741</u>	<u>68 616</u>
Net receipts/ (payments)	6 232	4 069	(27 401)	11026
Balance/ (overdraft) b/d	4 000	10 232	14 301	(13 100)
Balance/ (overdraft) c/d	<u>10 232</u>	<u>14 301</u>	<u>(13 100)</u>	<u>(2 074)</u>

b) **Buncles Ltd: Forecast Balance Sheet (extract) as at 31 January 2008**

Current Assets			
Stock	[(76 + 77)1 000 ÷ 140%]		109 286
Debtors	[(5% × 84 + (60% + 5%) × 75)1 000]		<u>52 950</u>
			162 236
Less: Current Liabilities			
Creditors	[77 000 ÷ 140%]	55 000	
Bonus	[(75 – 70)1 000 × 4%]		200
Bank overdraft		<u>2 074</u>	<u>57 274</u>
Net current assets			104 962

c) Current ratio = Current assets : Current liabilities

$$\begin{aligned}
 30 \text{ September } 2007 \text{ current ratio} &= \frac{112\,859 + 53\,750 + 4\,000}{80\,000 \times 140\% + 0.24 \times 100\,000} \\
 &= \mathbf{2.10:1}
 \end{aligned}$$

$$\begin{aligned}
 31 \text{ January } 2008 \text{ current ratio} &= \frac{162\,236}{57\,274} \\
 &= \mathbf{2.83:1}
 \end{aligned}$$

The current ratios are both too big i.e. above 2 times. On 30 September 2007, Buncles Ltd was 210% able to pay its financial obligations using its current assets and on 31 January 2008, its forecasted that Buncles Ltd would be 283% capable of paying its debts as they fall due. There is an increase of 0.73 times and this is not advisable as it suggests increase of presence of idle current assets. Buncles Ltd is overly solvent.

Acid test ratio = Current assets – Stock : Current liabilities

$$\begin{aligned}
 30 \text{ September } 2007 \text{ acid test ratio} &= \frac{53\,750 + 4\,000}{80\,000 \times 140\% + 0.24 \times 100\,000} \\
 &= \mathbf{0.71:1}
 \end{aligned}$$

$$\begin{aligned}
 31 \text{ January } 2008 \text{ current ratio} &= \frac{(162\,236 - 109\,286)}{57\,274} \\
 &= \mathbf{0.92:1}
 \end{aligned}$$

The acid test ratio for both dates is below 1 which is acceptable. On 30 September 2007, the acid test ratio indicates the Buncles Ltd is 71% capable of paying its short term debts using highly liquid current assets. On 31 January 2008, it is anticipated that Buncles Ltd would be in a position to pay 91% of its current liabilities using current assets excluding stock. There is an increase of 21% which is too wide an increase suggesting piling up of liquid assets which should be invested somewhere else profitably.

When compared together, there is a gap of 1.39 times between the current ratio and the acid test ratio on 30 September 2007 and a difference = gap of 1.91 times between the current ratio and the acid test ratio on 31 January 2008. The gap itself has increased by 0.52 times, representing stock piling. In other words, Buncles Ltd is overstocking. A lot of cash is tied up in closing stock as reflected by the large current ratios and the small acid test ratios. Buncles Ltd should stock building up stocks.

2077 Scenario 1

Kamil: Statement of Affairs as at 30 September		<u>2005</u>	<u>2006</u>
Premises		40 000	55 000
Motor vehicles		8 500	7 000
Stock	[5 750 + 100]*	4 000	5 850*
Trade debtors	[2 300 – 140]**	1 475	2 160**
Rent prepaid		400	500
Bank		1 142	2 318
Cash		100	50
Trade creditors		925	850
Electricity owing		208	115
Loan			2 000
Loan interest	[10% × 2 000 × 9 ÷ 12]		150
Capital	{balancing figure}	<u>54 484</u>	<u>69 763</u>
		<u>55 617</u>	<u>72 878</u>

Kamil: Balance Sheet (extract) as at 30 September 2006Financed By

Capital:	Balance as at 1 October 2005	54 484
	<u>Add: Revaluation</u> [55 000 – 40 000]	15 000
	Net profit	<u>8 779</u>
		78 263
	<u>Less: Drawings:</u> Cash [150 × 52]	7 800
	In kind {goods}	<u>700</u>
	Balance as at 31 September 2006	<u>69 763</u>

Scenario 2**a) Kamil: Trading and Profit and Loss Account for the year ended 30 September 2007**

Sales: Cash		19 600
	Credit [26 600 – 2 300 + 140 + 1 440 + 150]	<u>26 030</u>
Turnover		45 630
<u>Less: Cost Of Turnover</u>		
Opening stock	[5 750 + 100]	5 850
<u>Add: Purchases:</u> Cash		2 848
	Credit [17 000 – 850 + 925 + 300]	<u>17 375</u>
		26 073
<u>Less: Drawings in kind</u>		900
Goods available for resale		25 173
<u>Less: Closing stock</u>		<u>4 000</u>
Gross profit		21 173
Discount received		300
Operating income		<u>24 757</u>
<u>Less: Operating Expenses</u>		
Bad debts		150
Electricity	[1 024 – 115 + 230]	1 139
Rent	[2 000 + 500 – 450]	2 050
Motor van expenses	[1 816 + 200]	2 016
Interest loan	[2 000 × 10%]	200
Dep: Motor van	[7 000 – 5 600]	1 400
Fixtures and fittings	[5 000 × 25%]	1 250

↩	Wages		4 000	
	Telephone and stationery	[1 387 + 218]	1 605	
	Sundry expenses		<u>750</u>	14 560
	Net profit			<u>10 197</u>

b) Kamil: Balance Sheet as at 30 September 2007

<u>Non-Current Assets</u>		<u>Cost</u>	<u>Dep</u>	<u>Net</u>
Premises		55 000		55 000
Motor van		9 000	3 400	5 600
Fixtures and fittings		<u>5 000</u>	<u>1 250</u>	<u>3 750</u>
		<u>69 000</u>	<u>4 650</u>	64 350
<u>Current Assets</u>				
Stock			4 000	
Trade debtors			1 440	
Rent prepaid			450	
Bank	{w1}		1 891	
Cash			<u>50</u>	
			7 831	
<u>Less: Current Liabilities</u>				
Trade creditors		925		
Electricity owing		230		
Loan interest owing	[2 000 × 10% × 9 ÷ 12]	<u>150</u>	<u>1 305</u>	
Working capital				<u>6 526</u>
Capital employed				70 876
<u>Less: Non-Current Liabilities</u>				
10% Loan				<u>2 000</u>
Equity				<u>68 876</u>
<u>Financed By</u>				
Capital:	Balance b/d			69 763
	Add: Net profit		10 197	
	Less: Drawings:	In kind	900	
		Bank	9 600	
		Cash {w2}	<u>584</u>	
	Balance c/d		<u>11 084</u>	<u>(887)</u>
				<u>68 876</u>

Working

- Bank = {2.318 + 26.6 + 15* - 17 - 1.024 - 2 - 1.816 - 0.2 - 4 - 1 387 - 5 - 9.6} 1 000
- Cash drawings = 19 600 - 2 848 - 218 - 200 - 750 - 15 000*

Scenario 3

a) i)	<i>Indirect method</i>			
	Net profit before interest	[10 197 + 2 000 × 10%]		10 397
	<u>Non-cash items adjustments</u>			
	Depreciation: Motor van	[7 000 - 5 600]	1 400	
	Fixtures and fittings	[5 000 × 25%]	<u>1 250</u>	<u>2 650</u>
	Cash inflow before working capital adjustments			13 047
	<u>Working capital adjustments</u>			
	Decrease in stock	[5 750 + 100 - 4 000]	1 850	
	Decrease in debtors	[2 300 - 140 - 1 440]	720	
	Decrease in prepaid rent	[500 - 450]	<u>50</u>	
	Total carried forward		2 620	13 047
	Total carried forward		2 620	13 047
	Increase in creditors	[850 - 925]	75	
	Increase in electricity owing	[115 - 230]	<u>115</u>	<u>2 810</u>
	Cash inflow from operations			15 857
	Interest paid			<u>(200)</u>
	Net cash inflow from operating activities			<u>15 657</u>
	<i>Direct method</i>			
	Receipts from customers	[26 600 + 19 600]		46 200
	Payments to suppliers	[17 000 + 2 848 - 900]		(18 948)
	Payments for overheads	[1.024 + 2 + 1.816 + 4 + 1.387 + 0.218 + 0.2 + 0.75]		(11 395)

	Interest paid	(200)
	Net cash outflow from operating activities	<u>15 657</u>
ii)	Acquisition of fixtures and fittings	(5 000)
	Net cash outflow from investing activities	<u>(5 000)</u>
iii)	Drawings: In kind	(900)
	Bank	(9 600)
	Cash {Scenario 2 w2}	(584)
	Net cash outflow from financing activities	<u>(11 084)</u>

b) A Cash Flow Statement shows movements and changes in *cash* between two Balance Sheet dates. Cash broadly refers to and includes bank notes and coins, (special agro cheques + bearer cheques in Zimbabwe), deposits with the banks, as well as *cash equivalents*. Cash equivalents are highly liquidity short-term investments which mature within 90 days \equiv 3 months.

A Cash Flow Statement is a liquidity financial statement in contrast to the Profit and Loss Account which is a profitability statement. Liquidity is the ability of a business to settle its financial obligations as they fall due basically using (\equiv utilising) working \equiv operating capital but profitability is the measure of returns \equiv rewards as compensation of undertaking risk in a business. The main objective of being in business is to generate profit and to remain solvent. The former is disclosed by the Profit and Loss Account while the later can be assessed using a Cash Flow Statement.

The Profit and Loss Account is prepared on *matching* and *accruals* basis. This means revenue/ income and expenses for each *accounting period* are identified and recorded regardless of whether or not cash has been received or paid. A Profit and Loss Account (Income Statement) recognises both *prepayments* and *arrears*. In addition, *non-cash items* such as increases or decreases in provisions, profits or losses on asset disposals, etc. are considered. *Prudence* concept is also applied to record expenses such as bad debts. Amounts which are *capital receipts* and *capital expenditure* are excluded.

A Cash Flow Statement is prepared on *cash basis*, which means actual *receipts* and *payments* of cash are recorded regardless of which accounting period they relate to. No distinction is made on whether the receipt or payment is of capital or revenue receipt or expenditure nature. As long as cash has moved, the transaction qualifies to be shown in a Cash Flow Statement on either of the following captions: *operating investing* or *financing* activities. All non-cash items, be they related to the operations, or investing such as revaluations, part-exchanges, etc. or financing such as bonus issues are excluded from the Cash Flow Statement since they do not involve movement of cash.

Financial statement users will find a Cash Flow Statement useful in

- assessing whether the business is expanding, stagnant or shrinking
- connecting \equiv linking profitability with liquidity when the indirect method is used to reconcile operating profit with cash flows from operations
- disclosing trends in paying or receiving cash
- explaining why a profitable business might be faced with liquidity problems
- explaining why a solvent business made losses
- predicting ability of business to meet future cash commitments
- showing the major sources and uses of cash for business

Scenario 4

a) i) Annual depreciation charge = (Historical cost – Scrap value) \div Economic life

Machine A depreciation charge	Machine B depreciation
= 40 000 \div 5	= 60 000 \div 5
= \$8000 per annum	= \$12 000 per annum

Net cash flow = Additional receipts – Additional costs + Depreciation charge

Year	Machine A		Machine B	
	Cash flow	Balance	Cash inflow/ (outflow)	Balance
0	(40 000)	(40 000)	(60 000)	(60 000)
1	[20 – 17 + 8] 11 000	(29 000)	[25 – 22 + 12] 15 000	(45 000)
2	[23 – 18 + 8] 13 000	(16 000)	[26 – 24 + 12] 14 000	(31 000)
3	[25 – 19 + 8] 14 000	(2 000)	[28 – 25 + 12] 15 000	(16 000)
4	[27 – 21 + 8] 14 000		[30 – 27 + 12] 15 000	(1 000)
5	[28 – 22 + 8] 14 000		[30 – 27 + 12] 15 000	

$$\begin{aligned} \text{Machine A payback period} & \\ = 3 \text{ years } 2\,000 \div 14\,000 \times 12 \text{ months} & \equiv 3 \text{ \& } 2\,000 \div 14\,000 \text{ years} \\ = \underline{\underline{3 \text{ years } 1.7 \text{ months}}} & \equiv \underline{\underline{3.14 \text{ years}}} \end{aligned}$$

$$\begin{aligned} \text{Machine B payback period} & \\ = 4 \text{ years } 1\,000 \div 15\,000 \times 12 \text{ months} & \equiv 4 \text{ \& } 1\,000 \div 15\,000 \text{ years} \\ = \underline{\underline{4 \text{ years } 0.8 \text{ months}}} & \equiv \underline{\underline{4.07 \text{ years}}} \end{aligned}$$

ii) Machine A net present value (NPV) at 10% discounting factor

$$\begin{aligned} = 11\,000 \times 0.909 + 13\,000 \times 0.826 + 14\,000 \times (0.751 + 0.683 + 0.621) - 40\,000 \\ = \underline{\underline{\$9\,507}} \end{aligned}$$

Machine A net present value (NPV) at 20% discounting factor

$$\begin{aligned} = 11\,000 \times 0.833 + 13\,000 \times 0.694 + 14\,000 \times (0.579 + 0.482 + 0.4021) - 40\,000 \\ = \underline{\underline{(\$1\,333)}} \end{aligned}$$

Machine B Net Present Value @ 10% Discount Factor

$$\begin{aligned} = 15\,000 \times (0.909 + 0.751 + 0.683 + 0.621) + 14\,000 \times 0.826 - 60\,000 \\ = \underline{\underline{(\$3\,976)}} \end{aligned}$$

Machine B Net Present Value @ 20% Discount Factor

$$\begin{aligned} = 15\,000 \times (0.833 + 0.579 + 0.482 + 0.402) + 14\,000 \times 0.694 - 60\,000 \\ = \underline{\underline{(\$15\,844)}} \end{aligned}$$

iii) Machine A Internal Rate Of Return

$$\begin{aligned} = 10\% + (20\% - 10\%) \times 9\,507 \div (9\,507 + 1\,333) \\ = \underline{\underline{18.77\%}} \end{aligned}$$

Machine B internal rate of return (IRR)

$$\begin{aligned} = 10\% - (20\% - 10\%) \times 3\,976 \div 15\,844 \\ = \underline{\underline{7.49\%}} \end{aligned}$$

b)

REPORT ON MACHINE APPRAISALS

TO: Kamil
 FROM: XX, Cost and management accountant
 DATE:

Background

Two machine, A and B, were evaluated using three capital expenditure appraisal techniques, namely the payback period, the Net Present Value (NPV) and the Internal Rate of Return (IRR).

Findings

	<i>Machine A</i>	<i>Machine B</i>
i. Payback period	3 years 1.7 months	4 years 0.8 months
ii. NPV @ 10%	\$9 507	(\$3 976)
NPV @ 20%	(\$1 333)	(\$15 844)
iii. IRR	18.77%	7.49%

Recommendations

i. According to payback period, machine A should be purchased instead of machine B since it takes a shorter time to recover the initial investment by 11.1 months. After 3 years 1.7 months, \$40 000 spent on acquiring machine A would be recouped. This means machine A is less risky to invest in than machine B which needs 4 years 0.8 months.

Beyond the payback period, machine A would increase business cash flows by \$26 000 against an increase of \$14 000 for machine B. This again justifies the purchase of machine A and rejection of machine B. An investment with an early payback period is preferable than one with a longer payback

ii. NPV method recommends only projects with positive aggregate discounted cash flow and rejects investments whose net present values are negative. At the cost of capital of 10%, machine A has a positive NPV of \$9 507 which is acceptable while machine B has a negative NPV of \$3 976 which makes it automatically unacceptable.

After taking into account the time value of money, machine A increases cash flows by \$9 507 but if machine B were to be acquired, then cash flows would decrease by \$3 976. NPV therefore favours the purchase of machine A

iii. IRR favours and recommends investments whose internal rate of return is largest above the cost of capital. Machine A is therefore chosen because it has an extra return of 8.77% beyond the cost of capital. Machine B is rejected since at 7.49% cost of capital, the NPV is nil = zero, and at 10% cost of capital, the NPV is negative.

Overall, all methods favour purchase of machine A. It is therefore advisable to acquire machine A

2078 Scenario 1

a)	Bark: Capital Account		
Fixed assets [1 000(150 – 136)]	14 000	Balance brought down	184 600
Stock [1 000(18 – 16)]	2 000	Goodwill	30 000
Provision for doubtful debts	376		
Balance carried down	<u>198 224</u>		
	<u>214 600</u>		<u>214 600</u>
Goodwill {w1}	26 000	Balance brought down	198 224
Balance carried down	<u>172 224</u>		
	<u>198 224</u>		<u>198 224</u>
		Balance brought down	172 224
	Leaf: Capital Account		
Drawings (16 000 × 9 ÷ 12)	12 000	Balance brought down	159 575
Stock [1 000(19 – 16)]	3 000	Profit (18 400 × 9 ÷ 12)	13 800
Provision for doubtful debts	350	Fixed assets [1 000(142 – 140)]	2 000
Balance carried down	<u>180 025</u>	Goodwill	20 000
	<u>195 375</u>		<u>195 375</u>
Goodwill {w1}	26 000	Balance brought down	180 025
Balance carried forward	<u>154 025</u>		
	<u>180 025</u>		<u>180 025</u>
		Balance carried down	154 025
	Twigg: Capital Account		
Drawings (15 150 × 8 ÷ 12)	10 100	Balance brought down	162 370
Fixed assets [1 000(135 – 130)]	5 000	Stock (16 500 – 15 000)	1 500
Provision for doubtful debts	240	Profit (9 900 × 8 ÷ 12)	6 600
Balance carried down	<u>170 130</u>	Goodwill	15 000
	<u>185 470</u>		<u>185 470</u>
Goodwill {w2}	13 000	Balance brought down	170 130
Balance carried down	<u>157 130</u>		
	<u>170 130</u>		<u>170 130</u>
		Balance brought down	157 130

b) Bark, Leaf and Twigg: Balance Sheet as at 1 January 2000

Fixed assets (136 000+ 142 000+ 130 000)		408 000	
<i>Current assets</i>			
Stock (16 000+ 16 000+ 16 500)		48 500	
Debtors (9 400+ 8 150 + 7 750)	25 300		
Less: Provision for doubtful debts (376 + 350 +240)	<u>966</u>	24 334	
Bank and cash (13 000+ 4 400 + 4 900)		<u>22 300</u>	
		95 134	
<i>Less Current liabilities</i>			
Creditors (5 800 + 10 175 + 3 780)		<u>19 755</u>	<u>75 379</u>
Net total assets			<u>483 379</u>
<i>Financed by</i>			
Capital Accounts {a}: Bark		172 224	
Leaf		154 035	
Twigg		<u>157 130</u>	<u>483 389</u>

Workings

- Bark and Leaf's goodwill = \$1 000(30 + 20 + 15) × 2 ÷ 5
- Twigg's goodwill = \$1 000(30 + 20 + 15) ÷ 5

Scenario 2

a)	BLT Ltd: General Journal		
i.	Tangible Fixed Assets	400 000	
	Net Current Assets	100 000	
	Goodwill (<i>missing figure</i>)	50 000	
	Business Purchase (25 000 + 525 000)		550 000
	<i>Being the opening of asset accounts</i>		

- | | | | |
|-------|--|---------|---------|
| ii. | Business Purchase | 25 000 | |
| | 8% Debentures ($\$20\,000 \times 10\% \div 8\%$) | | 25 000 |
| | <i>Being issue of debenture certificates to Bark</i> | | |
| <hr/> | | | |
| iii. | Business Purchase ($300\,000 \times \$1.75$) | 525 000 | |
| | Ordinary Share Capital ($300\,000 \times \$1$) | | 300 000 |
| | Share Premium [$300\,000 \times (\$1.75 - \$1)$] | | 225 000 |
| | <i>Being the issue of ordinary shares</i> | | |
| <hr/> | | | |
| iv. | Bank ($100\,000 \times \$1.75$) | 175 000 | |
| | Ordinary Share Capital ($100\,000 \times \$1$) | | 100 000 |
| | Share Premium ($100\,000 \times \$0.75$) | | 75 000 |
| | <i>Being issue of shares to Root</i> | | |
| <hr/> | | | |
- b) *Gearing* is the amount of borrowed capital in relation to the total capital employed in the company. All the borrowed capital is debt in that it will have to be repaid or redeemed at some date before which it will earn a fixed rate of reward. Gearing is therefore fixed cost capital which belongs to outside lenders of the firm. It is entitled to interest and dividend before the owners of the firm, ordinary shareholders. In a highly geared firm, ordinary shareholders are at greater risk of not getting a dividend. In a lowly geared firm, the earnings and dividends per share are small.

Scenario 3**a) BLT Ltd: Budgeted Profit and Loss Account for the year ending 31 May 2001**

Sales turnover ($400\,000 \times 1.3$)		520 000
Less: Cost of sales [$520\,000 \times (100\% - 40\%)$]		<u>312 000</u>
Gross profit ($520\,000 \times 40\%$)		208 000
Less: Operating expenses (<i>missing figure</i>)		<u>52 000</u>
Operating profit ($520\,000 \times 30\%$)		156 000
Less: Debenture interest ($25\,000 \times 8\%$)		<u>2 000</u>
Net profit after interest		154 000
<u>Less Appropriations</u>		
General reserve	100 000	
Ordinary dividend ($400\,000 \times \$1 \times 10\%$)	<u>40 000</u>	<u>140 000</u>
Retained profit for the year		<u>14 000</u>

- b) BLT Ltd has a small fixed asset turnover of 1.3 times while the industry has 2 times which means the fixed assets utilisation in the generation of sales is lower in BLT Ltd.

Industry gross profit turnover is 48% which is 8% more than that of BLT Ltd of 40%. Industry generates in every \$1 of sales an extra \$0.08 profit than BLT Ltd.

BLT Ltd has a favourable operating profit turnover of 30% which is 6% greater than that of industry which is at 24% suggesting that BLT Ltd has better management of overheads than the general industry.

Dividend cover for BLT Ltd is 3.85 times ($\$154\,000 \div \$40\,000$) and that of industry is 1.3 times. BLT Ltd is in a better position to pay ordinary dividends than the industry. BLT Ltd has ploughed back more profits in the business than the industry.

The comparison can be misleading on the grounds of BLT Ltd using different accounting estimates, bases and policies from the rest of the industry.

Scenario 4

- a) i) Break even point in units = Fixed production expenses \div Contribution per unit
= $108\,000 \div \{87 - [1\,000(21 + 216 + 21) \div 6\,000]\}$
= 2 455 cabinets
- ii) Margin of safety as a percentage = $\frac{(\text{Production level} - \text{Break even level}) \times 100\%}{\text{Production level}}$
= $\frac{(6\,000 - 2\,455) \div 6\,000 \times 100\%}{}$
= 59.1%
- iii) Profit = Sales - Total cost
= $\$87 \times 6\,000 - [1\,000(21 + 216 + 21 + 108)]$
= \$156 000
- b) i) Break in point in units = $108\,000 \div \{80 - [1\,000(21 \times 90\% + 216 + 21) \div 6\,000]\}$
= 2 892 cabinets

- ii) Margin of safety as a percentage = $(6\ 000 \div 75\% - 2\ 892) \div 6\ 000 \times 75\% \times 100\%$
= 63.9%
- iii) Profit = Contribution – Fixed production expenses
= $\{80 - [1\ 000(21 \times 90\% + 216 + 21) \div 6\ 000]\} \times 6\ 000 \div 75\% - \$108\ 000$
= \$190 800
- c) **BLT Ltd: Calculation of profit obtainable from Option 2.**
- | | | |
|--|---------------|----------------|
| Sales: Normal $[(6\ 000 \div 75\% - 4\ 000) \times \$87]$ | | 348 000 |
| Outlets Ltd $(4\ 000 \times \$72)$ | | <u>288 000</u> |
| Turnover | | 636 000 |
| <u>Less Marginal cost of sales</u> | | |
| Direct materials $(21\ 000 \times 85\% \div 75\%)$ | 23 800 | |
| Direct labour: Normal | 216 000 | |
| Outlets Ltd $(216\ 000 \times 25\% \div 75\% \times 150\%)$ | 108 000 | |
| Production expenses $(21\ 000 \div 75\%)$ | <u>28 000</u> | <u>375 800</u> |
| Contribution | | 260 200 |
| <u>Less: Fixed production expenses $(108\ 000 + 20\ 000)$</u> | | <u>128 000</u> |
| Net profit | | <u>132 200</u> |
- d) If BLT Ltd continues to produce 6 000 units, net profit made will be \$156 000; but if it chooses *Option 1*, net profit becomes \$190 800 and if *Option 2* is chosen, net profit of \$132 200 is obtained. *Option 1* is the most profitable course of action to take which will increase current profits by \$34 800. If *Option 2* is adopted, current profits will decrease by \$23 800.
- Current level of activity has a break even point of 2 455 cabinets, whereas *Option 1* has 2 892 cabinets and *Option 2* has a break even point of 2 455 cabinets as in current level of activity. The most suitable course of action is one with the lowest break-even point since this leads to earliest recovery of the fixed production expenses. Current level activity and *Option 2* have the lowest break-even points.
- Margin of safety is profit making region. A course of action with highest margin of safety is most advantageous one. Margin of safety for current level of activity is 59.1%, for *Option 1* is 63.9% and for *Option 2* is 69.3% $\{[(6\ 000 \div 75\% - 2\ 455) \div (6\ 000 \div 75\%)] \times 100\%$. *Option 2* is most preferable in terms margin of safety.
- Overall *Option 1* is most suitable course of action to take. Although it has the highest break-even point, the margin of safety is broad enough to produce the best and largest profit. Although *Option 2* has the widest margin of safety of 63.9%, the contribution per cabinet drops on the 4 001 cabinet onwards since the special order price is lower than the normal price by \$15 $(\$87 - \$72)$. This at the end cuts down the profit adversely.

2079 Scenario 1a) **Katsotso Ltd: Balance Sheet as at 1 January 2005**Fixed Assets

Tangibles:	Freehold property	15 000 000	
	Plant and equipment	11 500 000	
	Motor vehicles	<u>5 500 000</u>	32 000 000
Intangibles:	Trademarks and patents		<u>2 500 000</u>
			34 500 000

Current Assets

Stock	7 500 000	
Trade debtors	7 500 000	
Bank $[(20\ 000 + 6\ 000 + 10\ 000) \times 0.625 \times 2 \div 3 - 4\ 000]$	<u>11 000 000</u>	
		26 000 000

Less: Current Liabilities

Trade creditors	<u>5 000 000</u>	
Net current assets		<u>21 000 000</u>
Total net assets		55 500 000

Less: Long-Term Liabilities

10% Loan stock (2014)		<u>20 000 000</u>
Shareholders funds		<u>35 500 000</u>

Financed ByShare Capital

Ordinary shares of \$0.50 each $[(20\ 000 + 6\ 000 + 10\ 000) \times 0.5 \times 5 \div 3]$		30 000 000
14% Preference shares of \$1 each		<u>10 000 000</u>
		40 000 000

↗	<u>Reserves</u>		
	Capital reconstruction	{w1}	500 000
	Profit and Loss Account		<u>(5 000 000)</u>
			<u>35 500 000</u>

- b)
- Loan stockholders are gearing (lenders of finance) but ordinary shareholders are equity (owners)
 - Loan stockholders are the safest form of investment while ordinary shareholders are the riskiest
 - Loan stockholders earn a pre-tax interest but ordinary shareholders earn an after-tax dividend
 - Loan stockholders have no voting powers \equiv rights at Annual General Meeting (AGM) and Extra-ordinary General Meeting (EGM) unlike ordinary shareholders who exercise these rights to appoint \equiv elect the board directors and thereby influence the running of the company
 - Loan stockholders get a fixed interest regardless of profitability whereas ordinary shareholders may get a dividend depending on profitability and directors discretion
 - Redemption other than out of proceeds of a new issue of loan stockholders may or may not result in creation of a redemption reserve but is a must redemption of ordinary shareholders instruments

Working

$$1. \quad \text{Capital reconstruction} = 34.5 - 40 + 7.5 \times 2 - 20 - 10 + (20 + 6 + 10) \times 0.5 \times [1 + (0.625 - 0.5) \div 0.5 \times 2 \div 3]$$

Scenario 2**a) Katsotso's Ltd: Cash Flow Statement for the year ended 31 December 2006**

		\$000	\$000
<u>OPERATING ACTIVITIES</u>			
Net profit before interest			13 500
<u>Non-cash items adjustments</u>			
Dep: Freehold property	[14.7 – 14.4]	300	
Plant and machinery	[10.35 – 18 + 10]	2 350	
Motor vehicles	[6 – 12 + 10 – 3]	1 000	
Amortisation: Trademarks and patents	[2 – 1.5]	500	
Profit on motor vehicles disposal	[12 – 10 – 5]	<u>(3 000)</u>	<u>1 150</u>
Net cash inflow before working capital adjustments			14 650
<u>Working capital adjustments</u>			
Increase in stock	[15 – 23]	(8 000)	
Increase in trade debtors	[12 – 15]	(3 000)	
Increase in trade creditors	[5 – 7]	<u>2 000</u>	<u>(9 000)</u>
Cash inflow from operations			5 650
Interest paid			<u>(1 500)</u>
Net cash inflow from operating activities			4 150
<u>INVESTING ACTIVITIES</u>			
Acquisition of plant and equipment		(10 000)	
Proceeds from motor vehicle disposals		<u>5 000</u>	
Net cash outflow from investing activities			<u>(5 000)</u>
Net cash outflow before financing activities			(850)
<u>FINANCING ACTIVITIES</u>			
Issue of ordinary shares	[30 – 40]	10 000	
Premium on issue of shares	[3 – 8]	5 000	
10% Loan stock redemption		(5 000)	
Ordinary dividends paid		<u>(3 000)</u>	
Net cash inflow from financing activities			<u>7 000</u>
Increase in cash and cash equivalents			6 150
Balance b/d			<u>9 950</u>
Balance c/d			<u>16 100</u>

b) DIFFERENCES BETWEEN PROFIT CHANGE IN CASH

TO: Board of directors

FROM: Financial accountant

Aims and purposes

Profit earned, a measure of returns for entrepreneurial activities, is calculated in an Income Statement but changes in cash, a solvency measure, are computed in a Cash Flow Statement. Profits and cash changes are different both in manner they are determined and the functions they serve.

Bases and concepts

An Income Statement is prepared on accruals basis. This means all outstanding revenue or expenses are matched with the period they relate to by making adjustments for prepaid and owing amounts. Cash Flow Statement is prepared on cash basis, meaning that only actual cash movements are recorded and credit transactions are ignored.

Capital and revenue receipts and expenditure

The Cash Flow Statement records revenue and capital receipts as cash inflows and revenue and capital expenditure as cash outflows. An Income Statement makes adjustments for prepayments and accruals to the revenue receipts and expenditures, taking into account the matching and accruals concepts. Further, capital receipts and expenditure is not recorded in an Income Statement.

Non-cash items

Non-cash items are those activities which do not involve movement of cash such as bonus issues, profits or losses on disposals, increases or decreases in provisions, amortisations etc. In an Income Statement, non-cash items are shown unlike in a Cash Flow Statement where they are ignored.

Scenario 3**a) Katsotso Ltd: Departmental Trading, Profit and Loss Account for year ended 31 December 2007**

	Carpet s		Furniture		Gifts	
	\$000	\$000	\$000	\$000	\$000	\$000
Sales		1 200		1 600		1 000
<u>Less: Cost of sales</u>						
Opening stock	80		70		55	
<u>Add: Cost of goods manufactured</u>	<u>580</u>		<u>620</u>		<u>560</u>	
	660		690		615	
<u>Less: Closing stock</u>	<u>60</u>	<u>600</u>	<u>50</u>	<u>640</u>	<u>65</u>	<u>550</u>
		600		960		450
Less: Operating Expenses						
Salaries	23		56		29	
Rates [80 × (30% & 50% & 20%)]	24		40		16	
Lighting & heating {w1}	21		35		14	
Salesmen's commissions {w2}	18		24		15	
Dep: Freehold premises {w3}	54		90		36	
Motor vehicles {w4}	<u>240</u>	<u>380</u>	<u>360</u>	<u>605</u>	<u>-</u>	<u>110</u>
Net profit		<u>220</u>		<u>355</u>		<u>340</u>

- b) Common costs are apportioned = shared to beneficiary departments using the best measures of activity = cost drivers. Rates were apportioned on floor area basis since they are rentals directly linked to the area = space occupied. Lighting and heating were shared using floor area because area = volume covered is the one which is heated and lighted. Salesmen's commissions were apportioned on total sales basis since they are a compensation expense connected with revenue generated. Depreciation on freehold premises were shared using floor area because each department covers space of the premises. A percentage was used to share motor vehicles department because it is specified that services accrued in that ratio.

- c) i) Gross profit percentage = $\frac{\text{Gross profit}}{\text{Sales}} \times 100\%$
- | | | |
|----------------------------------|----------------------------------|----------------------------------|
| <i>Carpets</i> | <i>Furniture</i> | <i>Gifts</i> |
| = $600 \div 1\,200 \times 100\%$ | = $960 \div 1\,600 \times 100\%$ | = $450 \div 1\,000 \times 100\%$ |
| = 50% | = 60% | = 45% |
- ii) Net profit percentage = $\frac{\text{Operating profit}}{\text{Sales}} \times 100\%$
- | | | |
|--------------------------------------|----------------------------------|----------------------------------|
| <i>Carpets</i> | <i>Furniture</i> | <i>Gifts</i> |
| = $220 \div 1\,200 \times 100\%$ | = $355 \div 1\,600 \times 100\%$ | = $340 \div 1\,000 \times 100\%$ |
| = 18$\frac{1}{3}$% | = 21.875% | = 34% |
- iii) Rate of stock turnover (ROST) = $\frac{\text{Cost of goods sold}}{\frac{1}{2}(\text{Opening stock} + \text{Closing stock})}$
- | | | |
|---------------------------------|---------------------------------|-------------------------------|
| <i>Carpets</i> | <i>Furniture</i> | <i>Gifts</i> |
| = $600 \times 2 \div (80 + 60)$ | = $640 \times 2 \div (70 + 50)$ | = $550 \times 2 \div (55+65)$ |
| = 8.6 times | = 10.7 times | = 9.2 times |

Workings

- Lighting and heating = $70 \times [30\% \& 50\% \& 20\%]$
- Salesmen's commission = $57 \div (1\,200 + 1\,600 + 1\,000) \times [1\,200 \& 1\,600 \& 1\,000]$

3. Dep: Freehold premises = $300 \times 60\% \times [30\% \& 50\% \& 20\%]$
 4. Dep: Motor vehicles = $3\ 000 \times 20\% \times [40\% \& 60\% \& \text{Nil}]$

Scenario 4MEMORANDUMa) Provision

A provision is an approximated \equiv estimated amount written off (set aside) from a Profit and Loss Account for expense known to have been incurred but whose exact amount cannot be ascertained with substantial accuracy. Prudence concept sanctions recording of all expenses as soon as they arise and to be matched with the relevant accounting period. Provisions in the Income Statement are artificial \equiv fictitious expenses which may increase or decrease but characterised by credit balances such as:

- provision for bad debts \equiv credit losses \equiv doubtful debts \equiv uncollectible accounts
- provision for depreciation
- provision for discount allowed \equiv sales discounts
- provision for unrealised profits

b) Contingent

The word contingent means potential. A potential can be possible or probable depending on the chances of likelihood of occurrence. A possible contingent is an event with higher chances but a probable contingent is one with bleak \equiv low chances. They all depend upon occurrence or non-occurrence of some certain future events. Contingencies may take the form of:

- *contingent asset*: a potential resource to be owned by an entity if a future event arise, which must not be recorded since it is not yet a real possession (prudence concept)
- *contingent gain*: a potential flow of economic benefits such as provision for discount received \equiv purchases discount which must not be recorded nor reported because of prudence concept
- *contingent liabilities*: a potential obligation to pay money which financial statement users must be alerted of by way of note if it is probable to be incurred
- *contingent losses*: reasonably an expense has occurred, the amount of which can be improvised \equiv estimated with some degree of accuracy and is recorded in financial statements

c) Post-Balance Sheet event

Post-Balance Sheet events are situations which happen in-between the financial year end and the date on which the set of financial accounts statements is accepted \equiv signed by board of directors for gazetting \equiv publication. These events should possess a degree of materiality such that they qualify to be disclosed by way of a note to the financial statements or would render the accounts biased \equiv incorrect if adjustments are not made to them. Activities which are expected to happen in the normal day to day running of a business are not classed post-Balance Sheet events. Post-Balance Sheet events are helpful \equiv useful to a financial statement user in making a reasonably accurate assessment of the businesses and an informed decision based on those financial statements.

d) Adjusting event

An adjusting event is a post-Balance Sheet event that requires amendments \equiv corrections to be made on the financial statements before they are released to the public. A situation is rendered an adjusting event if at the Balance Sheet date the circumstances \equiv conditions already existed although it might not have come to light at that instance. The underlying logic \equiv reasoning is that: had the entity known the facts, then such facts would have been put into consideration when preparing the financial statements. Therefore, as long as the conditions are true at Balance Sheet date, then a transaction is an adjusting post-Balance Sheet event. Exempli gratia

- a debtor at Balance Sheet date who is declared insolvent is assumed a bad debt because this fact \equiv knowledge might have delayed reaching the business
- determination of buying or selling amount after Balance Sheet date
- evidence of permanent diminution in value of a fixed asset
- receipt of correct corporation tax rates

e) Non-adjusting event

A non-adjusting event is a post-Balance Sheet event whose importance \equiv materiality would qualify it to be disclosed by way of a note to the financial statement users. Non-adjusting events are all sensitive pieces of information whose non-disclosure would prejudice financial statements users since they distort or hide the reality of the situation in the company. E.g.

- a fire which burnt down the whole factory leading to no production
- closure of a business line e.g. discontinuation of family car segment by an automobile assembler

Scenario 5

- a) i) Break-even units = Total fixed overhead ÷ Contribution per unit
 = $15 \times 20\,000 \div (63 - 48 + 15)$
 = **10 000 units**
- ii) Break-even sales = Break-even units × Selling price per unit
 = $10\,000 \times 63$
 = **\$630 000**
- b) Anticipated profit = Sales – Total cost
 = $(63 - 48) \times 20\,000$
 = **\$300 000**
- c) i) Margin of safety units = Sales units – Break even units
 = $20\,000 - 10\,000$
 = **10 000 units**
- ii) Margin of safety sales = Margin of safety units × Selling price per unit
 = $10\,000 \times 63$
 = **\$630 000**
- d) Targeted selling price = (Total cost + Targeted profit) ÷ Number of units
 = $(48 \times 20\,000 + 60\,000) \div 20\,000$
 = **\$51 per unit**
- e) i) Profit/ (loss) = Total contribution – Total fixed overhead
 = $15\,000 \times (66 - 48 + 15) - 20\,000 \times 15$
 = **\$195 000**
- ii) Profit/ (loss) = Sales – Total cost
 = $57 \times 30\,000 - (15 \times 20\,000 + \{48 - 15\} \times 30\,000)$
 = **\$420 000**

2080 Scenario 1**a) J. Phiri and G. Boyle: Balance Sheet as at 30 June 2003**Fixed Assets

Freehold premises			120 000
Office equipment			42 000
Furniture and fittings			56 000
Motor vehicles	[64 + 48]		<u>112 000</u>
			330 000

Current Assets

Stock	[20 – 4.2 + 15 – 3.65]		27 150
Debtors	[16.4 – 0.4 + 18.9 – 0.9]	34 000	
Less: Provision for bad debts	[34 × 2½%]	<u>850</u>	33 150
Bank	[14.36 + 6.1]		<u>20 460</u>
			80 760

Less: Current Liabilities

Trade creditors	[30.76 + 10]		<u>40 760</u>
Net current assets			<u>40 000</u>
Total net assets			<u>370 000</u>

Financed By

Capital:	J. Phiri	{w2}	256 000	
	G. Boyle	{w2}	<u>114 000</u>	<u>370 000</u>

- b) – *Goodwill is intangible:* it is invisible therefore dealing with an asset which lacks a physical form is complicated and impractical
- *Is an aggregation:* Goodwill is a sum of several advantages/ merits and disadvantages lacking money measurement
- *Lacks historical cost:* there is no way one can objectively value non-purchased goodwill. Value of purchased goodwill is assumed to be the difference between purchase price and fair value of net separable assets taken over
- *Useful life is difficult to determine:* arriving at the useful life of goodwill is very subjective which leads to amortisation complications

Workings

1. Goodwill:	J. Phiri	$[280 - 240 + 0.4 + (16.4 - 0.4) \times 2\frac{1}{2}\% + 4.2 + 100 - 120]$	25 000
	G. Boyle	$[130 - 120 + 0.9 + (18.9 - 0.9) \times 2\frac{1}{2}\% + 3.65]$	15 000
			<u>40 000</u>
2. Capital:	J. Phiri	$[240 - 0.4 - (16.4 - 0.4) \times 2\frac{1}{2}\% - 100 + 120 - 4.2 + 25 - 40 \times \frac{3}{5}]$	
	G. Boyle	$[120 - 0.9 - (18.9 - 0.9) \times 2\frac{1}{2}\% - 3.65 + 15 - 40 \times \frac{2}{5}]$	

Scenario 2

a)

Sales Ledger Control Account

July 1 Balance b/d	20 160	Jun 30 Sales returns	11 320
Jun 30 Sales	942 240	30 Bank and cash	852 880
30 Interest on debtors	6 680	30 Cash: Bad debts recovered	2 420
30 Bad debts recovered	2 420	30 Set off	C 7 560
		30 Bad debts	4 620
		30 Discount allowed	5 640
		30 Balance	c/d <u>87 060</u>
	<u>971 500</u>		<u>971 500</u>
Jun 30 Balance b/d	87 060		

b)

Debtors Ledger Control Account

Jun 30 Balance b/d	87 060	i. Discount allowed	2 000
vi. Sales undercast [4 500 - 5 400]	900	ii. Sales overcast [3 560 - 3 650]	90
		iv. Set off	C 420
		viii. Bad debts	960
	<u>87 960</u>	Jun 30 Balance	c/d <u>84 490</u>
July 1 Balance b/d	84 490		<u>87 960</u>

c)

J. Phiri and G. Boyle: Debtors Reconciliation Statement as at 30 June 2004

Balance as per amended Sales Ledger Control Account	84 490
ii. Debtors overcast [3 560 - 3 650]	90
iii. Sales Ledger account overstated	2 400
v. Debtor balance omitted	(6 420)
vii. Payment by debtor	<u>1 240</u>
Total as per Sales Ledger (Debtors schedule)	<u>81 800</u>

d)

- The purpose of control accounts is to check on \equiv monitor accuracy of entries made in books in relation to creditors and debtors as well as to ensure completeness of the information. Several merits arise such as:
- cross-checking on arithmetical accuracy. Errors are revealed through total discrepancies
 - detecting frauds, thefts and embezzlements when there are mismatches on amounts
 - locating the Ledger in which errors were made when totals and balances fail to agree
 - preventing \equiv discouraging thefts, embezzlements and frauds since balance and totals must agree
 - providing figures for debtors and creditors faster when preparing final accounts control accounts are summaries \equiv totals of all entries made in the books

Scenario 3a) **J. Phiri and G. Boyle: Trading and Profit and Loss Account for 3 months ended 30 September 2004**

Sales	$[43 600 - 60 000 - 396 400 - 7 200]$	420 000
<u>Less: Cost of Sales</u>		
Opening stock	57 600	
Add: Purchases	$[35 600 - 45 400 - 289 600 - 4 800]$	<u>304 200</u>
		362 000
<u>Less: Stolen goods</u>	{missing figure}	<u>62 000</u>
Gross profit	$[40\% \div 140\% \times 420 000]$	120 000
Discount received		<u>4 800</u>
Operating income		124 800
<u>Less: Operating Expenses</u>		
Discount allowed	7 200	
Dep: Office equipment	$[10\% \times 42 000 \times \frac{3}{12}]$	1 050
Motor vehicles	$[20\% \times 320 000 \times \frac{3}{12}]$	16 000
Furniture and fittings	$[10\% \times 56 000 \times \frac{3}{12}]$	1 400
Rates	$[1 500 \times 3 \times 120\%]$	5 400

↗ Postage and stationery	5 000	
Wages	9 250	
Increase in provision for bad debts [2 000 – 3 000]	1 000	
Loss on stolen goods [62 000 – 50 000]	<u>12 000</u>	<u>104 400</u>
Net profit		<u>20 400</u>

b) J. Phiri and G. Boyle: Balance Sheet (extract) as at 30 September 2004

Current Assets

Trade debtors	60 000	
Less: Provision for bad debts	<u>3 000</u>	57 000
Rates prepaid [1 500 × 120%]		1 800

Scenario 4

a) i) J. Phiri and G. Boyle: Overhead Analysis Sheet

Cost	Charge basis	Total	Machine Shop	Finishing Dept	Canteen	Personnel
Direct materials	Allocation	400 000	260 000	140 000		
Direct labour	Allocation	615 400	400 000	215 400		
Indirect labour	Allocation	150 000	20 000	30 000	60 000	40 000
Indirect materials	Allocation	33 000	18 000	15 000		
Allocated costs		<u>1 198 400</u>	<u>698 000</u>	<u>400 400</u>	<u>60 000</u>	<u>40 000</u>
<u>Primary Apportionment</u>						
Rent and rates	Floor area (m ²) {w1}	28 000	10 000	6 000	8 000	4 000
Heat and light	Floor area (m ²) {w2}	49 000	17 500	10 500	14 000	7 000
Inspection	No of employees {w3}	60 000	16 000	24 000	8 000	12 000
Depreciation	Cost of mach {w4}	45 000	30 000	10 000	3 000	2 000
Total cost		<u>1 380 400</u>	<u>771 500</u>	<u>450 900</u>	<u>93 000</u>	<u>65 000</u>
ii) Direct method						
Total cost	{i}	1 380 400	771 500	450 900	93 000	65 000
<u>Secondary Apportionment</u>						
Canteen	No of employees {w5}		37 200	55 800	(93 000)	
Personnel	No of employees {w6}		26 000	39 000		(65 000)
Total overhead		<u>1 380 400</u>	<u>834 700</u>	<u>545 700</u>	<u>-</u>	<u>-</u>
OR Elimination method						
Total cost	{i}	1 380 400	771 500	450 900	93 000	65 000
<u>Secondary Apportionment</u>						
Canteen	No of employees {w7}		28 615	42 923	(93 000)	21 462
Personnel	No of employees {w8}		34 585	51 877		(86 462)
Total overhead		<u>1 380 400</u>	<u>834 700</u>	<u>545 700</u>	<u>-</u>	<u>-</u>
OR Continuous allotment ≡ Repeated Apportionment method						
Total cost	{i}	1 380 400	771 500	450 900	93 000	65 000
<u>Secondary Apportionment</u>						
1st app: Canteen	No of employees {w7}		28 615	42 923	(93 000)	21 462
					-	86 462
2nd app: Personnel	No of employees {w9}		28 821	43 231	14 410	(86 462)
					(14 410)	-
3rd app: Canteen	No of employees {w10}		4 434	6 651	-	3 325
						3 325
4th app: Personnel	No of employees {w11}		1 108	1 663	554	(3 325)
					(554)	-
Final App: Canteen	No of employee {w12}		222	332		
Total overhead		<u>1 380 400</u>	<u>834 700</u>	<u>545 700</u>	<u>-</u>	<u>-</u>
OR Matrix method ≡ Simultaneous equations method						
Total cost	{i}	1 380 400	771 500	450 900	93 000	65 000
<u>Secondary Apportionment</u>						
Canteen	{w13} No of employee {w14}		33 227	49 840	(107 987)*	24 920
Personnel	{w13} No of employee {w15}		29 973	44 960	14 987	(89 920)**
Total overhead		<u>1 380 400</u>	<u>834 700</u>	<u>545 700</u>	<u>-</u>	<u>-</u>

$$\begin{array}{lcl}
 \text{iii)} & \text{Overhead Absorption Rate (OAR)} & = \text{Total overhead} \div \text{Best measure of activity} \\
 & \text{Machine Shop OAR} & \text{Finishing dept OAR} \\
 & = 834\,700 \div 42\,000 & = 545\,700 \div 56\,000 \\
 & = \underline{\underline{\$20 \text{ per machine hour}}} & = \underline{\underline{\$10 \text{ per direct labour hour}}}
 \end{array}$$

iii) The OAR for machine shop was calculated on the basis of machine hours because the department is capital intensive. There are 20 000 direct labour hours compared to 42 000 machine hours. This means there is more of machine usage than manual work. Therefore machine hours are the best = most suitable cost driver.

The OAR for finishing department was calculated on the basis of direct labour hours because there are many direct labour hours (56 000) compared to a few = mere 10 000 machine hours, implying that most of the work is done manually hence direct labour hours are the most suitable cost driver.

b) **J. Phiri and G. Boyle: Job HC104 cost card/ record/ sheet**

		<i>Machine Shop</i>	<i>Finishing Dept</i>	<i>Total</i>
Direct materials		400	200	600
Direct labour	[20 × 4 & 50 × 3]	<u>80</u>	<u>150</u>	<u>230</u>
Prime cost		480	350	830
Factory overheads	[40 × 20 & 50 × 10]	<u>800</u>	<u>500</u>	1 300
Production cost		1 280	850	2 130
Add: Administration charge	{w16}	<u>512</u>	<u>340</u>	<u>852</u>
Selling price		<u>1 792</u>	<u>1 190</u>	<u>2 982</u>

Workings

1. Rent and rates = $28\,000 \div (500 + 300 + 400 + 200) \times [500 \& 300 \& 400 \& 200]$
2. Heat and light = $48\,000 \div (500 + 300 + 400 + 200) \times [500 \& 300 \& 400 \& 200]$
3. Inspection = $60\,000 \div (20 + 30 + 10 + 15) \times [20 \& 30 \& 10 \& 15]$
4. Depreciation = $10\% \times 1\,000 \times [300 \& 100 \& 30 \& 20]$
5. Canteen = $93\,000 \div (20 + 30) \times [20 \& 30]$
6. Personnel = $65\,000 \div (20 + 30) \times [20 \& 30]$
7. Canteen = $93\,000 \div (20 + 30 + 15) \times [20 \& 30 \& 15]$
8. Personnel = $86\,462 \div (20 + 30) \times [20 \& 30]$
9. Personnel = $86\,462 \div (20 + 30 + 10) \times [20 \& 30 \& 10]$
10. Canteen = $14\,410 \div (20 + 30 + 15) \times [20 \& 30 \& 15]$
11. Personnel = $3\,325 \div (20 + 30 + 10) \times [20 \& 30 \& 10]$
12. Canteen = $554 \div (20 + 30) \times [20 \& 30]$
13. Equations: Canteen (C) = $93\,000 + 10 \div (20 + 30 + 10) \times \text{Personnel} \quad \textcircled{1}$
 Personnel (P) = $65\,000 + 15 \div (20 + 30 + 15) \times \text{Canteen} \quad \textcircled{2}$
 Substitute $93\,000 + 10 \div 60 \times P$ for C in $\textcircled{2}$ and $65\,000 + 15 \div 65 \times C$ for P in $\textcircled{1}$
 $\Rightarrow C = 93\,000 + 10 \div 60 \times (65\,000 + 15 \div 65C)$
 $P = 65\,000 + 15 \div 65 \times (93\,000 + 10 \div 60P)$
 $\therefore C = (93\,000 \times 60 \div 10 + 65\,000) \div (60 \div 10 - 15 \div 65)^*$
 $P = (65\,000 \times 65 \div 10 + 93\,000) \div (65 \div 15 - 10 \div 60)^{**}$
14. Canteen = $107\,987^* \div (10 + 30 + 15) \times [20 \& 30 \& 15]$
15. Personnel = $89\,920 \div (10 + 30 + 10) \times [20 \& 30 \& 10]$
16. Administration charge = $40\% \times [1\,280 \& 850 \& 2\,130]$

2081 a) Pygalion Ltd: Trading and Profit and Loss Account for the year ended 30 September 2007

Sales			3 070
<u>Less: Cost Of Sales</u>			
Opening stock	396		
Add: Purchases	1 691		
Depreciation: Plant and machinery	60		
Wages and salaries	<u>216</u>	2 363	
<u>Less: Closing stock</u>		<u>214</u>	<u>2 149</u>
Gross profit			921
<u>Less: Operating Expenses</u>			
<i>Selling and distribution costs</i>			
Depreciation: Plant and machinery	20		
Motor vehicles	28		

↗	Wages and salaries		299		
	Distribution vehicle expenses		54		
	Advertising	[50 – 13]	37		
	Loss on motor vehicle disposal	[16 – 17]	<u>1</u>	439	
	<i>Administration costs</i>				
	Wages and salaries		140		
	Administration expenses	[163 – 7]	156		
	Loss on warehouse machinery disposal	[28 – 31]	<u>3</u>	<u>299</u>	<u>738</u>
	Net profit before interest				183
	Less: Debenture interest	[8% × 300]			<u>24</u>
	Reported net profit				159
	<u>Less: Appropriations</u>				
	Ordinary dividend: Paid			21	
	Proposed final			42	
	General reserve			<u>40</u>	<u>103</u>
	Retained profit for the year				56
	Add: Retained profit b/d				<u>87</u>
	Retained profit c/d				<u>143</u>

b) Pygalion Ltd: Balance Sheet as at 30 September 2007

<u>Non-Current Assets</u>	<u>Cost</u>	<u>Dep</u>	<u>NBV</u>
Freehold premises	1 000		1 000
Plant and machinery [400 – 96 & 145 + 60 + 20 – 96 + 31]	304	160	144
Motor vehicles [113 – 40 & 54 + 28 – 40 + 17]	73	59	14
	<u>1 377</u>	<u>219</u>	1 158
<u>Current Assets</u>			
Stock		214	
Trade debtors		354	
Advertising prepaid		13	
Administration expenses prepaid		7	
Bank		<u>547</u>	
		1 135	
<u>Less: Current Liabilities</u>			
Trade creditors	296		
Debenture interest owing [8% × 300 × ½]	12		
Proposed ordinary dividend	<u>42</u>	<u>350</u>	
Working capital			785
Capital employed			1 943
<u>Less: Non-Current Liabilities</u>			
8% Debentures(2014 – 2018)			300
Shareholders funds			<u>1 643</u>
<u>Financed By</u>			
<u>Share Capital</u>			
Ordinary shares of \$1 each			700
<u>Reserves</u>			
Share premium		200	
Revaluation [800 – 200 – 1 000]		400	
General reserve [160 + 40]		200	
Profit and loss		<u>143</u>	943
Equity			<u>1 643</u>

Scenario 2

Schedule Of Fixed Assets	<i>Freehold premises</i>	<i>Plant and machinery</i>	<i>Motor vehicles</i>	<i>Total</i>
<i>Cost</i>				
Balance b/d	800 000	320 000	91 000	1 211 000
Acquisitions		80 000	22 000	102 000
Disposals		(96 000)	(40 000)	(136 000)
Revaluation {w1}	200 000			200 000
Balance c/d {w2}	<u>1 000 000</u>	<u>304 000</u>	<u>73 000</u>	<u>1 377 000</u>

Depreciation

Balance b/d	200 000	145 000	54 000	399 000
Charge for the year		80 000	28 000	108 000
Disposals {w3}		(65 000)	(23 000)	(88 000)
Revaluations	(200 000)			(200 000)
Balance c/d {w4}	<u>-</u>	<u>160 000</u>	<u>59 000</u>	<u>219 000</u>
Net Book Value	1 000 000	144 000	14 000	1 158 000

Working

- Premises revaluation upward at cost = $[800 - 1\ 000]1\ 000$
- Closing fixed assets = Revaluation & 400 - 96 & 113 - 40
- Depreciation on disposed assets = $[96 - 31 & 40 - 17]1\ 000$
- Closing provision for depreciation = $200 - 200 & 145 + 60 + 20 - 96 + 31 & 54 + 28 - 40 + 17$

Scenario 3**Pygalion Ltd: Cash Budget for four months to 31 January 2008**

RECEIPTS	October	November	December	January
Sales $[10\% \times (357 & 375 & 394 & 414)]$	35 700	37 500	39 400	41 400
Debtors: 1st month $[90\% \times 80\% \times (340 & 357 & 375 & 394)]$	244 800	257 040	270 000	283 680
2nd month $[90\% \times 20\% \times (280 & 340 & 357 & 375)]$	50 400	61 200	64 260	67 500
Total receipts	<u>330 900</u>	<u>355 740</u>	<u>373 660</u>	<u>392 580</u>
PAYMENTS				
Creditors $[3 \div (2 + 3) \times (340 & 357 & 375 & 394)]$	204 000	214 200	225 000	236 400
Wages	55 000	55 000	55 000	55 000
Variable selling expenses $[5\% \times (340 & 357 & 375 & 394)]$	17 000	17 850	18 750	19 700
Fixed expenses $[(30 - 10) \times 106\% \times (1 & 107\%)]$	21 200	21 200	22 684	22 684
Machine $[60 \div 3 \times (1 & 2 \div 4)]$		20 000	10 000	10 000
Motor vehicle $[15 - 4]$				11 000
Ordinary dividend		42 000		
Debenture interest $[8\% \times \frac{1}{2} \times 300]$	12 000			
Total payments	<u>309 200</u>	<u>370 250</u>	<u>331 434</u>	<u>354 784</u>
Net receipts/ (payments)	21 700	(14 510)	42 226	37 796
Balance b/d	547 000	568 700	554 190	596 416
Balance c/d	<u>568 700</u>	<u>554 190</u>	<u>596 416</u>	<u>634 212</u>

Scenario 4**Pgymalion Ltd: Budgeted Income Statement for the year ending 30 September 2008**

Sales	$[2\ 408\ 000 \div (100\% - 35\%)]$		3 705 000
Less: Cost Of Sales			
Opening stock		214 000	
Add: Purchases		<u>2 515 000</u>	
		<u>2 729 000</u>	
Less: Closing stock	$[214\ 000 \times 150\% & 9 \div 2 \times 214\ 000 \times 250\%]$	<u>321 000</u>	<u>2 408 000</u>
Gross profit	$[35\% \div 65\% \times 2\ 408\ 000]$		1 297 000
Less: Operating Expenses			
Selling and distribution expenses	$[16\% \times 3\ 705\ 000]$	593 000	
Administration expenses	$[9\% \times 3\ 705\ 000]$	<u>333 000</u>	<u>926 000</u>
Operating profit			371 000
Less: Debenture interest	$[8\% \times 300\ 000]$		<u>24 000</u>
Reported profit			347 000
Add: Retained profit b/d	{Scenario 1}		<u>143 000</u>
Retained profit c/d			<u>490 000</u>

Pgymalion Ltd: Budgeted Balance Sheet as at 30 September 2008

Fixed Assets	$[3\ 705\ 000 \div 2]$		1 853 000
Current Assets			
Stock	$[214\ 000 \times 150\%]$	321 000	
Debtors	$[30 \div 365 \times 3\ 705\ 000 \times 90\%]$	274 000	
Bank	{missing figure}	<u>267 000</u>	
	$[2.028 \times 425\ 000]$	862 000	

<u>Less: Current Liabilities</u>			
Creditors	[60 ÷ 365 × 2 515 000]]	413 000	
Debenture interest	[8% × 300 000 × 6 ÷ 12]	<u>12 000</u>	<u>425 000</u>
Working capital	[1.028 × 425 000]		<u>437 000</u>
Capital employed			2 290 000
<u>Less: Long-Term Liabilities</u>			
8% Debentures			<u>300 000</u>
Equity			<u>1 990 000</u>
<i>Financed By</i>			
<u>Share capital</u>			
Ordinary share capital			700 000
<u>Reserves</u>			
Share premium		200 000	
Revaluation		400 000	
General reserve		200 000	
Profit and loss		<u>490 000</u>	<u>1 290 000</u>
Shareholders funds			<u>1 990 000</u>

Scenario 5**REPORT ON ASSESSMENT OF CAPITAL RAISING METHODS**

TO: Board of directors
FROM: Financial Accountant

Debentures

Debentures are loans to a company. They are a long-term form of finance which earn a fixed interest. An issue of debentures increase borrowed capital, which in turn increases = raises the gearing level.

Advantages

- investors earn an interest even when the company made a loss.
- money is faster to raise in larger amounts from lenders
- they are redeemable upon maturity
- they are the safest form of investment in that holders get an interest reward first before other investors and in the event of liquidation, they take precedence in repayment

Disadvantages

- company has to pay interest whether or not it made a profit
- debenture interest may be eroded by inflation
- holders cannot vote therefore they have no say over how their investment is used
- redemption may mean investors get money with a lower purchasing power.

Bonus Issues

A bonus issue is a way of distributing both capital and revenue reserves by means of giving existing shareholders free share certificates in proportion to their present shareholding. Since bonus issues debits reserves and credits ordinary share capital, there is no effect on equity as well as on the gearing level.

Advantages

- are issued when there is insufficient cash or no profit to pay cash dividends
- ownership and voting powers remain with existing shareholders
- shareholders may sell surplus shares and get cash

Disadvantages

- can only be issued when reserves are available
- they dilute the earnings per share (EPS) as well as dividend per share (DPS)
- they do not bring in cash to a company (are a non-cash investing activity)

Ordinary Shares Issues

Issue of ordinary shares may take form of a fresh = new issue to the general public where a prospectus is issued or a rights issue where only existing shareholders are given privilege to subscribe for the shares on issue. In both cases, equity is increased thereby decreasing the gearing level.

Advantages

- is a cheaper way of raising cash by a company
- no burden on company to pay a dividend when losses are made

- raises additional cash = finance through share premium
- size of dividend is decided = determined by the board of directors
- there are many potential investors meaning the issues will be taken i.e. fully subscribed

Disadvantages

- decreases = reduces earnings per share (EPS) and dividend per share (DPS)
- may change voting and ownership proportions if is a fresh = new issue
- no assurance = guarantee of a dividend
- investors may or may not get a dividend since it depend on profitability, availability of cash, etc
- is the riskiest form of investment on the part of investors

2082 Scenario 1**a) Foursum: Cash Flow Statement of for the year ended 30 September 2007**

<u>OPERATING ACTIVITIES</u>	\$000	\$000
Net profit		730
<u>Non-cash items adjustments</u>		
Dep: Freehold premises	40	
Fixtures and fittings [280 – 60 + 34 – 330]	76	
Loss on fixtures and fittings disposal [34 – 15]	19	<u>135</u>
Net cash inflow before working capital adjustments		865
<u>Working capital adjustments</u>		
Decrease in stock [600 – 545]	55	
Increase in debtors [216 – 297]	(81)	
Increase in creditors [149 – 213]	64	<u>38</u>
Net cash inflow from operating activities		903
<u>INVESTING ACTIVITIES</u>		
Acquisition of fixtures and fittings [430 – 60 – 510]	(140)	
Proceeds from fixtures and fittings disposal	15	
Net cash outflow from investing activities		<u>(125)</u>
Net cash inflow before financing activities		778
<u>FINANCING ACTIVITIES</u>		
Drawings	(632)	
Net cash outflow from financing activities		<u>(632)</u>
Increase in cash and cash equivalents [108 – 254]		<u>146</u>

b) Foursum: Cash and Cash Equivalents Reconciliation Statement

Balance b/d	108 000
Add: Increase in cash {a}	<u>146 000</u>
Balance c/d	<u>254 000</u>

- c) The capital balance on 30 September 2006 is \$1 425 000 and on 1 October 2006 it is \$1 925 000. There is an increase of \$500 000 = \$1 925 000 – \$1 425 000. This resulted from revaluation of freehold premises whose Journal entries are shown below:

Provision for depreciation		300 000	
Freehold premises [800 – 1 000]		200 000	
Revaluation			500 000

The revaluation profit of \$500 000 resulted from closure of Accumulated Depreciation Account as well as the increase in freehold premises at cost of \$200 000. This profit was capitalized as illustrated below:

Capital Account			
Sep 30 Balance c/d	1 925 000	Sep 30 Balance b/d	1 425 000
		30 Revaluation	<u>500 000</u>
	<u>1 925 000</u>	<u>1 925 000</u>	
		Oct 1 Balance b/d	1 925 000

- d) i) Cash is a broad term encapsulating bank notes and coins, (bearer cheques and agro-cheques in Zimbabwe), bank deposits as well as near cash capital instruments (cash equivalents)
- ii) Cash equivalent refer to highly liquid short term investment that matures within 3 months (90 days) such as treasury bills (T-bills), repurchase agreements (repos), etc

Scenario 2**a) Foursum: Departmental Trading and Profit and Loss Account for year ended 30 September 2007**

	Furnishing		Clothing		Hardware	
	\$000	\$000	\$000	\$000	\$000	\$000
Sales		1 140		690		870
Less: Cost of Sales						
Opening stock	280		75		245	
Add: Purchases	393		322		325	
	673		397		570	
Less: Closing stock	315	358	52	345	178	392
Gross profit		782		345		478
Less: Operating Expenses						
Salaries	46		48		34	
Rent [75 × (40% & 25% & 35%)]	30		19		26	
Heating & lighting [60×(40%&25%&35%)]	24		15		21	
General expenses {w1}	209		127		160	
Dep: Premises {w2}	16		10		14	
Furniture and fittings {w3}	36	361	17	236	24	279
Net profit		421		109		199

- b) i) Gross profit percentage = $\text{Gross profit} \div \text{Sales} \times 100\%$
- | | | |
|----------------------------------|-----------------------------|-------------------------------|
| <i>Furnishing</i> | <i>Clothing</i> | <i>Hardware</i> |
| = $782 \div 1\,140 \times 100\%$ | = $345 \div 690 \times 100$ | = $478 \div 870 \times 100\%$ |
| = 68.6% | = 50% | = 54.9% |
- ii) Net profit percentage = $\text{Net profit} \div \text{Sales} \times 100\%$
- | | | |
|----------------------------------|-----------------------------|-------------------------------|
| <i>Furnishing</i> | <i>Clothing</i> | <i>Hardware</i> |
| = $421 \div 1\,140 \times 100\%$ | = $109 \div 690 \times 100$ | = $199 \div 870 \times 100\%$ |
| = 36.9% | = 15.8% | = 22.9% |
- iii) Overheads incurred = $\text{Operating expenses} \div \text{Sales} \times 100\%$
- | | | |
|----------------------------------|-----------------------------|-------------------------------|
| <i>Furnishing</i> | <i>Clothing</i> | <i>Hardware</i> |
| = $361 \div 1\,140 \times 100\%$ | = $236 \div 690 \times 100$ | = $279 \div 870 \times 100\%$ |
| = 31.8% | = 34.2% | = 32.1% |
- iv) Stock turnover = $\text{Cost of sales} \times 2 \div (\text{Opening stock} + \text{Closing stock})$
- | | | |
|-----------------------------------|---------------------------------|-----------------------------------|
| <i>Furnishing</i> | <i>Clothing</i> | <i>Hardware</i> |
| = $358 \times 2 \div (280 + 315)$ | = $345 \times 2 \div (75 + 52)$ | = $392 \times 2 \div (245 + 178)$ |
| = 1.2 times | = 5.4 times | = 1.8 times |

- c) The gross profit percentage is greatest for furnishing department at 68.6% and least for clothing with 38.4% which means most profit is expected from each unit of furniture sales. Clothing has the smallest mark-up on cost of sales to arrive at selling price probably in response to competitor pricing activities.

Furnishing department has the highest net profit percentage of 36.9% compared to 15.8% net profit percentage for clothing. Hardware has a moderate net profit percentage of 22.9%. Furnishing is the most profitable department with clothing being the least profitable probable because of overhead apportionment.

Overhead percentage is largest for clothing department at 34.2%, followed by hardware with a 32.1% and lastly furnishing with 31.8%. Overheads are generally evenly spread in relation of proportions to the sales revenue generated. Management of overheads is fairly the same among the departments.

Clothing has a rate of stock turn of 5.4 times, followed by hardware with 1.8 times and furnishing having least stock movement of 1.2 times. The goods in clothing and hardware are fast moving while those in furnishing are slow movers = sellers. When linked with gross profit percentage, clothing use concept of small returns and fast = quick turnover.

Rent is for area used hence percentage of premises occupied is used as apportionment basis. Likewise, it is space heated and lighted; percentage premises occupied is the best means to share common heating and lighting. Similarly premises depreciation on premises is linked percentage premises occupied.

Workings

- General expenses = $496\,000 \div (1\,140 + 690 + 870) \times [1\,140 \& 690 + 870]$
- Depreciation: Premises = $4\% \times 1\,000\,000 \times [40\% \& 25\% \& 35\%]$
- Depreciation: Fixtures and fittings = $15\% \times [240 \& 110 \& 160]$

Scenario 3

a)

	A	B	C	D	Capital Account				
	000	000	000	000	A	B	C	D	
Sep 30 Loan	500				Sep 30 Balance b/d	708	511	304	500
30 Bank	448				30 Revaluation {w1}	90	60	30	60
30 Balance c/d		671	384	660	30 Goodwill {w2}	150	100	50	100
	<u>948</u>	<u>671</u>	<u>384</u>	<u>660</u>		<u>948</u>	<u>671</u>	<u>384</u>	<u>660</u>
					Oct 1 Balance	b/d	671	384	660

b)

	B	C	D	E	Capital Account					
	000	000	000	000	B	C	D	E		
Oct 1 Goodwill {w3}	150	100	100	50	Oct 1 Balance	b/d	671	384	660	
1 Balance c/d	<u>521</u>	<u>284</u>	<u>560</u>	<u>450</u>	1 Bank				<u>500</u>	
	<u>671</u>	<u>384</u>	<u>660</u>	<u>500</u>		<u>671</u>	<u>384</u>	<u>660</u>	<u>500</u>	
					Oct 1 Balance	c/d	521	284	560	450

- c) i) In a company, a revaluation profit is treated as a capital reserve which is shown on the financed by section of the Balance Sheet and will later be used for bonus issues of shares
- ii) In a partnership, a revaluation profit is capitalised. This means it is shared in the old profit sharing ratio to the old partners whose assets are revalued and credited to their Capital Accounts.
- d) i) Non-purchased (inherent) goodwill should not be shown in the books of accounts because it lacks objective historical cost and its money measurement is subjective
- ii) Negative goodwill is treated as a capital reserve in a company which may later be used for bonus issues of ordinary shares. It is shown in the 'Financed By' section of the Balance Sheet
- iii) Purchased (positive) goodwill is shown in the Balance Sheet as an intangible fixed asset that must then be amortised in the Appropriation Account in equal instalments over a period not exceeding 20 years. Alternatively, the amount may be written off in the Income Statement

Workings

- Revaluation: Fixtures and fittings = $(420 - 180) \div 8 \times [3 \& 2 \& 1 \& 2]$
- Creating \equiv opening goodwill = $400 \div 8 \times [3 \& 2 \& 1 \& 2]$
- Closing \equiv eliminating goodwill = $400 \div 8 \times [3 \& 2 \& 2 \& 1]$

Scenario 4

a) *Cost accounting* is concerned with the determination of unit costs, preparation of budgets, calculation of variances, etc. *Management accounting* on the other hand is concerned with decision making based on the data and information obtained from cost accounting. Cost accounting is quantitative in nature whereas management accounting is qualitative in nature.

<u>Cost accounting</u>	<u>Financial accounting</u>
- Deals with the future	- Deals with the past
- Is for internal use	- Is for external use
- No application of IAS	- Bound by accounting standards
- Not standardised	- Standardised
- Uses estimates	- Uses actual figures

c) Generally Accepted Accounting Principles (GAAP) are concepts and conventions that govern preparation of financial statements. (Ground rules for preparation of financial accounts)

- d) - Guard against creative accounting \equiv window dressing
- Provide sufficient and meaningful information to financial statement users
- Reduce range and variety of accounting practices, layouts and presentations

Scenario 5

- a) Contribution = Sales - Variable cost
- i) Budgeted contribution = $50 - 32 - 2$
= \$16
- ii) Actual contribution = $47 \times 95\% - 34 - 2$
= \$8.65

- b) i) Total sales variance = Master budget sales – Actual sales
 = $50 \times 160 - 47 \times 195$
 = **(\$1 165) Favourable**
- ii) Sales volume variance = Master budget sales – Flexed budget sales
 = $[160 - 195] \times 50$
 = **(\$1 750) Favourable**
- iii) Sales price variance = Flexed budget sales – Actual sales
 = $[50 - 47] \times 195$
 = **\$585 Unfavourable**
- c) i) Total purchases variance = Master budget purchases – Actual purchases
 = $160 \times 32 - 200 \times 34$
 = **(\$1 680) Unfavourable**
- ii) Purchases volume variance = Master budget purchases – Flexed budget purchases
 = $[160 - 200] \times 32$
 = **(\$1 280) Unfavourable**
- iii) Purchases price variance = Flexed budget purchases – Actual purchases
 = $[32 - 34] \times 200$
 = **(\$400) Unfavourable**
- d) i) – Expensive suppliers
 – Scarcity of merchandise (market forces of supply and demand)
- ii) – A cut in selling price
 – Change in customer taste
 – Increase in prices of substitutes
- e) – benchmark \equiv yardstick against which comparisons can be made
 – cost consciousness is stipulated
 – easier to trace costs to products or cost centres
 – identical products \equiv units are valued on the same price
 – variance analysis enables management by exception where management attention is placed only on adverse variances

2083 Scenario 1**a) Rhtzu: Manufacturing and Trading and Profit and Loss Account for year ended 30 June 2007**Raw materials

Opening stock			206 000
Add: Purchases	[1 844 000 + 25 000 – 69 000]	1 800 000	
Carriages inwards		69 000	
		<u>1 869 000</u>	
Less: Purchases returns		25 000	1 844 000
			<u>2 050 000</u>
Less: Damaged raw materials			28 000
Raw materials available			<u>2 022 000</u>
Less: Closing stock	[333 000 – 28 000]		305 000
Cost of raw materials consumed			<u>1 717 000</u>
Add: Direct labour	[1 098 000 \div $\frac{3}{4}$]		1 464 000
Royalties			<u>253 000</u>
Prime cost			<u>3 434 000</u>
Add: <u>Factory overhead</u>			
Indirect materials		399 000	
Supervisors' salaries		560 000	
Loose tools	[55 000 + 199 000 – 33 000]	221 000	
Dep: Plant and machinery	[900 000 \times 70% \times 30%]	189 000	
Freehold premises	[800 000 \times 10% \times 60%]	48 000	
Heating and lighting	[420 000 \times 60%]	<u>252 000</u>	1 669 000
<u>Work-in-progress</u>			
Opening stock		99 000	
Less: Closing stock	[2% \div 102% \times (3 434 + 1 669 + 99)1 000]	<u>102 000</u>	<u>(3 000)</u>
Production cost			<u>5 100 000</u>



↻	Add: Factory profit		1 275 000
	Market value of finished goods		6 375 000
	Sales		9 202 000
	Less: Sales returns		642 000
	Turnover		8 560 000
	Less: Cost Of Turnover		
	Opening stock	88 000	
	Add: Market value of finished goods	6 375 000	
	Add: Packaging	121 000	
		6 584 000	
	Less: Drawings in kind	11 000	
		6 573 000	
	Less: Closing stock	153 000	6 420 000
	Gross profit		2 140 000
	Add: Discount received		17 000
	Rent earned	[77 000 – 12 000]	65 000
	Operating income		2 222 000
	Less: Operating Expenses		
	Damaged raw materials	28 000	
	Heating and lighting	[420 000 × 40%]	168 000
	Dep: Premises	[800 000 × 10% × 40%]	32 000
	Delivery vehicle	[600 000 × 75% × 25%]	112 500
	Salesmen salaries		475 000
	Advertising expenses		321 000
	Administration overheads		100 000
	Cash stolen		10 000
	Delivery vehicle expenses		246 000
	Bad debts		8 000
	Provision for doubtful debts	[250 000 × 5%]	12 500
	Discount allowed		49 000
	Operating profit		1 562 000
	Add: Factory profit		660 000
			1 275 000
			1 935 000
	Less: Increase in prov for unrealised profit [153 000 ÷ 6 375 000 × 1 275 000]		30 600
	Overall net profit		1 904 400

b) Rhutzu: Balance Sheet as at 30 June 2007

	Cost	Dep	Net
<u>Fixed Assets</u>			
Freehold land	700 000		700 000
Freehold premises [800 × (1 & 10% × 2 & 80%)]	800 000	160 000	640 000
Plant and machinery [900 × {1 & (1 – 0.7 ²) & 0.7 ² }]	900 000	459 000	441 000
Delivery vehicles [600 × {1 & (1 – 0.75 ²) & 0.75 ² }]	600 000	262 500	337 500
	<u>3 000 000</u>	<u>881 500</u>	2 118 500
<u>Current Assets</u>			
Stock: Raw materials [333 – 28]		305 000	
Work in progress [2% ÷ 102% × (3 434 + 1 669 + 99)]		102 000	
Finished goods	153 000		
Less: Prov for unrealised profit [153 × 6 375 × 1 275]	30 600	122 400	
Loose tools		33 000	
Trade debtors	250 000		
Less: Provision for doubtful debts [250 × (5% & 95%)]	12 500	237 500	
Rent earned in advance		12 000	
Cash [84 – 10]		74 000	
		885 900	
Less: Current Liabilities			
Trade creditors	219 000		
Direct labour owing [1 098 ÷ 75% × 25%]	366 000	585 000	
Working capital			300 900
Capital employed			<u>2 419 400</u>

<u>Financed By</u>			
Capital:	Balance b/d		915 000
	<u>Add:</u> Overall net profit	1 904 400	
	<u>Less:</u> Drawings: Cash	389 000	
	In kind	<u>11 000</u>	<u>400 000</u>
	Balance c/d		<u>2 419 400</u>

Scenario 2

a)	Motor Vehicle Disposals Account		
July 1	Motor vehicle	600 000	
			July 1 Prov for dep $[600 \times (1 - 0.75^2)]$
			1 Debtors $[\frac{3}{4} \times 600 \times 0.75^2]$
			1 Loss on disposal
		<u>600 000</u>	<u>262 500</u>
			<u>253 125</u>
			<u>84 375</u>
			<u>600 000</u>

b)	Rhutz: General Journal		
July 1	Freehold land	[700 – 800]	100 000
	Revaluation		100 000
July 1	Provision for depreciation on premises	[800 × 10% × 2]	160 000
	Revaluation	[800 × 80% – 600]	40 000
	Freehold premises	[800 – 600]	200 000
July 1	Plant and machinery provision for dep	[900 × (1 – 0.7 ²)]	459 000
	Plant and machinery	[900 – 500]	400 000
	Revaluation	[900 × 0.7 ² – 500]	59 000
July 1	Revaluation	[33 ÷ 3]	22 000
	Loose tools		22 000
July 1	Revaluation	[250 – 240]	10 000
	Trade debtors		10 000
July 1	Provision for doubtful debts	[(250 – 240) × 5%]	500
	Revaluation		500

c) **MEMO**Disposals Account

A Disposals Account is a nominal account prepared in the General Ledger. It is opened and closed on the same date. It is used to record the realisation = sell of fixed assets. On the debit, there is cost of the asset being sold and the profit on disposal. The credit side normally has accumulated = aggregate depreciation, proceeds = receipts from disposals, loss on disposal and part-exchange = trade-in allowance value

Revaluation Account

The Revaluation Account is a capital reserve. A debit balance signifies a capital loss and this reduces the capital of sole-traders and partnerships but is normally written of in the reconstruction = re-organisation = restructuring schemes of companies. A credit balance means a capital gain and thus increases the capital of single-proprietors and partnerships but is used for bonus issues of ordinary shares in companies

Scenario 3

a)	Realisation Account			
Dec 31	Freehold land	800 000	Dec 31 Trade creditors	280 000
31	Freehold premises	600 000	31 Discount received	10 000
31	Plant and machinery	550 000	31 Midzi Ltd	2 400 000
31	Stock	480 000	31 Capital: Stock	110 000
31	Trade debtors	320 000		
31	Capital	<u>50 000</u>		
		<u>2 800 000</u>		<u>2 800 000</u>

b)	Cash Account			
Dec 31	Balance b/d	210 000	Dec 31 Sundry expenses	120 000
			31 Capital	<u>90 000</u>
		<u>210 000</u>		<u>210 000</u>

c)		Capital Account	
Dec 31 Realisation: Stock	110 000	Dec 31 Balance b/d	2 550 000
31 Cash	90 000	31 Realisation profit	50 000
31 Ordinary share capital	1 600 000		
31 Share premium	800 000		
	<u>2 600 000</u>		<u>2 600 000</u>

d)		Business Purchase Account	
Jan 1 Trade creditors	280 000	Jan 1 Freehold land	940 000
1 Ordinary share capital	1 600 000	1 Freehold premises	660 000
1 Share Premium	800 000	1 Plant and machinery	450 000
1 Provision for bad debts	9 000	1 Stock	350 000
1 Capital reserve	11 000	1 Trade debtors	300 000
	<u>2 700 000</u>		<u>2 700 000</u>

- e) A Realisation Account is prepared by a seller of a business. It shows assets at net book values on the debit side but liabilities, assets taken over by owner and proceeds of disposal are shown on the credit side. Profit is a result of the credit side being greater than the debit side while a loss arise from debit side being greater.

A Business Purchase Account is prepared by the acquirer \equiv buyer of an existing business. It is used to open Ledger accounts. Assets are recorded at agreed values on the credit side while liabilities and capital are on the debit. The balancing figure is goodwill or capital reserve if its on the debit.

Scenario 4

a)	<u>Pan</u>	<u>Plate</u>	<u>Pot</u>
Marginal cost per unit	$30 + 20 + 10$ = \$60	$25 + 15 + 5$ = \$45	$45 + 30 + 15$ = \$90
Contribution per unit	$120 - 60$ = \$60	$120 - 45$ = \$75	$150 - 90$ = \$60
Machine hours per unit	$20 \div 80$ = 0.25	$15 \div 80$ = 0.1875	$30 \div 80$ = 0.375
Contribution per hour	$60 \div 0.25$ = \$240	$75 \div 0.1875$ = \$400	$60 \div 0.375$ = \$160
Ranking \equiv priority	②	①	③

b)	Product	Quantity	Machine hours available	Contribution
			[48 750 \times 2 \div 3]	
			32 500	
	Plate	80 000	[80 000 \times 0.1875]	[80 000 \times 75]
			(15 000)	6 000 000
			17 500	
	Pan	40 000	[40 000 \times 0.25]	[40 000 \times 60]
			(10 000)	2 400 000
			7 500	
	Pot	20 000	[20 000 \times 0.375]	[20 000 \times 60]
			(7 500)	<u>1 200 000</u>
			-	
	Total contribution			9 600 000
	Less: Fixed costs (40 000 \times 13 + 80 000 \times 7 + 50 000 \times 11)			<u>1 630 000</u>
	Net profit			<u>7 970 000</u>

c)	Product	Quantity	Machine hours available	Contribution
			[48 750 \times 2 \div 3]	
			32 500	
	Pot	24 000	[24 000 \times 0.375]	[24 000 \times 60]
			(9 000)	1 440 000
			23 500	
	Plate	80 000	[80 000 \times 0.1875]	[80 000 \times 75]
			(15 000)	6 000 000
			8 500	
	Pan	34 000	[34 000 \times 0.25]	[34 000 \times 60]
			(8 500)	<u>2 040 000</u>
			-	
	Total contribution			9 480 000
	Less: Fixed costs			<u>1 630 000</u>
	Net profit			<u>7 850 000</u>

2084 Scenario 1**a) Kufuma Ltd: Cash Flow Statement for the year ended 31 December 2001**

<u>OPERATING ACTIVITIES</u> {Direct method}			
Receipts from customers	[72 – 165 + 720]		627 000
Payments to suppliers	[108 – 219 – 6.9 + 12 – 481]		(586 900)
Payments for overheads	[189 – 144.3 + 117 – 105 + 21 + 10% × 45]		(73 200)
Interest paid	[10% × 45]		(4 500)
Net cash outflow from operating activities*			<u>(37 600)</u>
OR {Indirect method}			
Net profit before interest	[720 – 481 + 9 – 117 + 10% × 45]		135 000
<u>Non-cash items adjustments</u>			
Dep: Plant and equipment	[189 – 144.3 – 105 + 21]	39 300	
Profit on plant and equipment disposal		<u>(9 000)</u>	<u>30 300</u>
Net cash inflow before working capital adjustments			165 800
<u>Working capital adjustments</u>			
Increase in stock	[108 – 219]	(111 000)	
Increase in trade debtors	[72 – 165]	(93 000)	
Increase in trade creditors	[6.9 – 12]	<u>5 100</u>	<u>(198 900)</u>
Net cash outflow from operations			(33 100)
Interest paid	[45 × 10%]		<u>(4 500)</u>
Net cash outflow from operating activities*			<u>(37 600)</u>
<u>INVESTING ACTIVITIES</u>			
Plant and equipment acquisition	[414 – 387 + 105]	(78 000)	
Plant and equipment disposals	[9 + 21]	<u>30 000</u>	
Net cash outflow from investing activities			(48 000)
<u>FINANCING ACTIVITIES</u>			
Issue of ordinary shares	{w1}	90 000	
Redemption of 12% preference shares		(30 000)	
Premium on redemption of preference shares	[60% × 30]	(18 000)	
Premium on issue of ordinary shares	{w2}	45 000	
Issue of 10% loan stock		45 000	
Dividend paid: Preference		(3 600)	
Ordinary	[12 + 18]	<u>(30 000)</u>	
Net cash inflow from financing activities			<u>86 400</u>
Increase in cash and cash equivalents	[43.5 – 56.3]		<u>12 800</u>

b) Kufuma Ltd: Cash and cash equivalents reconciliation statement

	<u>Start</u>	<u>End</u>	<u>Change</u>
Bank	<u>43 500</u>	<u>56 300</u>	<u>12 800</u>

Working

- Ordinary shares = $300 \times (1 + 5) \div 5 - 450 \equiv 300 \times (1 + 5) \div 5 \div 4$
- Premium received = $120 - 105 - 300 \div 5 \equiv \{300 \times (1 + 6) \div 5 - 450\} \times (1.5 - 1)$

Scenario 2**a) i)****Kufuma Ltd: General Journal**

i.	Freehold Property Accumulated Depreciation	80 000	
	Freehold Property	[400 – 500]	100 000
	Revaluation	[320 – 500]	180 000
	<u>Being revaluation of freehold property</u>		
ii.	Retained Income	[580 × (10% – 15%)]	29 000
	Plant and Equipment Accumulated Depreciation		29 000
	<u>Being correction of depreciation undercharge</u>		
iii.	Plant and Equipment	50 000	
	Stock		50 000
	<u>Being transfer of stock into plant and equipment</u>		
iii.	Retained Income	[50 × 15%]	7 500
	Plant and Equipment Accumulated Depreciation		7 500
	<u>Being depreciation charge for the year</u>		

iv.	Stock	[11.2 ÷ 140%]	8 000	
	Retained Income	[11.2 × 40% ÷ 140%]	3 200	
	Debtors: Nyathi			11 200
	<i>Being reversal of sale-or-return sales</i>			
v.	Retained Income	[600 ÷ 10]	60 000	
	Ordinary Share Capital			60 000
	<i>Being a 1-for-10-bonus issue</i>			
vi.	Retained Income	[600 × (1 + 10) ÷ 10 × 0.15]	99 000	
	Ordinary Dividend			99 000
	<i>Being \$0.15 declared ≡ proposed ordinary dividend</i>			
vii.	Rent Receivable	[8 × 9 ÷ 12]	6 000	
	Retained Income			6 000
	<i>Being rental income outstanding</i>			

ii) **Kufuma Ltd: Balance Sheet as at 31 December 2002**

<u>Non-Current Assets</u>		<u>Cost</u>	<u>Dep</u>	<u>Net</u>
Freehold property	[320 + 160]	500 000		500 000
Plant and Equipment	[580 + 50 & 272 + 29 + 7.5]	630 000	308 500	321 000
		<u>1 130 000</u>	<u>308 500</u>	<u>821 500</u>
<u>Current Assets</u>				
Stock	[296 – 50 + 8]		254 000	
Debtors	[418 – 11.2]		406 800	
Rent receivable			6 000	
Bank			<u>38 000</u>	
			704 000	
<u>Less: Current Liabilities</u>				
Creditors		132 000		
Proposed ordinary dividend		<u>99 000</u>	<u>231 000</u>	
Net current assets				<u>473 800</u>
Total net assets				1 295 300
<u>Less: Non-Current Liabilities</u>				
10% Loan stock				<u>200 000</u>
Shareholders funds				<u>1 095 300</u>
Financed By				
<u>Share Capital</u>				
660 000 Ordinary shares of \$1 each	[600 + 60]		660 000	
200 000 12% Preference shares f \$1 each				<u>200 000</u>
				860 000
<u>Reserves</u>				
Revaluation			180 000	
Retained Income	[248 – 29 – 7.5 – 3.2 – 60 – 99 + 6]		<u>55 300</u>	<u>235 300</u>
				<u>1 095 300</u>

- b) i) Fundamental accounting principles are the four main accounting concepts that are assumed to be applied whenever financial statements are prepared. These are going concern, materiality, accruals ≡ matching and consistency. Any departure from these four major principles must be disclosed by way of a note to the financial statements.

Going concern concept requires an entity with intentions to be in business for a foreseeable future to prepare its Balance Sheet showing its assets at cost less aggregate provisions to show the net book value. If an entity's continuity is in doubt (business activities will curtail in the near future), the Balance Sheet should disclose the assets at their net realisable values ≡ market values

Materiality and separate aggregation focuses the importance and significance of accounting figures and facts in relation to their impact on decision making. An amount that is large and can affect an opinion is said to be material and should be shown in isolation while small insignificant amounts are grossed up together. Information that is important is disclosed by way of a note.

Matching concept requires revenues and expenses to be recorded to their respective accounting periods. Amounts which are owing (credit transactions) should also be recorded. The respective arrears and prepayments must be shown in the Balance Sheet.

Consistency concept requires similar treatment to be made from one period to the next period and for related accounting items. Changes should not be made to accounting bases except to show the true and fair view of the entity to ensure comparability of results

- ii) Accounting policies are sets of accounting bases, rules and procedures, and concepts that an entity would have adopted for preparation of its financial statements from period to period. These include goodwill treatment, methods of charging depreciation, stock valuation methods e.g. FIFO, etc

Scenario 3

		Sales Ledger Control Account				
a)						
	Jan 1 Balance	b/d	60 750	Jan 1 Balance	b/d	1 775
	Dec 31 Sales		780 000	Dec 31 Sales returns		36 500
	31 Balance	c/d	1 325	31 Bad debts		2 400
				31 Discount allowed		2 750
				31 Cash		717 750
				31 Balance	c/d	<u>80 900</u>
						<u>842 075</u>
			<u>852 075</u>			
	Jan 1 Balance	b/d	80 900	Jan 1 Balance	b/d	1 325
b)						
	Jan 1 Balance	b/d	2 750	Jan 1 Balance	b/d	84 750
	Dec 31 Purchases returns		58 500	Dec 31 Purchases		864 000
	31 Discount received		7 275	31 Balance	c/d	975
	31 Bank		858 000			
	31 Balance	c/d	<u>23 200</u>			
			<u>949 725</u>			<u>949 725</u>
	Jan 1 Balance	b/d	975	Jan 1 Balance	b/d	23 200

c) Kufuma Ltd: Trading and Profit and Loss Account for the year ended 31 December 2004

Sales				780 000
Less: Sales returns				<u>36 500</u>
Turnover				743 500
Less: Cost Of Turnover				
Opening stock			80 250	
Add: Purchases		864 000		
Less: Purchases returns		<u>58 500</u>		
			805 500	
			885 750	
Less: Stolen stock			<u>221 375</u>	
			664 375	
Less: Closing stock			<u>95 500</u>	<u>568 875</u>
Gross profit [(743.5 – 22.5 ÷ 75% ÷ 2) × 25% + 22.5 × (1 ÷ 75% ÷ 2 – 1)]				174 625
Add: Discount received				<u>7 275</u>
Operating Income				181 900
Less: Operating Expenses				
Bad debts			2 400	
Discount allowed			2 750	
Wages and salaries			28 300	
Administration overheads			19 825	
Stolen goods [221.375 – 100]			<u>121 375</u>	<u>174 640</u>
Net profit				<u>7 260</u>

Scenario 4

		<u>Marginal Costing</u>		<u>Absorption Costing</u>	
a)	Kufuma Ltd: Income Statement				
	Sales [20 000 × 50]		1 000 000		1 000 000
	Less: Cost of sales				
	Direct materials [25 000 × 10]	250 000		250 000	
	Direct labour [25 000 × 12]	300 000		300 000	
	Variable expenses [25 000 × 7.5]	<u>187 500</u>		<u>187 500</u>	
	Marginal cost	737 500		737 500	
	Fixed cost			<u>120 000</u>	
	Total cost			857 500	
	Less: Closing stock {w1}	<u>147 500</u>	<u>590 000</u>	<u>171 500</u>	<u>686 000</u>

	<u>Marginal Costing</u>	<u>Absorption Costing</u>
Contribution	410 000	
<u>Less: Fixed cost</u>	<u>120 000</u>	
Net profit	<u>290 000</u>	<u>314 000</u>

b) **MARGINAL COSTING VERSUS ABSORPTION COSTING**

TO: Managing Director
FROM: Cost accountant

Findings

	<u>Marginal costing</u>	<u>Absorption costing</u>
i. Cost of sales	\$590 000	\$686 000
ii. Closing stock	\$147 500	\$171 500
iii. Contribution	\$410 000	
iv. Net profit	\$290 000	\$314 000

Explanations

- i. Marginal costing gave a lower cost of sales because fixed costs were treated as period costs while absorption costing included fixed costs of \$96 000 = \$120 000 × 20 000 ÷ 25 000 in cost of sales which explains the difference \$96 000 = \$686 000 – \$590 000
- ii. Marginal costing closing stock is made up of variable costs only while that of absorption costing is of both variable and fixed costs. A total of \$24 000 = \$120 000 × (25 000 – 20 000) ÷ 25 000 fixed costs is included in closing stock which explain the \$24 000 = \$171 500 – \$147 500 difference
- iii. Only marginal costing gives contribution which is the difference between selling price and variable costs and is also equal to sum of fixed costs and profit
- iii. Marginal costing gave a lower profit because it treated fixe costs as period costs while absorption costing treated fixed costs as product costs. Once closing stock is overstated, then likewise profit is overstated. The profits can be reconciled as follows:

Marginal costing net profit	290 000
<u>Add: Fixed costs in closing stock [120 000 × (25 000 – 20 000) ÷ 25 000]</u>	<u>24 000</u>
Absorption costing net profit	<u>314 000</u>

- c) i) – enable profit maximisation when resources are scarce when products are ranked based on contribution per unit of the limited = scarce resource
- permits calculation of the break even point by dividing total fixed costs with unit contribution for the business to know the level of sales which starts yielding profits
- useful for make or buy = drop decisions when goods can be outsourced
- ii) – makes it easy to calculate the profit/ (loss) when selling price is fixed by the market
- relatively simple to use since there is no need to group costs into fixed and variable
- target profit can be attained by marking up the total cost with the desired profit margin

Working












1. Marginal costing closing stock = (25 000 – 20 000) ÷ 25 000 × 737 500
- Absorption costing closing stock = (25 000 – 20 000) ÷ 25 000 × 857 500

2085 Scenario 1

a) **Camio Ltd: Statement of comprehensive income for the year ended 31 June 2007**

Sales		100 000
<u>Less: Returns inwards</u>		<u>1 500</u>
Turnover		98 500
<u>Less Cost of Turnover</u>		
Cost of production	57 500	
<u>Add: Purchases – Hoes</u>	<u>1 500</u>	
Customs duty	500	<u>2 000</u>
Goods available for resale		59 500
<u>Less: Closing stock – Axes</u>	<u>19 500</u>	
– Hoes	4 500	<u>24 000</u>
Gross profit		<u>63 000</u>
<u>Add: Bank interest received</u>		<u>7 500</u>
Operating income		<u>70 500</u>

<u>Less: Operating expenses</u>			
Bad debts		400	
Carriage outwards		4 500	
Dep: Furniture and fittings	1 000		
Motor vehicles	<u>1 750</u>	2 750	
Directors emoluments/ remuneration	[1 500 + 2 125 + 750]	4 375	
Distribution salaries	[3 500 – 2 125]	1 375	
Increase in provision for bad debts	[1 450 – 1 200]	250	
Office expenses		1 000	
Office salaries	[4 000 – 1 500 – 750]	1 750	
Selling expenses		<u>2 000</u>	18 400
Net profit before interest and tax			52 100
<u>Less: Debenture interest</u>			<u>4 000</u>
Profit before tax			48 100
<u>Less: Taxation</u>			<u>9 000</u>
Profit after tax			39 100
<u>Add: Income from shares in associate companies</u>			<u>2 500</u>
			41 600
<u>Less: Extra-ordinary charges</u>			<u>150</u>
Distributable profit			41 450
<u>Less Appropriations</u>			
Ordinary dividend: Interim		1 250	
Proposed/ final	[25 000 × 0.05]	<u>1 250</u>	2 500
General reserve		<u>2 500</u>	5 000
Retained profit for the year			<u>36 450</u>

- b)  For private limited companies, shareholders have no mutual agency while in partnerships, partners have mutual agency
-  Private companies can raise more capital (have better and larger collateral) to secure bigger loans than partnerships can
-  Private companies have limited liability (loss in winding up minimised and restricted to share capital) whereas partnerships have unlimited liability (loss suffered spills over to private \equiv personal property)
-  Private companies have perpetual succession (indefinite/ infinite continuity) while partnerships have a finite business lifespan
- c)  Declaration of the final/ proposed dividends
-  Efforts made by company to be environmentally sensitive (reduction of pollution, use of green fuels etc)
-  Future prospects of the company
-  Issues of employee health and safety
-  Major changes in fixed assets
-  Pending acquisitions, mergers and take-overs
-  Summary of financial statements and performance during the year \equiv accounting period

Scenario 2

a) Camio Ltd Soccer Club: Matches Income Statement for the year ended 31 December 2007

Sales: Tickets		19 800	
Programme		<u>3 200</u>	
Operating Income			24 000
<u>Less Operating Expenses</u>			
Allowances for coaches		7 800	
Transport costs	[9 700 + 1 700]	<u>11 400</u>	19 200
Operating Profit			<u>4 800</u>

b) Camio Ltd Soccer Club: Income and Expenditure Account for the year ended 31 December 2007

<u>INCOME</u>			
Matches profit	{a}		4 800
Subscriptions	[47 × 250]		11 750
Other social funds			5 700
Donations received			2 500
Sponsorship			<u>1 000</u>
			25 750

Less EXPENDITURE

Administrative expenses		11 000	
Secretary's honorarium		5 500	
Refreshments for players	[12 000 + 1 400]	13 400	
Dep: Soccer stands	[2 350 – 2 000]	350	
Soccer equipment	[17 000 + 8 500 – 22 500]	3 000	33 250
Deficit (≡ Excess of expenditure over income)			<u>7 500</u>

c) Accumulated fund = 11 300 + 1 000 + 2 350 + 17 000 (Assets – Liabilities)
= **\$31 650**

Scenario 3

a) i)		<u>Bite</u>		<u>Mega</u>	
Year	Cash flow	Balance	Cash flow	Balance	
0	(60 000)	(60 000)	(75 000)	(75 000)	
1	12 500	(47 500)	25 000	(50 000)	
2	17 500	(30 000)	35 000	(15 000)	
3	15 000	(15 000)	15 000	–	
4	20 000				
Bite payback period			Mite payback period = 3 years		
=	3 $\frac{15\,000}{20\,000}$ years = 3.75 years				
=	3 years $\frac{15\,000}{20\,000} \times 12$ months = 3 years 9 months				
=	3 years $\frac{15\,000}{20\,000} \times 52$ weeks = 3 years 39 weeks				
=	3 years $\frac{15\,000}{20\,000} \times 365$ days = 3 years 273.75 days				
ii)	ARR =	$\frac{\text{Average annual profit}}{\frac{1}{2}(\text{Outlay} + \text{Scrap}) + \text{Additional working capital}} \times 100$			
	Bite ARR =	$\frac{(12\,500 + 17\,500 + 15\,000 \times 2 + 20\,000 - 60\,000) \div 4}{\frac{1}{2} \times (60\,000 + 15\,000) + 0} \times 100$			
		= 33$\frac{1}{3}$%			
	Mite ARR =	$\frac{(25\,000 + 35\,000 + 15\,000 \times 3 - 75\,000) \div 4}{\frac{1}{2} \times (60\,000 + 15\,000) + 0} \times 100$			
		= 16$\frac{2}{3}$%			
iii)	Bite NPV	= 12 500 × 0.893 + 17 500 × 0.797 + 15 000 × (0.712 + 0.636) + 20 000 × 0.636 – 60 000			
		= (\$1 950)			
	Mite NPV	= 25 000 × 0.893 + 35 000 × 0.797 + 15 000 × (0.712 + 0.636 × 2) – 75 000			
		= \$4 980			

b) MACHINES APPRAISAL REPORT

TO Camio Ltd Management
FROM Cost and Management Accountant
DATE 15 February 2009

BACKGROUND

Two machines, Bite and Mite, were evaluated using three investment appraisal methods ≡ techniques

FINDINGS

	<i>Bite</i>	<i>Mite</i>
i. Payback period	3.75 years	3 years
ii. ARR	33 $\frac{1}{3}$ %	16 $\frac{2}{3}$ %
iii. NPV	(\$1 950)	\$4 980

ADVICE

According to payback period, machine Mite should be purchased since it takes shorter period of 3 years that is less risky to recoup/ recover the initial outlay of \$75 000 against a longer and risky 3.75 years for machine Bite. In addition machine Mite are large from outset and decrease later which is preferable than otherwise.

The Accounting Rate of Return (ARR) using average investment shows machine Mite being more profitable as well as favourable with returns of $16\frac{2}{3}\%$ per annum in contrast with a reward of $13\frac{1}{3}\%$ annually for machine Bite. This means machine Mite results in more profits being generated and flowing into Camio Ltd.

The Net Present Value (NPV) of machine Mite is both large and positive at \$4 980 while that of machine Bite is negative at \$1 950. An investment with a negative NPV is unacceptable and rejected in favour of one with the largest and positive NPV. In this case, machine Mite is acceptable as it results in an overall increase in cash resources of Camio Ltd after taking time value of money into account.

The purchase of machine Mite is therefore recommended on the grounds of early recoupment of outlay, larger rewards in terms of profitability and an overall increase in cash inflows after discounting cash flows.

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Cost and management accountant

Scenario 4

- a)
- | | | | |
|-------------------------------------|------------------|---|--|
| <input checked="" type="checkbox"/> | AVCO | – | Weighted Average Cost or Simple Average Cost |
| <input checked="" type="checkbox"/> | FIFO | – | First In First Out |
| <input checked="" type="checkbox"/> | LIFO | – | Last In First Out |
| <input checked="" type="checkbox"/> | Standard costing | | |
| <input checked="" type="checkbox"/> | HIFO | – | Highest In First Out |
| <input checked="" type="checkbox"/> | NIFO | – | Next In First Out |

b) AVCO

Advantages

- ✓ Recommended by International Accounting Standard (IAS) 2, *Inventories*
- ✓ Values all identical items in stock at the same price
- ✓ Takes into account fluctuations in market prices

Disadvantages

- ✓ Average complicated to calculate, prone to vulnerable to errors
- ✓ Average has to be calculated each time goods are bought (increases computation burden)
- ✓ Uses value = price often not shown = supported by source = primary = original documents which cannot be vouched for auditing

FIFO

Advantages

- ✓ Logical, simple and realistic to use, minimises chances for errors
- ✓ Recommended by International Accounting Standard (IAS) 2, *Inventories*
- ✓ Suitable for perishables, they leave business in chronological = sequential = serial order

Disadvantages

- ✓ Cost of goods sold (raw materials consumed) is based on outdated prices
- ✓ Values identical products at different prices, not sensible to differentiate identical items in stock
- ✓ Overstates closing stock and profits in times of rising prices (inflationary periods), which is against the prudence concept

LIFO

Advantages

- ✓ Recommended by Zimbabwe Revenue Authority (ZIMRA) for taxation purposes
- ✓ Understates profits and closing stock in times of rising prices
- ✓ Uses actual prices shown on source documents such as receipts and invoices to value stock items

Disadvantages

- ✓ Not acceptable/ recommended under IAS 2, *Inventories*
- ✓ Illogical and complicated to use, confusing to determine the sequence/ order of issues
- ✓ Closing stock is based on outdated prices

Standard costing

Advantages

- ✓ Identical items valued at the same price
- ✓ Minimises the number of entries in stock records and Ledgers
- ✓ Recommended by IAS 2, *Inventories*

Disadvantages

- ✓ Difficult and time consuming to set standards
- ✓ Ignores actual amounts shown on source documents
- ✓ Standards have to be periodically adjusted = reviewed

- c) 'Accountants should value stock at the lower of cost and net realisable value' in compliance with the prudence concept and as a requirement of International Accounting Standard (IAS) 2, *Inventories*. Stock is a current asset which should not be overstated since this consequently increases profits. A loss in value of stock should be recognised as soon as it arises and be matched with the relevant accounting period in which it arose, being written off against the revenues generated during the accounting period in question.
- d) The periodic inventory system is based on the principle and idea that goods in hand are valued on a regular and consistent basis e.g. monthly, weekly, fortnightly, quarterly, bi-annually etc. The benefit of this system are:
- ☞ Cheaper to carry out than a perpetual inventory system where stock valuation is done after each and every transaction
 - ☞ Ease of preparation of final accounts if the time interval for valuing stock coincides with the end of the accounting cycle
 - ☞ Extra staff can be hired specifically to carry out stock take and be laid off immediately afterward
 - ☞ Preparation for the stock-taking exercise is significantly simplified and possible as date for the exercise is determined in advance

e) **Weighted AVCO**

The weighted average cost is calculated when two different stock prices exist. No average is calculated for the first price. The weighted average cost takes into account the number of units of an item in stock as well as the actual amount \equiv cost spent on them. The formula to compute the average cost is shown below:

$$\frac{\text{Total cost of goods in stock} + \text{Total cost of new goods just bought}}{\text{Total number of goods now in stock}}$$

DATE	RECEIPTS		ISSUED	STOCK		
	Quantity	Unit/ Price		Quantity	Quantity	Average cost
2007						
June 2	6 000	\$3.00		6 000	\$3.00	\$18 000
5	1 000	\$2.70		7 000	\$2.957 142...	\$20 700
9			4 000	3 000	\$2.957 142...	\$ 8 871
13	6 000	\$2.25		9 000	\$2.485 666...	\$22 371
19			2 000	7 000	\$2.485 666...	\$17 400
21	1 600	\$2.40		8 600	\$2.469 767...	\$21 240
29			1 200		\$2.469 767...	\$18 276

Simple AVCO

The simple average cost is calculated only when two different prices exist. No average is calculated for the first price. Computation of an average is done only after a purchase of goods. The simple average cost is therefore a mean of two prices, computed as follows:

$$(\text{Previous average cost} + \text{New purchase price} \equiv \text{cost per item}) \times \frac{1}{2}$$

DATE	RECEIPTS		ISSUED	STOCK		
	Quantity	Unit/ Price		Quantity	Quantity	Average cost
2007						
June 2	6 000	\$3.00		6 000	\$3.00	\$18 000
5	1 000	\$2.70		7 000	\$2.85	\$19 950
9			4 000	3 000	\$2.85	\$ 8 550
13	6 000	\$2.25		9 000	\$2.55	\$22 950
19			2 000	7 000	\$2.55	\$17 850
21	1 600	\$2.40		8 600	\$2.475	\$21 285
29			1 200		\$2.475	\$18 315

FIFO

	2007 June	STOCK/ PRODUCTION/ PURCHASES/ RECEIPTS			
		2	5	13	21
Price/ Unit		\$3.00	\$2.70	\$2.25	\$2.40
Quantity (Units)		6 000	1 000	6 000	1 600
	9	(4 000)			
		2 000			
(SALES/ ISSUES)	19	(2 000)			
		-			
	29		(1 000)	(200)	
			-	5 800	

$$\begin{aligned} \text{Closing stock} &= 5\,800 \times \$2.25 + 1\,600 \times \$2.40 \\ &= \mathbf{\$16\,890} \end{aligned}$$

LIFO

	2007 June	STOCK/ PRODUCTION/ PURCHASES/ RECEIPTS			
		2	5	13	21
Price/ Unit		\$3.00	\$2.70	\$2.25	\$2.40
Quantity (Units)		6 000	1 000	6 000	1 600
	9	(3 000)	(1000)		
		3 000	-		
(SALES/ ISSUES)	19			(2 000)	
				4 000	
	29				(1 200)
					400
Closing stock	=	3 000 × \$3 + 4 000 × \$2.25 + 400 × \$2.40			
	=	\$18 960			

2086 Scenario 1

a) Capital = Assets – Liabilities

$$\begin{aligned} \text{Simango: Capital as at 31 December 2006} &= \$1\,000(90 + 40 + 15 - 30) \\ &= \mathbf{\$115\,000} \end{aligned}$$

$$\begin{aligned} \text{Simango: Capital as at 31 December 2007} &= \$1\,000(200 + 40 - 65 + 45 + 70 - 5 - 150 + 35) \\ &= \mathbf{\$170\,000} \end{aligned}$$

Simango: Balance Sheet (extract) as at 31 December 2007Financed by

Capital:	Balance brought down	115 000
	Add: Further capital [1 000(200 – 150)]	50 000
	Net profit (<i>missing figure</i>)	65 000
		<u>230 000</u>
	Less: Drawings [1 000(3 × 12 + 24)]	60 000
	Balance carried down	<u>170 000</u>

b) Simango: Income Statement for the year ended 31 December 1998

Sales (515 000 × 130%)		669 500
Less: Cost of sales		
Opening stock	70 000	
Add: Purchases [1 000(520 – 65 + 70)]	<u>525 000</u>	595 000
Less: Closing stock		<u>80 000</u>
Gross profit (515 000 × 30%)		<u>154 500</u>
Less: Operating expenses		
Loan interest (150 000 × 15%)	22 500	
Sundry expenses [1 000(63 – 5 – 3)]	55 000	
Dep.: Delivery vans [1 000(35 + 50 – 60)]	<u>25 000</u>	<u>102 500</u>
Net profit		<u>52 000</u>

c) Bank Account

Balance brought down	45 000	Creditors	520 000
Debtors [1 000(669.5 + 40 – 50)]	659 500	Sundry expenses	63 000
		Delivery vans	50 000
		Loan interest (150 000 × 15% × ½)	11 250
		Drawings (<i>missing figure</i>)	22 250
		Balance carried down	<u>38 000</u>
	<u>704 500</u>		<u>704 500</u>

d) Simango: Balance Sheet as at 31 December 1998

<u>Fixed assets</u>	<u>Cost</u>	<u>Depre</u>	<u>Net</u>
Land and buildings	200 000	-	200 000
Delivery vans	<u>85 000</u>	<u>25 000</u>	<u>60 000</u>
	<u>285 000</u>	<u>25 000</u>	<u>260 000</u>

<u>Current assets</u>			
Stock		80 000	
Trade debtors		50 000	
Sundry expenses prepaid		3 000	
Bank		<u>38 000</u>	
		171 000	
<u>Less: Current liabilities</u>			
Trade creditors	70 000		
Bank interest in arrears ($150\,000 \times 15\% \times \frac{1}{2}$)	<u>11 250</u>	<u>81 250</u>	
Working capital			<u>89 750</u>
Capital employed			349 750
<u>Less: Long-term liabilities</u>			
15% Bank loan			<u>150 000</u>
Equity			<u>199 750</u>
<u>Financed by</u>			
Capital:		170 000	
Balance brought down {a}			
Add: Net profit {b}		<u>52 000</u>	222 000
Less: Drawings {c}			<u>22 250</u>
Balance carried down			<u>199 750</u>

Scenario 2**Simango: Cash Flow Statement for the year ended 31 December 2000**Operating activities

Net profit before interest and tax [$1\,000(50 - 20 + 60 + 60 + 9.5 - 5)$] 154 000

Non-cash items adjustments

Depreciation 20 000
 Loss on machinery disposal 5 000 25 000

Net cash inflow before working capital adjustments

179 500

Working capital adjustments

Decrease in stock ($180\,000 - 110\,000$) 70 000
 Increase in debtors ($190\,000 - 144\,000$) (46 000)
 Decrease in creditors ($148\,000 - 140\,000$) (8 000) 16 000

Net profit after working capital adjustments

195 500

Loan interest paid ($2\,000 + 9\,500 - 5\,000$) (6 500)

Tax paid ($10\,000 + 60\,000 - 20\,000$) (50 000)

Net cash inflow from operating activities

139 000

Investing activities

Acquisition of investments ($100\,000 - 50\,000$) (50 000)

Acquisition of machinery [$1\,000(100 - 20 - 10 - 130)$] (60 000)

Acquisition of delivery vehicle (50 000)

Machinery disposals proceeds ($10\,000 - 5\,000$) 5 000

Dividends received 6 000

Net outflow from investing activities

(149 000)

Financing activities

Dividends paid [$1\,000(30 + 60 - 40)$] (50 000)

Loan redemption ($110\,000 - 80\,000$) (30 000)

Ordinary share issues ($250\,000 - 150\,000$) 100 000

Premium on share issues 30 000

Net cash inflow from financing activities

50 000

Increase in cash 40 000

Add: Balance/ overdraft brought down – Bank (5 000)

Balance carried down – Bank 35 000

Scenario 3

- a) Earnings are profits that are attributable to the ordinary shareholders after the payment of the preference dividends. Earnings per share are therefore the maximum dividend that a firm could have paid out to the ordinary shareholder.

Dividends are a portion of profit paid out to the shareholders which is either equal to or less than earnings of the firm. The dividend per share is the profit awarded to each ordinary shareholder arrived at by dividing the total of paid and proposed ordinary dividend with the number of shares to which they are paid.

Earnings Per Share (EPS) are greater than or equal to the Dividend Per Share (DPS). EPS are profits that could have been paid out as dividends but DPS is the actual dividend that has been declared or proposed per ordinary share.

b)	Earnings per share (EPS)	=	$\frac{\text{Net profit after preference dividend}}{\text{Number of ordinary shares in issue}}$
	2001 Earnings per share	=	$(\$123\,000 - \$14\,400) \div 250\,000 \text{ shares}$
		=	\$0.4344
	2002 Earnings per share	=	$(\$130\,000 - \$7\,200 - \$9\,000) \div 250\,000 \times 8 \div 5 \text{ shares}$
		=	\$0.2845

NB: Premium on preference share redemption is not attributable to ordinary shareholders but the \$90 000 par value goes to *capital redemption reserve* attributable to ordinary shareholders.

	Dividend per share	=	$\frac{\text{Paid and proposed ordinary dividend}}{\text{Number of ordinary shares in issue}}$
	2001 Dividend per share	=	$\$80\,000 \div 250\,000 \text{ shares}$
		=	\$0.32
	2002 Dividend per share	=	$\$100\,000 \div (250\,000 \times 8 \div 5)$
		=	\$0.25

c) i) *Directors of Fish (Pvt) Ltd can raise more funds from the following sources:*

- issue of convertible loan stock
- issues of debentures
- issue of ordinary shares
- issues of preference shares

ii) *Advantages* {chronologically}

- matures into ordinary shares
- is the safest form of investment
- have got voting rights
- earns a fixed dividend

Disadvantages {chronologically}

- reduces earnings per share upon maturity
- increases the gearing of the firm
- is the riskiest form of investment
- have no voting rights

Scenario 4

a) **Fish (Pvt) Ltd: Calculation of current monthly contribution and net profit**

Sales	[1 000 × \$65]		65 000
<u>Less:</u> Fresh <i>kapenta</i> –Tiger Fisheries	[1 000 ÷ 0.8 × \$20]	25 000	
Labour costs	[1 000 ÷ 0.8 × 0.25 × \$25]	7 813	
Other consumable	[1 000 ÷ 0.8 × \$0.65]	813	
Packing materials	[1 000 × \$0.90]	<u>900</u>	34 526
Contribution			30 474
<u>Less:</u> Fixed cost			<u>10 000</u>
Net profit			<u>20 474</u>

b) Break-even point in sales revenue = Fixed cost × Sales ÷ Contribution
 = \$10 000 × \$65 000 ÷ \$20 474
 = **\$31 748**

c) **Fish (Pvt) Ltd: Calculation of profit if contract is accepted**

Sales: Current	{a}		65 000
Contract	[5 000 × \$30]		<u>150 000</u>
Turnover			215 000
<u>Less: Marginal costs</u>			
Fresh <i>kapenta</i> : Tiger Fisheries	[2 500 × \$20]	50 000	
Other fisheries [((5 000 × ½ + 1 000) ÷ 0.8 – 2 500) × \$25]		46 875	
Direct labour: Normal	{a}	7 813	
Contract	[5 000 × ½ ÷ 0.8 × 0.25 × \$25 × 2]	<u>39 063</u>	

↗	Other consumable		$[(5\,000 \times \frac{1}{2} + 1\,000) \div 0.8 \times \$0.65]$	2 844	
	Packing materials:	Normal	{a}	900	
		Contract	$[5\,000 \times \$0.50]$	<u>2 500</u>	149 995
	Contribution				65 005
	Less: Fixed costs		$[\$10\,000 + \$3\,550]$		<u>13 550</u>
	Net profit				<u>51 455</u>
	Return on sales	=	$\text{Net profit} \div \text{Sales} \times 100\%$		
		=	$51\,455 \div 215\,000 \times 100\%$		
		=	23.93%		

The branch manager should reject the contract since its return on sales is 23.93% which falls short of the required return on 25% by 1.07% $\equiv 25\% - 23.93\%$.

d)	Sales		$[5\,000 \times 30]$		150 000
	Less: Variable cost				
	Fresh <i>kapenta</i> :	Tiger fisheries	$[(2\,500 - 1\,000 \div 0.8) \times 20]$	25 000	
		Other fisheries	$\{[(5\,000 \times \frac{1}{2} + 1000) \div 0.8 - 1500] \times 25\}$	46 875	
	Direct labour		$[5\,000 \div 0.8 \times 0.25 \times 25]$	39 063	
	Other consumables		$[5\,000 \div 2 \div 0.8 \times 0.65]$	2 031	
	Packing materials		$[5\,000 \times 0.5]$	<u>2 500</u>	115 469
	Contribution				<u>43 531</u>
	Break-even sales	=	$3\,550 \div 34\,531 \times 150\,000$		
		=	\$15 421		
	Margin of safety	=	$(150\,000 - 15\,421) \div 150\,000 \times 100\%$		
		=	89.72%		
e)	Selling price	=	Total cost + Target profit		
		=	$(115\,469 + 3\,550) \times 130\% \div 5\,000 \text{ packets}$		
		=	\$31/ packet		

2087 Scenario 1

a)			Cash Account			
July 1	Balance b/d		82 500	Mar 31	4% Loan investment	875 000
Jun 30	Capital		3 500 000	Jun 30	Trade creditors	13 045 000
30	Trade debtors	{w1}	16 975 000	30	Rent	1 803 750
				30	Insurance	1 332 500
				30	Drawings: Rent	1 562 500
					Other {missing figure}	372 500
				30	Motor vehicle	1 450 000
				30	Balance c/d	<u>116 250</u>
			<u>20 557 500</u>			<u>20 557 500</u>
July 1	Balance b/d		116 250			

b)	Soko Mukanya: Trading and Profit and Loss Account for the year ended 30 June 2003					
	Sales		$[12\,780\,000 \div 75\%]$			17 040 000
	Less: Cost Of Sales					
	Opening stock				1 125 000	
	Add: Purchases		$[632\,500 - 767\,500 - 13\,045\,000]$		<u>13 180 000</u>	
					14 305 000	
	Less: Closing stock				<u>1 525 000</u>	12 780 000
	Gross profit		$[12\,780\,000 \times 25\%]$			4 260 000
	Add: Interest receivable					8 750
	Operating Income					<u>4 268 750</u>
	Less: Operating Expenses					
	Rent		$[225\,000 - 205\,000 - 1\,803\,750]$		1 783 750	
	Insurance		$[40\,000 - 53\,750 + 1\,332\,500]$		1 318 750	
	Dep: Motor vehicle		$[(1\,450\,000 + 300\,000) \times 10\%]$		175 000	
	Loss on motor vehicles disposals		$[500\,000 - 300\,000]$		<u>200 000</u>	3 477 500
	Net profit					<u>791 250</u>

Soko Mukanya: Balance Sheet as at 30 June 2003

<u>Fixed Assets</u>		<u>Cost</u>	<u>Dep</u>	<u>Net</u>
Motor vehicle	$[(1\,450 + 300) \times \{1 \& 10\% \& 90\%\}]$	<u>1 750 000</u>	<u>175 000</u>	1 575 000
4% Loan investment				<u>875 000</u>
				2 450 000
<u>Current Assets</u>				
Stock			1 525 000	
Trade debtors			262 500	
Interest receivable	$[875\,000 \times 4\% \times 3 \div 12]$		8 750	
Insurance prepaid			53 750	
Cash			<u>116 250</u>	
			1 966 250	
<u>Less: Current Liabilities</u>				
Trade creditors		767 500		
Rent owing		<u>205 000</u>	<u>972 500</u>	
Working capital				<u>933 750</u>
Capital employed				<u>3 443 750</u>
<u>Financed By</u>				
Capital:	Balance b/d	{w2}		1 087 500
	Add: Cash			3 500 000
	Net profit			<u>791 250</u>
				5 378 750
	Less: Drawings:	Rent	1 562 500	
		Cash {a}	<u>372 500</u>	<u>1 935 000</u>
	Balance c/d			<u>3 443 750</u>

- c) – errors are difficult to detect since no trial balance is prepared
– excessive cash drawings, totalling \$1 935 000, threaten liquidity position of the business
– incompleteness of data e.g. other cash drawings had to be found as a missing figure
– items such as sales returns, purchases returns, sales discounts, etc, are not recorded
– thefts of cash and stock are difficult to discover since discrepancies are assumed to be drawings
– very high risk of omission of other transactions e.g. interest receivable

Workings

- Receipts from trade debtors = $197\,500 - 262\,500 + 17\,040\,000^*$
- Opening capital = $(500 + 1\,125 + 197.5 - 632.5 - 225 + 40 + 82.5)1\,000$

Scenario 2

a)

Sales Ledger Control Account				
July 1	Balance b/d	262 500	Jun 30 Sales returns	29 875
Jun 30	Sales [752.8 + 11.2 - 55]	709 000	30 Bank and cash	500 000
	30 Dishonoured cheques	4 100	30 Discount allowed [42.3 + 4.9]	47 200
			30 Bad debts	14 605
			30 Set Off C	[10.8 + 18.5] 29 300
			30 Balance c/d	<u>354 620</u>
		<u>975 600</u>		<u>975 600</u>
July 1	Balance b/d	354 620		

b) Soko Mukanya: Debtors Reconciliation Statement as at 30 June 2004

Total as per Debtors = Sales Ledger list	389 720
i. Debtor omitted – J. Jones	24 600
ii. Receipt from debtor	(31 300)
iv. Sales invoice omitted	11 200
v. Debtors account undercast	15 000
vi. Reversal of receipt debited to C. Ncube	(18 450)
Receipt from C. Ncube	(18 450)
ix. Bad debts	(2 300)
x. Reversal of sales returns debited	(8 600)
Sales returns	<u>(6 800)</u>
Balance as per Sales Ledger Control Account {a}	<u>354 620</u>

Scenario 3

a) i)

Revaluation Account

	<i>S. M.</i>	<i>D. H.</i>		<i>S. M.</i>	<i>D. H.</i>
Jun 30 Plant and equipment {w1}	20 000		Jun 30 Plant and equipment {w1}		55 000
30 Prov for bad debts {w2}	3 000	6 500	30 Stocks {w3}	2 000	5 000
30 Capital		53 500	30 Capital	21 000	
	<u>23 000</u>	<u>60 000</u>		<u>23 000</u>	<u>60 000</u>

ii)

Capital Account

	<i>S. M.</i>	<i>D. H.</i>		<i>S. M.</i>	<i>D. H.</i>
Jun 30 Revaluation {i}	21 000		Jun 30 Balance b/d	822 500	960 000
30 Realisation		110 500	30 Revaluation {i}		53 500
30 Balance c/d	831 500	963 500	30 Realisation {w4}		10 500
	<u>852 500</u>	<u>1 074 000</u>	30 Goodwill	30 000	50 000
July 1 Goodwill {w5}	40 000	40 000	July 1 Balance b/d	831 500	963 500
1 Bank {missing figure}		23 500	1 Bank	8 500	
1 Balance c/d	800 000	900 000		<u>840 000</u>	<u>963 500</u>
	<u>840 000</u>	<u>963 500</u>	July 1 Balance b/d	800 000	900 000

iii) **Soko Mukanya and Dziva Hove: Balance Sheet as at 1 July 2005**Non-Current Assets

Plant and equipment [700 + 745] 1 445 000

Current Assets

Stock [54 + 48] 102 000

Debtors [60 + 130] 190 000

Less: Provision for doubtful debts [5% × (60 + 130)] 9 500 180 500

Bank [10 + 17 – 23.5* + 8.5] 12 000

294 500Less: Current Liabilities

Creditors [19.5 + 20] 39 500

Net current assets 255 000

Net assets 1 700 000Financed By

Capital: Soko Mukanya 800 000

Dziva Hove 900 000

1 700 000

- b) – to broaden ≡ expand line of business (vertical integration)
 – to combine ideas, skills, experience, etc
 – to fight competition
 – to pool ≡ raise more capital
 – to reach economies of scale
 – to share losses and other business risks

Workings

	<i>Soko Mukanya</i>	<i>Dziva Hove</i>
1. Plant and equipment	720 – 700	690 – 745
2. Provision for doubtful debts	5% × 60	5% × 130
3. Stock	52 – 54	43 – 48
4. Profit on realisation		100 000 – 110 500
5. Goodwill	½ × (30 000 + 50 000)	½ × (30 000 + 50 000)

Scenario 4

a) Break-even units	=	Annual fixed cost ÷ Contribution per unit
	=	$\frac{1\,000\,000 + 500\,000}{6\,000 - (9\,000 \times 2 + 10\,200 + 12\,000 + 9\,300 + 10\,500) \div 12 - 250}$
	=	2 000 cases
Break-even sales	=	Annual fixed cost × Selling price per unit ÷ Contribution per unit
	=	$\frac{(1\,000\,000 + 500\,000) \times 6\,000}{6\,000 - (9\,000 \times 2 + 10\,200 + 12\,000 + 9\,300 + 10\,500) \div 12 - 250}$
	=	\$12 000 000

- b) Profit = Total contribution – Annual fixed costs
 = $\{[6 - (9 \times 2 + 10.2 + 12 + 9.3 + 10.5) \div 12 - 0.25] \times 5\,000 - (1\,000 + 500 + 100 \times 12)\}$ 1 000
 = **\$1 050 000**
- c) Break-even units = $\frac{1\,000\,000}{6\,000 - (9\,000 \times 2 + 10\,200 + 12\,000 + 9\,300 + 10\,500) \div 12 - 250 - 125}$
 = **1 600 cases**
- Break-even sales = $\frac{1\,000\,000 \times 6\,000}{6\,000 - (9\,000 \times 2 + 10\,200 + 12\,000 + 9\,300 + 10\,500) \div 12 - 250 - 125}$
 = **\$9 600 000**
- d) Units sold = (Annual fixed costs + Target profit) ÷ Contribution per unit
- i) Salary sales = $\frac{1\,000\,000 + 500\,000 + 3\,000\,000}{6\,000 - (9\,000 \times 2 + 10\,200 + 12\,000 + 9\,300 + 10\,500) \div 12 - 250}$
 = **6 000 cases**
- ii) Commission sales = $\frac{1\,000\,000 + 3\,000\,000}{6\,000 - (9\,000 \times 2 + 10\,200 + 12\,000 + 9\,300 + 10\,500) \div 12 - 250 - 125}$
 = **6 400 cases**
- e) The partners should opt to continue paying Mark a fixed annual salary of \$500 000 since this will result in a profit of \$3 000 000 being generated from a sale of 6 000 cases only against 6 400 cases which must be sold if commission of \$125 per case is paid. Paying a salary would result in 400 extra cases being sold to increase profit since beyond the break even point, the cases contribute towards profit.
- f) Contribution is the difference between the selling price and the variable cost. It is also equal to fixed costs plus profit. Contribution is used to calculate the break-even point, to compute the contribution sales ratio, to determine the operating leverage, etc. It is also important when making decisions on deciding on best selling price, optimising usage of a scarce resource when contribution per limited resource is used to rank the products. Contribution can also be used to decide on whether to accept or reject special orders whose prices are below the normal selling prices.

2088 Scenario 1

- a) Liquidity refers to the ability of a business entity to pay \equiv meet \equiv settle its short-term financial obligations which are called current liabilities using its current assets that are easily convertible into cash. Liquidity is therefore a measure of solvency that is disclosed \equiv reflected by the Cash Flow Statement, Cash Budget and Cash Book. When an entity has the resources to meet debts as they fall due, then such an entity is financially sound, i.e. it is liquid \equiv solvent else a sole-trader or partnership without these resources is said to be bankrupt, and if a company, it is insolvent and ready for dissolution or winding-up.

Profitability on the other hand refers to the returns \equiv rewards of undertaking a business venture risk. This is a measure of compensation \equiv rewards for bearing the uncertainty in carrying out business activities where there is a chance of bad debts and suffering a loss. Profitability is disclosed \equiv shown \equiv revealed \equiv reflected by the Trading Account and the Profit and Loss Account (Income statement \equiv Statement of comprehensive income). The calculation of profitability is done by applying the matching and accruals concepts and not the cash basis concept. The additional margins placed on costs by a dealer, when they exceed the expenses, they become the profit of the entity and a benefit \equiv gain the entrepreneur.

- b) i) Liquidity
 ii) Liquidity
 iii) Profitability
 iv) Liquidity
 v) Profitability
- c) i) Acid test ratio = $\frac{\text{Current assets} - \text{Closing stock}}{\text{Current liabilities}}$
- ii) Debtors days = $\frac{\text{Trade debtors}}{\text{Credit sales} - \text{Sales returns}} \times 365 \text{ days}$
- iii) Margin percentage = $\frac{\text{Gross profit}}{\text{Sales} - \text{Sales returns}} \times 100$

- iv) Rate of stock turn = $\frac{\text{Cost of goods sold}}{\frac{1}{2} \times (\text{Opening stock} + \text{Closing stock})}$
- v) Return on capital employed = $\frac{\text{Net profit before interest and tax}}{\text{Fixed assets} + \text{Current assets} - \text{Current liabilities}} \times 100$
- d) A trend is a pattern observed over a period of time. A trend is also a characteristic or a tendency to behave in a certain way over a time span or across a range of related items. An analysis on the other hand involves a close examination and comparison of two or more related items.
- Vertical trend analysis is about comparing results within one entity from one period to the next. Different time periods are involved. A horizontal trend analysis is about comparing results of different business entities at a given time frame. Usually the entities are of the same structure and in the same line of trade for a meaningful horizontal trend analysis to be achieved.

Scenario 2

- a) **Chipo and Nyasha: Manufacturing, Trading, Profit and Loss and Appropriation Account for the year ended 31 March 2001**

<u>Raw materials</u>			
Opening stock			60 000
Add: Purchases			<u>560 000</u>
			620 000
<u>Less: Closing stock</u>			<u>44 000</u>
Cost of raw materials consumed			576 000
Add: Direct labour			<u>320 000</u>
Prime cost			896 000
<u>Add: Factory overheads</u>			
Indirect materials	21 600		
Production overheads: Fixed	64 000		
Variable	52 000		
Rates [(16 000 – 1 000) × 80%]	12 000		
Insurance [(9 000 + 3 000) × 80%]	9 600		
Dep.: Premises (2% × 200 000 × 60%)	2 400		
Plant and equipment (10% × 360 000)	<u>36 000</u>	197 600	
<u>Work in progress</u>			
Opening stock	48 000		
<u>Less: Closing stock</u>	<u>36 000</u>	12 000	
Production cost			1 105 600
Add: Factory profit			<u>110 560</u>
Market value of finished goods			<u>1 216 160</u>
Sales			1 406 600
<u>Less Cost of sales</u>			
Opening stock	66 000		
Add: Market value of finished goods	<u>1 216 160</u>		
			1 282 160
<u>Less: Closing stock [(100 + 1 600 – 1 550) ÷ 1 600 × 1 216 160]</u>	<u>114 015</u>	1 168 145	
Gross profit			238 455
<u>Less Operating expenses</u>			
Selling and distribution expenses	38 400		
Increase in provision for doubtful debts (45 600 × 2½% – 1 000)	140		
Rates [(16 000 – 1 000) × 20%]	3 000		
Insurance [(9 000 + 3 000) × 20%]	2 400		
Dep.: Premises (2% × 200 000 × 40%)	1 600		
Motor vehicles [(240 000 – 101 760) × 20%]	<u>27 648</u>	73 188	
Net profit			165 267
Add: Factory profit			<u>110 560</u>
			275 827
<u>Less: Increase in provision of unrealised profit (114 015 × 10/110 – 6 000)</u>			<u>4 365</u>
Overall net profit			271 462
Add: Interest on Current Account: Nyasha (8 000 × 10%)			<u>800</u>
			<u>272 262</u>

↳	<u>Less: Appropriations</u>			
	Salaries:	Chipo	20 000	
		Nyasha	18 000	
	Interest on Capital Accounts:	Chipo (250 000 × 10%)	25 000	
		Nyasha (200 000 × 10%)	20 000	
	Interest on Current Account:	Chipo (20 000 × 10%)	2 000	85 000
	Profit available for sharing			187 262
	<u>Less: Share of profit:</u>	Chipo	93 631	
		Nyasha	93 631	187 262

b)	Current Accounts			
		<i>Chipo</i>	<i>Nyasha</i>	
	Balance b/d	8 000	Balance b/d	20 000
	Drawings	18 000	Interest on Current Acc	2 000
	Inter on Current Acc	800	Salaries	20 000
	Balances c/d	142 631	Interest on Cap Acc	25 000
			Share of profit	93 631
		<u>160 631</u>		<u>160 631</u>
		<u>131 631</u>	Balances b/d	142 631
				106 831

c)	Chipo and Nyasha: Balance Sheet as at 30 September 2001			
		<u>Cost</u>	<u>Depre</u>	<u>Net</u>
	<u>Fixed Assets</u>			
	Premises	200 000	16 000	184 000
	Plant and equipment	360 000	144 000	216 000
	Motor vehicles	240 000	129 408	110 592
		<u>800 000</u>	<u>289 408</u>	510 592
	<u>Current Assets</u>			
	Stock: Raw materials		44 000	
	Work in progress		36 000	
	Finished goods	114 015		
	<u>Less: Provision for unrealised profit (114 015 × 1/11)</u>	<u>10 365</u>	103 650	
	Debtors	45 600		
	<u>Less: Provision for doubtful debts (45 600 × 2½%)</u>	<u>1 140</u>	44 460	
	Rates prepaid		1 000	
	Bank		32 760	
			261 870	
	<u>Less: Current Liabilities</u>			
	Creditors	70 000		
	Insurance owing	3 000	73 000	
	<i>Working Capital</i>			188 870
	<i>Capital Employed</i>			<u>699 462</u>
	<u>Financed by</u>			
	Capital Accounts:	Chipo	250 000	
		Nyasha	200 000	450 000
	Current Accounts:	Chipo	142 631	
		Nyasha	106 831	249 462
				<u>699 462</u>

Scenario 3

a) *Going concern concept:* covers issues of business continuity. A business a foreseeable future in its normal activities is a going concern. A business about to cease or curtail operations in the near future is no longer a going concern. A Balance Sheet of a business whose continuity is in doubt shows assets at their net realisable values. A business whose existence is certain prepares a detailed and informative Balance Sheet which discloses cost of assets, deducts accumulated depreciation to reveal the net book value and values its stocks at the principle of lower between cost and net realisable value.

Consistency concept: is a principle which calls for and mandates the uniform treatment of similar accounting items within a single reporting cycle and over the life-span of the entity. Once an accounting base or policy has been adopted, it must be applied systematically and regularly to enable fair realistic comparisons and to guard against deliberate manipulation/ distortion of reported results. An accounting policy, base or estimate may only be modified or changed in compliance with new legislation or in the advent of an empowering International Accounting Standard or to show a true and fair view of the entity.

Accruals concept: is a principle that requires the recognition of outstanding amounts at the end of an operating cycle. Moneys that are in arrears should be matched with the accounting periods to which they pertain even if there was no cash receipt or payment. Entries made in the final statements must include both cash and credit transactions with special adjustments being made to identify the relevant income or expenditure for the specified reporting period to determine the profitability of that time-frame.

Materiality concept: distinguishes between the important and trivial figures and information in an entity. Significant amounts attract attention of financial statement users and contribute towards the final decision made while petty amounts are negligible and their disclosure in isolation bear no influence on the decision made. An amount or fact is material if its disclosure or non-disclosure results in arrival at varied options. Material amounts must be shown on the face of the final accounts. Material information must be disclosed as a note to the financial statements. Immaterial amounts whose cost of disclosure outweighs the benefits is aggregated since it's of no gravity or consequence.

- b) *Going concern concept:* The premises are shown in the Balance Sheet at cost of \$200 000, less total depreciation of \$16 000 to give a carrying amount of \$184 000. Stock of finished goods was valued at the lower production cost \$103 650 and net reliable value \$114 015.

Consistency concept: Finished goods were valued on First In First Out (FIFO) basis assuming that old stock of 100 units were sold first before recently manufactures stock of 1 600 desks. Motor vehicles are depreciated annually at 20% reducing balance method.

Accruals concept: \$3 000 owing for insurance at year-end was matched to the current period by adding the outstanding period. Salaries to partners though not yet paid, were credited to their Current Accounts.

Materiality concept: Selling and distribution expenses of \$38 400 aggregated whilst the significant amounts for production overhead were split and shown in isolation as fixed \$64 000 and variable \$52 000 instead of a total of \$116 000.

Scenario 4

- a) i) Gross profit percentage = $\text{Gross profit} \div \text{Sales} \times 100\%$
 = $\$600\,000 \div \$1\,500\,000 \times 100\%$
 = 40%
- ii) Net profit percentage = $\text{Net profit} \div \text{Sales} \times 100\%$
 = $\$150\,000 \div \$1\,500\,000 \times 100\%$
 = 10%
- iii) Return On Capital Employed = $\text{Net profit} \div (\text{Fixed assets} + \text{Working capital}) \times 100\%$
 = $\$150\,000 \div \$754\,000 \times 100\%$
 = 20%
- iv) Debtors' collection period = $\text{Debtors} \div \text{Credit sales} \times 365 \text{ days}$
 = $\$100\,000 \div \$1\,500\,000 \times 365 \text{ days}$
 = 24 days
- v) Current ratio = $\text{Current assets} : \text{Current liabilities}$
 = $\$330\,000 : \$76\,000$
 = 4:1
- vi) Acid test ratio = $\text{Current assets} - \text{Closing stock} : \text{Current liabilities}$
 = $\$100\,000 + \$20\,000 : 76\,000$
 = 1.6:1
- vii) Utilisation of fixed assets = $\text{Sales} \div \text{Fixed assets}$
 = $\$1\,500\,000 \div \$500\,000$
 = 3 times

- b) *Profitability* is the measure of success or reward of undertaking business risk. Gross profit percentage for the industry is 50% which is greater than that of the partnership which is 40%. The profit in every \$1 of sales for the partnership is smaller for the partnership by \$0.10 compared to industry margin.

Partnership's net profit is 10% which is 5% lower than that of industry pegged at 15%. Industry has better management of trading and operating cost than the partnership by \$0.05 in every \$1.

Industry ROCE is 25% but that of partnership is 20% which is 5% less. Investing in the partnership is less profitable by \$0.05 in the \$1 than investing in the industry.

Liquidity is the measure of the ability of a business to settle financial obligations as they fall due using the current assets. Debtors' collection period is 20 days for industry and that of partnership is 24 days, longer by 4 days. Partnership is relaxed in managing amounts owed by debtors and is more prone to bad debts. Industry is strict on debt collection, thereby minimising bad debts chances; and converts debts into cash at a faster rate which improves the solvency position when contrasted with the partnership.

Partnership current ratio is 4:1 which is double that of industry at 2:1. There is inefficient management of current assets in the partnership. High ratio suggests presence of idle resources which must be invested profitably somewhere else.

Industry acid test ratio is 0.9:1 and partnership's 1.6:1. Unnecessary funds are kept in the partnership to pay current liabilities. Partnership is not operating at capacity since there are too much resources which are not being invested to generate more income.

- c) – *Accuracy of ratios depends on quality of accounting data.* If accounting data used is biased or erroneous, the ratios computed are faulty/ wrong as well.
- *Ratios ignore size and capital structure of the business.* Fair and realistic comparisons must involve firms in the same line of trade and market, and of similar size and gearing.
- *Ratios do not show causes for good or poor results:* A ratio on its own is a statistic that does not offer explanations on contributing financial or non-financial factors which must be investigated on their own.

Scenario 5

- a) i) Total direct material cost variance = Flexed budget timber cost – Actual timber cost
= \$300 × 2 500 – \$851 000
= (\$101 000) Adverse
- ii) Direct materials price variance = [Standard price – Actual price] × Actual timber quantity
= \$150 × 5 750 – \$851 000
= \$11 500 Favourable
- iii) Direct material usage variance = [Standard timber – Actual timber] × Standard price
= [2 × 2 500 – 5 750] × \$150
= (\$112 500) Adverse
- iv) Total direct labour cost variance = Flexed budget labour cost – Actual labour cost
= \$360 × 2 500 – \$892 500
= \$7 500 Favourable
- v) Direct labour rate variance = [Standard rate – Actual rate] × Actual labour hours
= \$80 × 10 500 – \$892 500
= (\$52 500) Adverse
- vi) Direct labour efficiency variance = [Standard hours – Actual hours] × Standard rate
= [4½ × 2 500 – 10 500] × \$80
= \$60 000 Favourable
- b) i) – Cheaper suppliers of raw materials
– Purchase of low quality materials
- ii) – Usage of poor quality materials
– Usage of unskilled (low calibre) employees resulting in wastages and work redoes
- iii) – Effects of trade unions which advocate for higher rates
– Employing highly skilled labour force which is expensive to pay
- iv) – Employing skilled and motivated personnel
– Usage of appropriate and efficient machinery
- c) – A target of efficiency is set for employees which in turn stimulates motivation
– Cost consciousness is stimulated
– Enables effective control through management by exception
– Encourages *responsibility accounting* as each manager should investigate adverse variances
– Identical products are valued at the same price
– Reduces volume of data kept in the warehouse/ store-room records
– Simplifies the process of making quotations

2089 Scenario 1**a) Beldoy Ltd: Manufacturing and Trading and Profit and Loss Account for year ended 31 March 2007**

<u>Raw Materials</u>		\$000	\$000
Opening stock			300
<u>Add: Purchases</u>		1 500	
Carriages inwards		<u>108</u>	1 608
			1 908
<u>Less: Closing stock</u>			<u>294</u>
Cost of raw materials consumed			1 614
<u>Add: Direct wages</u>			<u>600</u>
Prime cost			2 214
<u>Add: Factory Overheads</u>			
Indirect wages		60	
Indirect materials		30	
Sundry factory overheads		162	
Dep: Freehold premises $[1\ 300 \times 4\% \times \frac{3}{4}]$		39	
Plant and machinery $[(800 - 400) \times 30\%]$		<u>120</u>	411
<u>Work In Progress</u>			
Opening stock		250	
<u>Less: Closing stock</u>		<u>375</u>	<u>(125)</u>
Production cost			2 500
<u>Add: Factory profit $[20\% \times 2\ 500]$</u>			<u>500</u>
Market value of finished goods			<u>3 000</u>
Sales			4 050
<u>Less: Cost of Sales</u>			
Opening stock		260	
<u>Add: Market value of finished goods</u>		<u>3 000</u>	
		3 260	
<u>Less: Closing stock</u>		<u>396</u>	<u>2 864</u>
Gross profit			1 186
<u>Less: Operating Expenses</u>			
Office salaries		262	
Other administration salaries		450	
Dep: Freehold premises $[1\ 300 \times 4\% \times \frac{1}{4}]$		13	
Office equipment $[(380 - 100) \times 15\%]$		<u>42</u>	767
Net operating profit			419
<u>Add: Factory profit</u>			<u>500</u>
			919
<u>Less: Increase in provision for unrealised profit $[20\% \div 120\% \times 396 - 52]$</u>			<u>(14)</u>
Overall net profit			905
<u>Less: Debenture interest $[10\% \times 300]$</u>			<u>30</u>
Reported net profit			875
<u>Less: Appropriations</u>			
Dividends: Preference: Paid		16	
Proposed $[400 \times 8\% \div 2]$		16	
Ordinary: Paid		10	
Proposed $[0.35 \times 1\ 000 \div 10]$		35	
General reserve		<u>100</u>	<u>177</u>
Retained profit for the year			688
<u>Add: Retained profit b/f</u>			<u>186</u>
Retained profit c/f			<u>884</u>

b) Beldoy Ltd: Balance Sheet as at 31 March 2007

<u>Fixed Assets</u>	<u>Cost</u>	<u>Dep</u>	<u>Net</u>
	\$000	\$000	\$000
Freehold premises	1 500		1 500
Plant and machinery	800	520	280
Office machinery	<u>380</u>	<u>142</u>	<u>238</u>
	<u>2 680</u>	<u>662</u>	2 018

<u>Current Assets</u>	\$000	\$000	\$000
Stock: Raw materials		294	
Work In Progress		375	
Finished goods	396		
Less: Provision for unrealised profit [20 ÷ 120 × 396]	<u>66</u>	330	
Trade debtors		394	
Bank		<u>305</u>	
			1 698
<u>Less: Creditors: Amounts falling due within 1 year</u>			
Trade creditors	184		
Debenture interest owing	[300 × 10% – 15]	15	
Proposed dividends: Preference	[400 × 8% × ½]	16	
Ordinary	[1 000 ÷ 10 × 0.35]	<u>35</u>	<u>250</u>
Working capital			1 448
Capital employed			3 466
<u>Less: Creditors: Amounts falling due after 1 year</u>			
10% Debentures			<u>300</u>
Shareholders funds			<u>3 166</u>
<i>Financed By</i>			
<u>Share Capital</u>			
100 000 Ordinary shares of \$10 each			1 000
80 000 8% Preference shares of \$5 each			<u>400</u>
			1 400
<u>Reserves</u>			
Revaluation	[1 300 × 96% – 1500 – 180]	432	
Share premium		250	
General reserve	[100 × 2]	200	
Retained profit		<u>884</u>	<u>1 766</u>
Equity			<u>3 166</u>

Scenario 2

- a) – Accruals/ Matching
 – Consistency
 – Going concern
 – Materiality and separate aggregation
- b) Accounting policies are sets of accounting bases and concepts that a firm adopts and uses for purpose of preparation of its financial statements
- c) i. Depreciation is an approximated \equiv estimated expense for losses in value of tangible fixed assets over their economic life because of wear, tear and usage. The charging depreciation is an attempt to spread the historical cost over the useful life. Cost of asset consumed must be matched with the revenues generated. The consistency concept requires same depreciation method and rate to be used for uniformity and comparisons. A change in accounting method and rate are only justified to show the true and fair view otherwise they are forbidden. Prudence concept forbids overstatement of assets as well as profits. The instruction can therefore not be followed since it contravenes both the prudence concept and the consistency concept in that machinery would be overstated as well as the profit.
- ii. Stock should be valued prudently, that is, it should be understated by applying principle of using a lower \equiv smaller amount between cost and net realisable value. Net realisable value is used when the expected proceeds from the sale of goods is below cost. This is in line with both the matching and prudence concept that requires expenses to be recorded to the period they were incurred and to be recorded as soon as they are incurred. Prudence concept is an overriding principle that takes precedence over consistency concept. The accountant can therefore not follow the instruction as it will result in overstated profit and asset
- iii. A provision for unrealised profit is mandatory whenever there is closing stock of finished goods on which factory profit was added. Since to realise means to sell, the factory profit is not yet earned as the goods are not yet sold. Realisation concept requires transactions to be treated as sales only when goods are replaced by cash or a debtor. Recording all factory profit assumed that all the goods have been sold but this is against matching concept since the goods will be sold in the future. Provision for unrealised profit is required to be adjusted for by the prudence concept so that profits are not overstated.

Scenario 3**a) Beldoy Ltd: Balance Sheet as at 31 May 2007**

Fixed assets at net book value	[1 970 + 30]	2 000 000
<u>Current Assets</u>		
Stock		1 066 000
Debtors		360 000
Bank	[275+1 000 × (1+2) ÷ 2 ÷ 3 × 13 ÷ 10 - 400 × (5+0.5) ÷ 5 - 30 ÷ 2]	470 000
		<u>1 896 000</u>
<u>Less: Current Liabilities</u>	[215 + 30 ÷ 2]	<u>230 000</u>
Net current assets		1 666 000
Total net assets		3 666 000
<u>Less: Long-term Liabilities</u>		
10% Debenture stock		<u>300 000</u>
Equity		<u>3 366 000</u>
<u>Financed By</u>		
200 000 Ordinary shares of \$10 each	[1 000 × (1 + 2) ÷ 2 × (1 + 3) ÷ 3]	2 000 000
Capital reserves	[630 - 1 000 ÷ 2 + 1 000 × (1 + 2) ÷ 2 ÷ 3 × (13 - 10) ÷ 10]	280 000
Revenue reserves	[1 126 - 400 × 0.5 ÷ 5]	1 086 000
Shareholders funds		<u>3 366 000</u>

- b) The usage of reserves in the most flexible way means that capital reserves with minimal uses, i.e. they cannot be distributed as dividends, are utilised first but ending with the share premium because it has many other uses. From the \$630 000 in capital reserves, \$500 000 was removed since a 1-for-two bonus issue leads to \$1 000 000 ÷ 2 being capitalised from reserves. No money was moved = transferred from the revenue reserves because capital reserves funded the whole amount. Revenue reserves could have been used, but they have more uses among especially dividend payment.
- c) A machine acquired on hire-purchase is legally owned by the seller. Ownership is transferred to the buyer upon payment of the final instalment. The machine is now in the hands = possession of Beldoy Ltd though ownership remains with the seller. When recording the machine in books of accounts, what matters most is possession = substance not the form = legality. Materially, the hire-purchaser, who is Beldoy Ltd, must show the asset in the Balance Sheet and proceed to depreciate it. This is the application of the substance over form principle.

Scenario 4**a) Beldoy Ltd: Overhead Analysis Sheet for the six months to 31 January 2007**

Cost	Basis of charge	Total	Moulding	Assembly	Paint shop	Stores
<i>Primary Apportionment</i>						
Rent	Area (m ²)	{w1} 90 000	27 000	36 000	22 500	4 500
Light and heating	Area (m ²)	{w2} 23 000	6 900	9 200	5 750	1 150
Premises insurance	Machinery cost	{w3} 7 000	4 000	2 000	1 000	
Canteen costs	No of workers	{w4} 54 000	16 200	21 600	10 800	5 400
Depreciation	Machinery cost	{w5} 14 000	8 000	4 000	2 000	
Total overhead		188 000	62 100	72 800	42 050	11 050
<i>Secondary Apportionment</i>						
Stores	Stores req	{w6}	5 157	3 683	2 210	(11 050)
Total overhead		<u>188 000</u>	<u>67 857</u>	<u>76 483</u>	<u>44 260</u>	<u>-</u>

b) Overhead absorption rate (OAR) = Total overhead ÷ Direct labour hours

$$\text{Mouldings OAR} = 67\,857 \div (30 \times 35 \times 24) \\ = \underline{\underline{\$2.693 \text{ per labour hour}}}$$

$$\text{Assembly OAR} = 76\,483 \div (40 \times 35 \times 24) \\ = \underline{\underline{\$2.276 \text{ per labour hour}}}$$

$$\text{Paint shop OAR} = 44\,260 \div (20 \times 35 \times 24) \\ = \underline{\underline{\$2.635 \text{ per labour hour}}}$$

c) Product Q:	Moulding	[2¼ × 2.693]	6.059 25
	Assembly	[1¾ × 2.276]	3.983
	Paint shop	[1½ × 2.635]	3.952 5
			<u>13.994 75</u>

- d) Difference between budgeted overhead of \$188 000 and the actual overhead of \$200 000 which is \$12 000 is treated as overhead under-absorption (under-application \equiv under-recovery) that is debited to costing Income Statement. Assumption made being: actual level of activity is exactly the same as the budgeted level of activity

Workings

1. Rent = $90\,000 \div (6\,000 + 8\,000 + 5\,000 + 1\,000) \times [6\,000 + 8\,000 + 5\,000 + 1\,000]$
2. Heating and lighting = $23\,000 \div (6\,000 + 8\,000 + 5\,000 + 1\,000) \times [6\,000 + 8\,000 + 5\,000 + 1\,000]$
3. Insurance = $7\,000 \div (80\,000 + 40\,000 + 20\,000) \times [80\,000 + 40\,000 + 20\,000]$
4. Canteen costs = $54\,000 \div (30 + 40 + 20 + 10) \times [30 + 40 + 20 + 10]$
5. Depreciation = $30\% \times \frac{1}{2} \times [80\,000 + 40\,000 + 20\,000]$

2090 Scenario 1

- a) i) – Statement that the report is an independent opinion to the ordinary shareholders and not to the directors
- Statement that adequate and proper accounting records are being maintained
 - Statement on whether the Income Statement is based on accounting records and opinion on whether it represents a true and fair view of the business profitability for the year
 - Statement on whether the Balance Sheet is based on the accounting records and opinion on whether it represents a true and fair view of the business at that date
 - Statement on compliance with provisions and requirements of the Companies Act 24:03, International Accounting Standards and other legislation
- ii) – Principal donations during the year to charitable organisations and political parties
- Future plans on research and development
 - Declared rate of ordinary dividend
 - Information on potential mergers and takeovers
 - Measures taken to improve employee health and safety at work
- b) i) – their interests in company shares
- total emoluments \equiv remuneration
 - other benefits such as pension contributions
 - amounts paid for compensation of loss office
- ii) – Historical cost
- Annual depreciation charge
 - Depreciation method
 - Economic \equiv productive \equiv useful life
- iii) – Total wages for year
- Number of employees pr category
 - Pension contributions made by the company on behalf of employees
 - Other social costs paid for them by the company

Scenario 2

a) Demo Ltd: Income Statement for the year ended 30 June 2008

Turnover	7 200 000
Cost of turnover	(4 900 000)
Gross profit	2 300 000
Other operating income	400 000
Total income	2 700 000
Administration costs	(700 000)
Selling and distribution expenses	(600 000)
Net profit before interest and tax	1 400 000
Interest charges	(100 000)
Net profit before tax	1 300 000
Corporation tax on ordinary activities	(200 000)
Net profit after tax	1 100 000
Extra-ordinary gain net of tax	300 000
Reported profit	<u>1 400 000</u>

- b) The layout in a) is the standardised format which abridges \equiv summarises all operating activities of a business entity. All financial statement users should find the presentation easy and convenient to interpret. People from all walks of life are provided with sufficient information to make informed decisions. In addition, the layout conceals \equiv hides the important internal details which maybe abused by competitors and the press

Scenario 2**a) Franken Ltd: Cash Flow Statement for the year ended 28 February 2006****OPERATING ACTIVITIES** *{Indirect method}*

Net profit before interest and tax	{Scenario 1}		450 000
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Non-cash items adjustments

Depreciation: Land and buildings	[700 × 10%]	70 000	
Machinery	[450 × 10%]	45 000	115 000

Net cash inflow before working capital adjustments			565 000
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Working capital adjustments

Increase in stock	[339 – 280]	(59 000)	
Increase in trade debtors	[410 – 375]	(35 000)	
Decrease in trade creditors	[250 – 190]	(60 000)	(154 000)

Net cash inflow from operations			411 000
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Debenture interest paid			(10 000)
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Taxation paid			(176 000)
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Net cash inflow from operating activities			<u>225 000</u>
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OR *{Direct method}*

Receipts from trade debtors	[375 + 1 750 – 410]		1 715 000
-----------------------------	---------------------	--	-----------

Payments to trade creditors	[250 + 914 – 190]		(974 000)
-----------------------------	-------------------	--	-----------

Payments for operating expenses			(330 000)
---------------------------------	--	--	-----------

Interest paid			(10 000)
---------------	--	--	----------

Taxation paid			(176 000)
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Net cash inflow from operating activities			225 000
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INVESTING ACTIVITIES

Acquisition of land and buildings	[700 – 540]	(160 000)	
-----------------------------------	-------------	-----------	--

Acquisition of machinery	[450 – 340]	(110 000)	
--------------------------	-------------	-----------	--

Net cash outflow from investing activities			<u>(270 000)</u>
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Net cash outflow before financing activities			(45 000)
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FINANCING ACTIVITIES

Ordinary dividend paid	[24 + 80]	(104 000)	
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Issue of ordinary shares	[560 – 490]	70 000	
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Net cash outflow from financing activities			<u>(34 000)</u>
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Decrease in cash	[185 – 106]		(79 000)
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Add: Balance b/d			185 000
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Balance c/d			<u>106 000</u>
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- b)**
- *To explain the difference between profit and liquidity:* Income Statement shows business's profitability but does not show the ability of the business to generate cash and to pay its liabilities as they fall due. This function is served by the cash flow statement
 - *To show the sources and uses of cash:* These are important in accessing future ability to raise cash for various expenditures which the business may incur in the future. The sources and uses of cash are also useful to explain why there is excess cash or cash shortages.

Scenario 3

- a)**
- | | | |
|-----------------------------------|---|---------------------------------------|
| Dividend per share in Franken Ltd | = | Market price × Dividend yield |
| | = | 2.1 × 4.5% |
| | = | \$0.0945 |
|
 | | |
| Total dividend from Franken Ltd | = | Number of shares × Dividend per share |
| | = | 500 000 × 0.0945 |
| | = | \$47 250 |
|
 | | |
| Surplus cash for Anjni Lagrad | = | Bank balance + Cash from Franken Ltd |
| | = | (68 + 50)1 000 |
| | = | \$118 000 |
|
 | | |
| Income from cash investments | = | Surplus cash × % earned |
| | = | 118 000 × 5% |
| | = | \$5 900 |

	\$
Dividend from Franken Ltd	47 250
Annual salary	200 000
Investment income	5 900
Expected annual gain	<u>253 150</u>

- b) If Anjni Lagrad continues, s/he will continue to earn an annual profit of \$380 000 but if s/he accepts the offer from Franken Ltd, s/he will gain \$253 150. So based on financial returns or rewards, it is advisable for Anjni Lagrad to reject the offer and continue as a sole-trader. In either case, Anjni Lagrad will still incur personal expenses of \$230 000 = drawings, therefore less income remains available for reinvestment if s/he accepts the offer from Franken Ltd i.e. \$23 150 = \$253 150 – \$230 000. In the sole-trading business, \$150 000 = \$380 000 – \$230 000 remains for plough back = reinvestment. Care must though be taken that the profit in a sole-trading business does not reflect actual cash inflows.
- c) – How long s/he can continue as employee at Franken Ltd. This means that if the work duration is long, then s/he is assured of a steady flow of cash not just profit since profit and liquidity are different
 – Independence and convenience associated with being self-employed and the fact that as an employee one would be supervised
 – Degree of professionalism in the company which might be absent in the sole-trading business

d) **Franken Ltd: Balance Sheet as at 1 March 2007**

<u>Non-Current Assets</u>		\$000	\$000	\$000
Land and buildings	[1 200 + 300 + 1 500 ÷ 3 × 2]			2 500
Plant and machinery	[1 154 + 160]			1 314
Goodwill	[1 350 – 580 + 680]			<u>838</u>
				4 652
<u>Current Assets</u>				
Stock	[138 + 60]		198	
Trade debtors	[190 + 40]		<u>230</u>	
			428	
<u>Less: Current Liabilities</u>				
Trade creditors	[110 + 48]	20		
Bank overdraft	[280 – 300]	<u>158</u>	<u>178</u>	
Net current assets				<u>250</u>
Total net assets				4 902
<u>Less: Non-Current Liabilities</u>				
8% Debentures – 2012				<u>300</u>
Equity				<u><u>4 602</u></u>
<i>Financed By</i>				
<u>Share Capital</u>				
3 000 000 Ordinary shares of \$1 each	[1 500 × (2 + 3) ÷ 3 + 500]			3 000
<u>Reserves</u>				
Share premium	[1 350 – 300 – 500]			550
Profit and loss				<u>1 052</u>
Shareholders funds				<u><u>4 602</u></u>

Scenario 4

		Capital Reduction Account		
Goodwill	500 000	\$1 Ordinary share capital		9 700 000
Tangible fixed assets	1 400 000			
Stock	100 000			
Trade debtors	111 000			
Profit and loss	2 240 000			
\$.55 Ordinary share capital	5 335 000			
Balance	c/d			<u>14 000</u>
				<u><u>9 700 000</u></u>
		Balance	b/d	14 000

Franken Ltd: Balance Sheet as at 1 March 2008

<u>Non-Current Assets</u>		\$000	\$000
Tangibles	[6 500 – 1 400]		5 100

↗	<u>Current Assets</u>		\$000	\$000
	Stock	[320 – 100]	220	
	Trade debtors	[800 – 111]	689	
	Bank		<u>60</u>	
			969	
	<u>Less: Current Liabilities</u>			
	Trade creditors		<u>420</u>	
	Net current assets			<u>459</u>
	Total net assets			5 649
	<u>Less: Non-Current Liabilities</u>			
	8% Debentures – 2012			<u>300</u>
	Shareholders funds			<u>5 349</u>
	<u>Financed By</u>			
	9 700 000 Ordinary shares of \$0.55 each			5 335
	Capital reduction reserve	{a}		<u>14</u>
	Equity			<u>5 349</u>

- The Balance Sheet is no-longer reflecting the actual financial position, therefore a capital reduction scheme will correct this discrepancy
- A successful reconstruction exercise will result in the business making profit

Scenario 5

a)		Digital	Cinema	Spy	Medical
	Contribution/ unit	60 + 50 = \$110	80 + 70 = \$150	40 + 52 = \$92	70 + 490 = \$560
	Yugara/s unit	50 ÷ 50 = 1	100 ÷ 50 = 2	200 ÷ 50 = 4	350 ÷ 50 = 7
	Contribution/ yugara	110 ÷ 1 = \$110	150 ÷ 2 = \$75	92 ÷ 2 = \$23	560 ÷ 7 = \$80
	Ranking	①	③	④	②

<<

Product	Quantity	Yugaras available	
Digital	10 000	[10 000 × 1]	20 000 (10 000) 10 000
Medical	500	[500 × 7]	(3 500) 6 500
Cinema	3 250	[3 250 × 2]	(6 500)
Spy	0		

b)	Franken Ltd: Marginal Costing Income Statement	
	Sales [10 000 × 220 + 500 × 1 265 + 3 250 × 370]	4 035 000
	<u>Less: Marginal Cost Of Sales</u>	
	Yugaras [10 000 × 50 + 500 × 350 + 3 250 × 100]	1 000 000
	Other direct materials [10 000 × 40 + 500 × 300 + 3 250 × 90]	842 500
	Direct labour [10 000 × 20 + 500 × 55 + 3 250 × 30]	<u>325 000</u>
	Contribution	1 867 500
	Less: Fixed costs [10 000 × 60 + 4 000 × 80 + 3 000 × 40 + 500 × 70]	<u>1 075 000</u>
	Net profit	<u>792 500</u>

c)	At break-even point, contribution	=	ixed cost
	Contribution from Digital camera	=	10 000 × 110
		=	\$1 100 000

Digital sales contribute more than fixed cost

Break-even sales	=	10 750 ÷ 11 000 × 10 000 × 220
	=	<u>\$2 150 000</u>

- | | | |
|----|---|---|
| d) | - | Franken Ltd would loose key customers of the cameras not produced |
| | - | Franken Ltd would loose market share to competitors |
| | - | Other cameras might be loss leaders which attract customers to the business |

2092 Scenario 1

a) David Mpofu: Journal Proper

i.	Motor Vehicle Repairs	27 800	
	Suspense (28 700 – 27 800)	900	
	Motor Vehicles		28 700
ii.	Suspense	5 000	
	Profit and Loss – Sales		5 000
iii.	Suspense (140 000 – 104 000)	36 000	
	Profit and Loss – Opening stock overstated		36 000
iv.	Stock	13 000	
	Profit and Loss – Closing stock understated		13 000
v.	Suspense – Creditors treated as debtors (1 600 × 2)	3 200	

b) Suspense Account

i.	Motor vehicles	900	Difference as per Trial Balance	45 100
ii.	Sales	5 000		
iii.	Stock (opening)	36 000		
iv.	Creditors	3 200		
		<u>45 100</u>		<u>45 100</u>

c) David Mpofu: Calculation of revised net profit/ loss for year ended 31 March 2005

	Net profit / (loss) per draft accounts	(23 000)
i.	Motor vehicle repairs	(27 800)
ii.	Sales – E. Bvundi	5 000
iii.	Opening stock overstated (140 000 – 104 000)	36 000
iv.	Closing stock understated	13 000
	Revised net profit	<u>3 200</u>

Scenario 2

a) Realisation Account

Freehold premises	60 000	Creditors	34 000
Plant and machinery	45 000	Mapple Leaf Gardens Limited	250 000
Fixtures and fittings	12 000		
Stock	50 000		
Debtors	60 000		
Capital: David Mpofu	28 500		
Turukai Dururu	28 500		
	<u>284 000</u>		<u>284 000</u>

b) Bank Account

Balance brought down	12 500	Capital: David Mpofu	42 500
Mapple Leaf Gardens Limited	70 000	Turukai Dururu	40 000
	<u>82 500</u>		<u>82 500</u>

c) Capital Account

	<i>David Mpofu</i>	<i>Turukai Dururu</i>		<i>David Mpofu</i>	<i>Turukai Dururu</i>
Ordinary Share Capital	108 000	72 000	Balance brought down	120 000	80 000
Bank	42 500	40 000	Current Account	2 000	3 500
			Realisation	28 500	28 500
	<u>150 500</u>	<u>112 000</u>		<u>150 500</u>	<u>112 000</u>

d) Mapple Leaf Gardens Limited Account

Realisation	250 000	Capital: David Mpofu	108 000
		Turukai Dururu	72 000
		Bank (250 000 – 180 000)	70 000
	<u>250 000</u>		<u>250 000</u>

Scenario 3

a) Mapple Leaf Gardens Limited: Manufacturing, Trading, Profit and Loss and Appropriation Account for the year ended 31 December 2007

<u>Raw Materials</u>		
Opening stock		18 000
<u>Add: Purchases</u>	245 500	
Carriage inwards	<u>1 350</u>	<u>246 850</u>
		264 850
<u>Less: Closing stock</u>		<u>22 000</u>
Cost of raw materials consumed		242 850
<u>Add: Direct wages [345 + 6]</u>		<u>351 000</u>
Prime cost		593 850
<u>Add: Factory Overheads</u>		
Loose tools [15 + 13.65 – 13.4]	15 250	
Indirect wages [21 + 1.9]	22 900	
Rent and rates [54 + 5 – 1]	58 000	
Electricity	27 000	
Repairs and maintenance	10 000	
Insurance [12 – 1.8]	10 200	
Motor vehicle expenses [17.6 × 50%]	8 800	
Dep: Freehold premises [240 × 4% × ¾]	7 200	
Plant and machinery [215 × 20%]	43 000	
Motor vehicles [84 × 25% × ½]	<u>10 500</u>	212 850
<u>Add: Opening stock work in progress</u>	27 800	
<u>Less: Closing stock work in progress</u>	<u>24 500</u>	<u>3 300</u>
Production cost		810 000
<u>Add: Factory profit [900 – 810]</u>		<u>90 000</u>
Market value		<u>900 000</u>
Sales		1 200 000
<u>Less: Cost of Sales</u>		
Opening stock	42 500	
<u>Add: Market value of finished goods</u>	<u>900 000</u>	
	942 500	
<u>Less: Closing stock</u>	<u>67 500</u>	<u>875 000</u>
Gross profit		325 000
<u>Add: Discount received ≡ Purchases discounts</u>		<u>1 760</u>
Operating income		326 760
<u>Less: Operating Expenses</u>		
Rent and rates [28 + 2.8 – 0.8]	30 000	
Electricity	13 500	
Repairs and maintenance	8 200	
Insurance [4 – 0.6]	3 400	
Motor vehicle expenses [17.6 × 50%]	8 800	
Selling and distribution [52.19 + 3]	55 190	
Administration	74 000	
Discount allowed ≡ Sales discounts	2 140	
Dep: Freehold premises [240 × 4% × ¼]	2 400	
Motor vehicle [84 × 25% × ½]	10 500	
Office machinery and equipment [26 × 20%]	<u>5 200</u>	<u>213 330</u>
Operating profit		113 430
<u>Add: Factory profit</u>	90 000	
<u>Less: Inc in provision for unrealised profit [67.5 × 90 ÷ 900 – 4]</u>	<u>2 750</u>	<u>87 250</u>
Overall net profit before interest		200 680
<u>Less: Debenture interest [8% × 20]</u>		<u>1 600</u>
Net profit after interest		199 080
<u>Less: Appropriations</u>		
Ordinary dividend proposed [0.3 × 150]	45 000	
General reserve	<u>20 000</u>	<u>65 000</u>
Retained profit for the year		134 080
<u>Add: Retained profits b/d</u>		<u>86 830</u>
Retained profit c/d		<u>220 910</u>

b) Mapple Leaf Gardens Limited: Balance Sheet as at 31 December 2007

<u>Non-Current Assets</u>		<u>Cost</u>	<u>Dep</u>	<u>Net</u>
Freehold premises		300 000		300 000
Plant and machinery		215 000	168 000	47 000
Motor vehicle		84 000	63 000	21 000
Office machinery and equipment		<u>26 000</u>	<u>23 200</u>	<u>2 800</u>
		<u>625 000</u>	<u>254 200</u>	370 800
<u>Current Assets</u>				
Stocks:	Raw materials		22 000	
	Work in progress		24 500	
	Finished goods	67 500		
	<u>Less: Prov for unrealised profit [67.5 ÷ 900 × 90]</u>	<u>6 750</u>	60 750	
	Loose tools		13 400	
Debtors			114 640	
Prepayments:	Rates:	Factory	1 000	
		Offices	800	
	Insurance:	Factory	1 800	
		Offices	600	
Bank			<u>54 260</u>	
			293 750	
<u>Less: Creditors: Amounts falling due within 1 year</u>				
Debenture interest owing	[8% × 20 – 0.8]	800		
Creditors		23 540		
Accruals:	Rent: Factory	5 000		
	Offices	2 800		
	Direct wages	6 000		
	Indirect wages	1 900		
	Selling and distribution	3 000		
Ordinary dividend proposed	[150 × 0.3]	<u>45 000</u>	<u>88 040</u>	
Working capital				<u>205 710</u>
Capital employed				576 510
<u>Less: Creditors: Amounts falling due after 1 year</u>				
8% Debentures				<u>20 000</u>
Shareholders funds				<u>556 510</u>
<i>Financed By</i>				
<u>Share Capital</u>			<u>Authorised</u>	<u>Issued</u>
Ordinary shares of \$1 each	[150 × (1 + 3) ÷ 3]		1 000 000	200 000
8% Preference shares of \$1 each			<u>500 000</u>	
				200 000
<u>Reserves</u>				
Revaluation	[240 × 96% – 96 – 300 + 150 ÷ 3]		115 600	
General reserve			20 000	
Profit and loss			<u>220 910</u>	<u>356 510</u>
Equity				<u>556 510</u>

Adjusting events are post-Balance Sheet events that require modifications to be made to final accounts before they are gazetted to the general public. These events arose on or before the Balance Sheet date but the company were not aware of them. Had the company had knowledge of them, they would have taken them into account. A debtor at Balance Sheet date might have been in an insolvent state but the company would only realize it when the credit period eventually expires. Fixed assets in the Balance Sheet might be long overdue for revaluation. The permanent change in value must have been effected at Balance Sheet.

Scenario 4**a) Mapple Leaf Gardens Ltd: Flexible Budget for 6 months to 30 June 2008**

Sales	[(6 ÷ 300 000 ÷ 50 000 ÷ 420 000 ÷ 70 000) × 62 000]		372 000
<u>Less: Variable Cost of Sales</u>			
Direct materials	[(75 000 ÷ 50 000 ÷ 105 000 ÷ 70 000) × 62 000]	93 000	
Direct labour	[(50 000 ÷ 50 000 ÷ 70 000 ÷ 70 000) × 62 000]	62 000	
Maintenance	[(25 000 – 30 000) ÷ (50 000 – 70 000) × 62 000]	<u>15 500</u>	<u>170 500</u>
Contribution	[(120 000 – 185 000) ÷ (50 000 – 70 000) × 62 000]		201 500

Less: Fixed cost

Maintenance [25 000 – (25 000 – 30 000) ÷ (50 000 – 70 000) × 50 000]	12 500	
Depreciation	<u>30 000</u>	<u>42 500</u>
Profit		<u>159 000</u>

- b) Flexible budget profit is \$159 000 which is larger by \$8 200 than the actual profit of \$150 800. This resulted from variances in overheads. The two profits can be reconciled as follows:

Flexed budget profit		159 000	
Sales above budget	[372 000 – 378 200]	6 200	Favourable
Direct labour above budget	[62 000 – 74 400]	(12 400)	Overspent
Maintenance: Variable above budget	[15 500 – 16 000]	(500)	Overspent
Fixed above budget	[12 500 – 14 000]	<u>(1 500)</u>	Overspent
Actual profit		<u>150 800</u>	

Differences between the results are because of overspending in some overheads and a revenue benefit in sales as summed up above.

- c) *Advantages*

- all identical products are valued at the same price
- stimulates cost consciousness
- promotes management by exception

Disadvantages

- requires periodic review which is costly
- standards do not reflect = represent actual prices
- it is time consuming to set standards

2093 a)

- i) Current ratio = Current assets ÷ Current liabilities

<i>Eat With Me Ltd</i>	<i>Drive In Style Ltd</i>
= 25 × 2 ÷ 50	= (40 + 25 + 10) ÷ 30
= 1:1 ≡ 100% ≡ 1 time	= 2.5:1 ≡ 250% ≡ 2.5 times

- ii) Acid test ratio = (Current assets - Stock) ÷ Current liabilities

<i>Eat With Me Ltd</i>	<i>Drive In Style Ltd</i>
= 25 ÷ 50	= (25 + 10) ÷ 30
= 0.5:1 ≡ 50% ≡ 0.5 times	= 1¹/₆:1 ≡ 116²/₃% ≈ 1.167 times

- iii) Stock turnover = (Sales - Gross profit) ÷ [(Opening stock + Closing stock) ÷ 2]

<i>Eat With Me Ltd</i>	<i>Drive In Style Ltd</i>
= (500 - 100) ÷ (25 ÷ 2)	= (125 - 35) ÷ 40 × 2
= 32 times	= 4.5 times

- iv) Gross profit percentage = Gross profit ÷ Sales × 100%

<i>Eat With Me Ltd</i>	<i>Drive In Style Ltd</i>
= 100 ÷ 500 × 100%	= 35 ÷ 125 × 100%
= 20%	= 28%

- v) Operating profit margin = Net operating profit ÷ Sales × 100%

<i>Eat With Me Ltd</i>	<i>Drive In Style Ltd</i>
= 20 ÷ 500 × 100%	= 20 ÷ 125 × 100%
= 4%	= 16%

- vi) Return on total assets = Net operating profit ÷ (Fixed assets + Current assets) × 100%

<i>Eat With Me Ltd</i>	<i>Drive In Style Ltd</i>
= 20 ÷ (50 + 25 × 2) × 100	= 20 ÷ (40 × 2 + 25 + 10) × 100
= 20%	= 17.39%

- vii) Return on equity = Net operating profit ÷ (Total assets – Total liabilities) × 100%

<i>Eat With Me Ltd</i>	<i>Drive In Style Ltd</i>
= 20 ÷ (50 + 25 × 2 – 50) × 100%	= 20 ÷ (40 × 2 + 25 + 10 – 30 – 20) × 100%
= 40%	= 30.77%

- b) Eat With Me Ltd appears to be doing well in terms of liquidity compared to Drive In Style Ltd. Eat With Me Ltd has minimal current assets to meet the current liabilities as reflected by a 1:1 current ratio unlike that of Drive In Style Ltd with 2.5 current assets for each current liability implying idle resources = inefficiencies. A normal acid test ratio is usually below 100% which is the case with Eat With Me Ltd but Drive In Style has an acid test ratio above 100% which is unfavourable.

Drive In Style Ltd is more profitable compared to Eat With Me Ltd as evidenced by higher percentages for gross profit percentage and net profit percentage of 28% and 16% against 20% and 4% respectively. The returns for undertaking risk are better in Drive In Style Ltd than in Eat With Me Ltd. Returns on total assets used to generate profits are higher Eat With Me Ltd at 20% than in Drive With Style at 17.39%. Returns to actual owners are higher as well in Eat With Me Ltd at 40% than that for Drive With Style Ltd with 30.77% because of the gearing (loan) in Drive With Style Ltd.

Stock moved faster in Eat With Me Ltd at 32 times but that in Drive In Style Ltd is at 4.5 times. This means that Eat With Me Ltd encourages small returns but quick turnover in contrast with Drive In Style Ltd which uses large returns but slow stock movement.

2094 a)	i)	Themba: Trading and Profit and Loss Account for the year ended 31 December 2004			
		Sales: Bank			328 000
		Credit	{missing figure}		<u>312 000</u>
		Turnover	[480 000 × 133 ¹ / ₃ %]		640 000
		<u>Less: Cost of Turnover</u>			
		Opening stock		68 000	
		Add: Purchases	[442 800 + 13 200]	<u>456 000</u>	
				524 000	
		<u>Less: Closing stock</u>			
				<u>44 000</u>	480 000
		Gross profit	[480 000 × 33 ¹ / ₃ %]		160 000
		<u>Less: Operating Expenses</u>			
		Establishment expenses	[1 600 + 37 600 – 3 200]	36 000	
		Administrative expenses	[2 800 – 44 800 – 2 000]	44 000	
		Depreciation	[5% × (560 000 + 80 000)]	<u>32 000</u>	<u>112 000</u>
		Net profit			<u>48 000</u>
	ii)	Total Debtors Account			
		Jan 1 Balance	b/d	24 000	Dec 31 Bank {balancing figure}
		Dec 31 Sales	{i}	<u>312 000</u>	31 Balance c/d
				<u>336 000</u>	<u>26 000</u>
					<u>336 000</u>
		Jan 1 Balance	b/d	26 000	
	iii)	Bank Account			
		Jan 1 Balance	b/d	34 000	Dec 31 Creditors
		Dec 31 Sales		328 000	31 Administrative expenses
		31 Debtors	{ii}	310 000	31 Establishment expenses
		31 Overdraft	c/d	20 000	31 Fixed assets
					31 Drawings
					31 Profit and loss {cash stolen}
				<u>692 000</u>	<u>46 800</u>
					<u>692 000</u>
					Jan 1 Overdraft
					b/d
					20 000
b)		Themba: Balance Sheet as at 31 December 2004			
		Fixed Assets	[560 000 + 80 000 & 384 000 + 32 000]	<u>640 000</u>	<u>416 000</u>
		<u>Current Assets</u>			
		Stock			44 000
		Debtors: Trade			26 000
		Other - Insurance company	{iii}		46 800
		Establishment expenses prepaid			<u>3 200</u>
					120 000
		<u>Less: Current Liabilities</u>			
		Creditors	[24 800 + 13 200]	38 000	
		Administrative expenses accrued		2 000	
		Bank overdraft		<u>20 000</u>	<u>60 000</u>
		Working capital			60 000
		Capital employed			<u>284 000</u>
		<u>Financed By</u>			
		Capital: Balance	b/d		276 000
		Add: Net profit		48 000	
		Less: Drawings - Bank		<u>40 000</u>	<u>8 000</u>
		Balance	c/d		<u>284 000</u>

- 2095 a)
- Discloses whether the business is expanding \equiv investing
 - Helps explain the link between profitability and liquidity
 - Helps predict future \equiv potential sources and uses cash (useful for budgeting)
 - It may be used to support loan applications
 - Shows sources and uses of cash
 - Shows the causes of decrease or increase in cash between two Balance Sheet dates

- b) The direct method of preparing a Cash Flow Statement makes use of incomplete records to determine the receipts and payments which are closely linked to the day-to-day operations of the business. The receipts from customers \equiv debtors are computed in the Sales Ledger Control Account while payments to creditors \equiv suppliers are calculated using Purchases Ledger Control Account. Amount paid for \equiv to other operating expenses is likewise arrived at by reconstructing the Other Expenses Account using balances at the start and at the end of the period, with the cash amount being found as a balancing \equiv missing figure. Non-cash items are ignored when using the direct method.

The indirect method of preparing a Cash Flow Statement makes adjustments to the operating profit or loss for that year to arrive at cash flow from operations. All the non-cash items subtracted in the Profit and Loss Account are added back e.g. increase in provisions, losses on disposals, etc, while all non-cash gains that were added in a Profit and Loss Account are reversed \equiv subtracted e.g. profits on disposal, decreases in provisions, etc. Increases in current assets imply cash outflow \equiv spent while a decrease in a current asset is treated as an inflow \equiv receipt of cash. Increases in current liabilities suggest cash coming in \equiv received from outside while decreases correspondingly mean cash going out \equiv paid to reduce indebtedness.

[Both the direct and indirect methods use incomplete records to determine the actual amount paid for tax and for interest on loans, debentures, convertible loan stock, etc]

c)	i)	A)	<i>{Direct method}</i>		
			<u>Cash flow from operating activities</u>		
			Receipts from customers	[1 950 – 196 + 255]	2 009 000
			Payments to suppliers	[1 145 + 580 – 476 – 135 + 70]	(1 184 000)
			Payments for wages	[315 – 30 + 12.5]	(297 500)
			Other operating expenses paid	[130 + 90 – 30]	(190 000)
			Interest paid	[85 – 15 + 22.5]	<u>(92 500)</u>
			Net cash inflow from operations		245 000
		B)	<i>{Indirect method}</i>		
			<u>Cash flow from operating activities</u>		
			Net profit before interest	[165 + 85]	250 000
			<i>Non-cash items adjustments</i>		
			Depreciation	70 000	
			Goodwill amortised	<u>40 000</u>	<u>110 000</u>
			Net cash inflow before working capital adjustments		360 000
			<i>Working capital adjustments</i>		
			Increase in inventory	[580 – 476]	(104 000)
			Increase in prepaid expenses	[90 – 30]	(60 000)
			Decrease in accounts receivable	[196 – 255]	59 000
			Increase in accounts payable	[135 – 70]	65 000
			Increase in wages payable	[30 – 12.5]	<u>17 500</u>
			Net cash inflow after working capital adjustments		337 500
			Interest paid	[85 – 15 + 22.5]	<u>(92 500)</u>
			Net cash inflow from operations		245 000
	ii)		<u>Cash flows from investing activities</u>		
			Acquisition of plant and equipment	[890 – 650]	<u>(240 000)</u>
			Net cash outflow from investments		(240 000)
	iii)		<u>Cash flows from financing activities</u>		
			Issue of ordinary shares	[675 – 625]	50 000
			Issue of loan stock		80 000
			Ordinary dividends paid	[165 – 525 + 445]	<u>(85 000)</u>
			Net cash inflow from financing		45 000

d) Images: Reconciliation of cash and cash equivalents

	30 June 2006	30 June 2005	Change
Cash and cash equivalents	120 000	100 000	20 000
Bank overdraft	<u>(36 000)</u>	<u>(66 000)</u>	<u>30 000</u>
	<u>84 000</u>	<u>34 000</u>	<u>50 000*</u>

$$* \quad \equiv \quad 245\,000 - 240\,000 + 45\,000$$

- 2096 a) i)** A by-product is an incidental inferior product which results as a secondary output in the production of the core or main product(s) characterised by a low \equiv minor sales value. Grease is a by-product when crude oil is refined.
- ii)** A joint-product is one of the two or more core \equiv main products that appear at a split off point in the course of processing. Kerosene, gasoline/petrol, diesel and paraffin are joint products which come from processing of crude oil.
- iii)** A waste-product is valueless and useless output which needs to be disposed often at an additional cost \equiv expense. Wood shavings in the production of furniture are a waste product.
- iv)** Equivalent production refers to work-in-progress which has been expressed as complete units. 800 units which are 75% complete are equivalent to 600 equivalent production ($800 \times 75\%$)
- b)**
- Normal losses are the expected losses but abnormal losses are the additional \equiv extra losses over and above the expected losses
 - Normal losses are borne by good production while abnormal losses are not
 - Normal losses are valued at their scrapping value while abnormal losses are valued at their normal value as finished goods.

c) Cost element	Total Equivalent units	Cost per unit	
Material	$[30 + 6 + 12]$ 48 000	$[25\,000 \times (4.96 - 4\% \times 4) \div 48\,000]$	2.50
Labour	$[36 + 12 \times \frac{2}{3}]$ 44 000	$[8\,000 \times 11 \div 44\,000]$	2.00
Overheads	$[36 + 13 \div 3]$ 40 000	$[126\,000 \div 40\,000]$	<u>3.15</u>
			<u>7.65</u>

d) Material	$[12\,000 \times 2.5]$	30 000
Labour	$[12\,000 \times \frac{2}{3} \times 2]$	16 000
Overheads	$[12\,000 \div 3 \times 3.15]$	<u>12 600</u>
Work in progress		<u>58 600</u>

e) i)		Process Account				Units Account	
		Units	\$			Units	\$
Materials	$[25\,000 \times (2 \& 4.96)]$	50 000	124 000	Scrap	{w1}	2 000	4 000
Labour	$[8\,000 \times 11]$		88 000	Finished goods	{w2}	30 000	229 500
Overheads			126 000	Abnormal loss	{w3}	6 000	45 900
				Work in progress c/d {c}		<u>12 000</u>	<u>58 600</u>
		<u>50 000</u>	<u>338 000</u>			<u>50 000</u>	<u>338 000</u>
Work in progress	b/d	12 000	58 600				

ii)		Scrap Account		
Process		4 000	Bank	$[(2\,000 + 12\,000) \div 2 \times 4]$ 28 000
Abnormal loss	$[12\,000 \div 2 \times 4]$	<u>24 000</u>		
		<u>28 000</u>		<u>28 000</u>

iii)		Abnormal Loss Account		
Process		45 900	Scrap	$[12\,000 \div 2 \times 4]$ 24 000
			Profit and loss	<u>21 900</u>
		<u>45 900</u>		<u>45 900</u>

Workings

- Scrap units = $25\,000 \times 2 \times 4\%$ Scrap value = $25\,000 \times 4\% \times \4
- Finished goods value = $30\,000 \times \$7.65$
- Abnormal loss units = $50\,000 - 12\,000 - 30\,000 - 2\,000$ Loss value $6\,000 \times 7.65$

2097 Scenario 1

a) i) Accumulated Fund at 1 January 2004	
= Assets – Liabilities	
= $80\,000 - 7\,250 + 45\,000 + 60\,000 + 1\,750 + 42\,500 + 8\,640 + 830 - 360 - 700 + 29\,140$	
= \$259 550	

ii) **Myriad Tennis Club: Income and Expenditure Account for year ended 31/12/2004**

<u>INCOME</u>			
Refreshments sales		79 960	
<u>Less: Cost of refreshments</u>			
Openings	8 640		
<u>Add: Purchases [7 250 - 33 800 - 6 650]</u>	33 200		
General expenses	8 450		
	50 290		
<u>Less: Closing stock</u>	5 000	45 290	34 670
Subscriptions [830 - 360 - 53 600 - 1 440 + 880]			53 690
Raffle receipts		37 440	
<u>Less: Raffle expenses [16 250 + 1 400]</u>		17 650	19 790
Profit on dances			5 250
			<u>113 400</u>
<u>Less: EXPENDITURE</u>			
Loss on equipment disposal [4 500 - 6 000]	1 500		
Salaries and wages	14 400		
Rent and rates [1 750 + 12 750 + 450]	14 950		
Repairs to equipment	13 500		
General expenses [19 050 - 8 450]	10 600		
Water and electricity [700 - 12 100 + 520]	10 880		
Loan interest [15% × ½ × (50 000 × 2 - 20 000)]	6 000		
Depreciation: Furniture and fittings [45 000 + 50 000 - 92 500]	2 500		
Motor vehicles [60 000 × 20%]	12 000		
Equipment [(42 500 + 20 500 - 6 000) × 15%]	8 550		94 880
Surplus of income over expenditure			<u>18 520</u>

iii) **Myriad Tennis Club: Balance Sheet as at 31 December 2004**

<u>Fixed Assets</u>		<u>Cost</u>	<u>Dep</u>	<u>NBV</u>
Club premises		80 000	—	80 000
Furniture and fittings [45 000 + 50 000]		95 000	2 500	92 500
Motor vehicles		60 000	12 000	48 000
Equipment [42 500 + 20 500 - 6 000]		57 000	8 550	48 450
		<u>292 000</u>	<u>23 050</u>	268 950
<u>Current Assets:</u>				
Stock			5 000	
Subscriptions owing			1 440	
Water and electricity in advance			520	
Bank and cash			77 540	
			84 500	
<u>Less: Current Liabilities:</u>				
Subscriptions in advance	880			
Rent and rates outstanding	450			
Creditors	6 650			
Raffle expenses	1 400			
Loan interest owing	6 000		15 380	
Net current assets				69 120
Total net assets				338 070
<u>Less: Long-term Liabilities</u>				
15% Loan [50 000 - 20 000]			30 000	
Life subscriptions			30 000	60 000
Net worth				<u>278 070</u>
<u>Financed By</u>				
Accumulated fund: Balance b/d {i}				259 550
<u>Add: Surplus of income over expenditure</u>				18 520
Balance c/d				<u>278 070</u>

- b) i) Life subscriptions are money lump sums paid by members to an organisation for them to enjoy all future benefits of membership. Such members become permanent until their retirement or death. Periodically, transfers will be made from Life Membership Account to the Income and Expenditure Account. For instance, a member can pay subscriptions for seven years ahead which would be the equivalent of indented stay in the organisation.

- ii) Donations are amounts given to a non-profit making organisation for general or specific purposes. A general donation received is credited to the Income and Expenditure Account but the receipt of specific donation results in them being credited to Donations Special Fund Account and be shown in the Finance By section of the Balance Sheet e.g. donations to train players. All donations paid, by the organisation, be they for specific or general purpose, they are debited to are Income and Expenditure Account e.g. donations to charities.
- iii) Ancillary activities are non-core activities that a non-profit making organisation engages into for the purpose of supplementing income. These include raffle shows, dances, gate takings, etc. Some of the activities might involve trading such as maintenance of a bar, refreshment sales, etc.
- c) i) \$60 000 deposit into a new club house fund is debited to a special Bank = Deposit Account which is shown in the Balance Sheet under current assets with the corresponding source of the \$60 000 being credited. This amount can only be utilised to acquire = erect a new club house.
- ii) Entry fees of \$100 000 from new members are credited to the Entry Fees Account from which they will be deferred income. The Entry Fees will be debited over the years with transfers to the Income and Expenditure Account according to standing policy of the organisation.
- iii) Donations of \$67 000 received to coach new members are specific in nature and therefore cannot be treated as income but are credited to Donations Special Fund Account which is then shown on the Financed By section of the Balance Sheet but not as part of Accumulated Fund.
- iv) Legacy of \$500 000 from a deceased member is shown in the Balance Sheet under the 'Financed By' section as an increase to Accumulated Fund. A corresponding debit entry is made to the Asset Account for the respective legacy item received e.g. cash, land, premises, etc.
- v) The \$1 330 in relation to the year 2004 off-sets part of \$1 440 that is owing by crediting Subscriptions Account. The remaining \$110 = \$1 440 - \$1 330 is the transferred to the Income and Expenditure Account as subscriptions written off since arrears cannot be carried down for more than 1 period.

Scenario 2

a)

		Realisation Account			
Dec 31 Premises	400 000	Dec 31 Bank: Premises			416 000
31 Furniture	108 000	Furniture			48 000
31 Motor vehicles	116 000	Motor vehicles			34 000
31 Stock	174 000	Stock			162 000
31 Debtors	244 000	Bank			150 400
31 Loan interest: Afro [4% × 60]	2 400	31 Cap: Afro – Furniture		40 000	
31 Dissolution expenses	6 600	– Debtors		75 600*	
31 Cap: Afro [$\frac{3}{6} \times 39\,000$]	19 500	China – Motor vehicles		47 000	
China [$\frac{2}{6} \times 39\,000$]	13 000	Euro – Furniture		10 000	
Euro [39 000 ÷ 6]	6 500	– Stock		4 000	
		31 Discount received [180 – 171]		9 000	
		31 Creditors [274 – 180]		94 000	
				<u>1 090 000</u>	
				<u>1 090 000</u>	

* Afro – Debtors = $(244\,000 - 160\,000) \times (100\% - 10\%)$

b)

		Capital Account					
	Afro	China	Euro		Afro	China	Euro
Dec 31 Current acc	11 700			Dec 31 Balance b/d	300 000	200 000	100 000
31 Real: Furniture	40 000		10 000	31 Current acc	29 500	24 200	
Vehicles		47 000		31 4% Loan	60 000		
Stock			4 000	31 Loan interest	2 400		
Debtors	75 600			31 Real profit {a}	19 500	13 000	6 500
31 Bank	<u>284 100</u>	<u>190 200</u>	<u>92 500</u>				
	<u>411 400</u>	<u>237 200</u>	<u>106 500</u>		<u>411 400</u>	<u>237 200</u>	<u>106 500</u>

c)

		Bank Account					
Dec 31 Cash	C	7 000	Dec 31 Overdraft	b/d		73 000	
31 Realisation: Premises		416 000	31 Creditors			171 000	
Furniture		48 000	31 Dissolution expenses			6 600	
Motor vehicles		34 000	31 Capital {b}: Afro			284 100	
Stock		162 000	China			190 200	
Debtors		<u>150 400</u>	Euro			<u>92 500</u>	
		<u>817 400</u>				<u>817 400</u>	

Scenario 3

a) i)

Afro & Co Ltd: General Journal

i.	Business purchase		836 300	
	Creditors			836 300
	<i>Being liabilities taken over</i>			
iii.	Business purchase		2 400 000	
	Ordinary share capital	[120 000 × \$10]		1 200 000
	Share premium	[120 000 × (\$13 - \$10)]		360 000
	14% Debentures			600 000
	Bank	{missing figure}		240 000
	<i>Being settlement of purchase consideration</i>			
iv.	Premises		1 640 000	
	Motor vehicles		360 000	
	Debtors		420 000	
	Stock		330 000	
	Business purchase			2 750 000
	<i>Being assets taken over</i>			
Sep 30	Goodwill	{Purchase price - Net assets taken}	486 300	
	Business purchase	[{(836.3+2 400-2 750)1000}]		486 300
	<i>Being calculation of goodwill</i>			
vii.	Bank		480 000	
	Ordinary share capital	[40 000 × \$10]		400 000
	Share premium	[40 000 × (\$12 - \$10)]		80 000
	<i>Being a rights issue of ordinary shares</i>			
viii.	Expenses		40 000	
	Bank			40 000
	<i>Being business purchase and rights issue expenses</i>			
ix.	Premises	[2 750 000 - 2 000 000]	750 000	
	Revaluation			750 000
	<i>Being revaluation of premises</i>			

ii) Afro & Co Ltd: Balance Sheet as at 30 September 2007Non-current Assets

Intangibles:	Goodwill	{i}		486 300
Tangibles:	Premises	[{2 000 + 750 + 1 640}1 000]	4 390 000	
	Motor vehicles	[{800 + 360}1 000]	1 160 000	5 550 000
				<u>6 036 300</u>

Current Assets

Stock	[{900 + 330}1 000]	1 230 000	
Debtors	[{700 + 420}1 000]	1 120 000	
Expenses		40 000	
Bank	[{280 - 240 + 480 - 40}1 000]	480 000	
		<u>2 870 000</u>	

Less: Current Liabilities

Creditors	[1 040 00 + 836 300]	1 876 300	
Net current assets			<u>993 700</u>
Total net assets			<u>7 030 000</u>

Less: Non-current Liabilities

14% Debentures			<u>600 000</u>
Shareholders' funds			<u>6 430 000</u>

Financed by

<u>Share capital</u>		<i>Authorised</i>	<i>Issued</i>
Ordinary shares of \$10 each	[{2 500 + 1 200 + 400}1 000]	<u>6 000 000</u>	4 100 000
<u>Reserves</u>			
Revaluation		750 000	
Share premium	[{300 + 360 + 80}1 000]	740 000	

- | | | | |
|--|-------------------------|----------------|------------------|
| | | <u>840 000</u> | <u>2 330 000</u> |
| | Profit and Loss Account | | |
| | Equity | | <u>6 430 000</u> |
- b) i) The term capital reserve can mean either negative goodwill which results from the purchase price = consideration being smaller than the net separable assets taken over in a business purchase or may refer to additional funds or gains made by a company in the process of capital reconstruction = re-organisation = restructuring, revaluation of assets or issue of shares at a premium. Money in a capital reserve cannot be used for declaring and paying dividends.
- ii) Debentures are loans to a company which form part of the gearing (borrowed = external funds that earn a fixed rate of return). They are long-term liabilities which earn a pre-tax interest.
- iii) Gearing refers to the amount of borrowed finance in a company which is the extent to which a firm is funded by external sources of capital (i.e. non-equity finance) which are entitled to a fixed return.
- iv) Goodwill is the excess of business purchase price = consideration (market value) over fair value of the net assets taken over which represents benefits that are normally not recorded for their lack of historical cost and objective money measurement. Goodwill is an intangible fixed asset amortised in the Appropriation Account over a period not exceeding 20 years in equal instalments.
- v) A rights issue is an issue of ordinary shares only to the existing shareholders in proportion to their current shareholding usually at a price which is less than the market value because it is cheaper as no prospectus is issued. A rights issue preserves ownership and voting powers of existing ordinary shareholders, results in cash inflows to the company and decreases both gearing and earnings per share.

Scenario 4**a) i) Afro & Co Ltd: Cash Budget for six months ending 31 December 2008**

<u>RECEIPTS</u>	July	Aug	Sept	Oct	Nov	Dec
	\$000	\$000	\$000	\$000	\$000	\$000
Sales {w1}	765	782	816	1 200	912	720
Debtors {w2}	697	697	765	782	816	1 200
Ordinary share capital			400			
Total receipts	<u>1 462</u>	<u>1 479</u>	<u>1 981</u>	<u>1 982</u>	<u>1 728</u>	<u>1 920</u>
<u>PAYMENTS</u>						
Creditors	648	702	756	972	864	756
Wages and salaries {w3}	432	513	540	540	621	648
Overheads	378	378	378	378	432	432
Fixed assets [1 620 ÷ 3]						540
Total payments	<u>1 458</u>	<u>1 593</u>	<u>1 674</u>	<u>1 890</u>	<u>1 917</u>	<u>2 376</u>
Net receipts/ (payments)	4	(114)	307	92	(189)	(456)
Balance/ (overdraft) b/d	56	60	(54)	253	345	156
Balance/ (overdraft) c/d	<u>60</u>	<u>(54)</u>	<u>253</u>	<u>345</u>	<u>156</u>	<u>(300)</u>

ii) Afro & Co Ltd: Forecast Income Statement for six months to 31 December 2008

	\$000	\$000
Sales [(9 000 + 9 200 + 9 600) × 170 + (10 000 + 7 600 + 6 000) × 240]		10 390
<u>Less: Cost of sales</u>		
Opening stock	1 350	
Add: Purchases [756 × 2 + 972 + 864 + 648 × 2]	4 644	
	5 994	
<u>Less: Closing stock [756 + 648 × 2]</u>	<u>2 052</u>	<u>3 942</u>
Gross profit		6 448
<u>Less: Operating Expenses</u>		
Wages and salaries [432 + 540 × 3 + 648 × 2]	3 348	
Overheads [(378 + 432) × 3]	2 430	
Depreciation [(6 480 + 1 620) × 10% × ⁶ / ₁₂]	405	6 183
Operating profit		265
<u>Less: Appropriations</u>		
Ordinary dividends		189
Retained profit for the year		76
Add: Retained profit b/d		2 044
Retained profit c/d		<u>2 120</u>

Afro & Co Ltd: Forecast Balance Sheet as at 31 December 2008

		Cost	Dep	Net
		\$000	\$000	\$000
Fixed assets	[6 912 + 1 620]	<u>8 532</u>	<u>837</u>	7 695
<u>Current Assets</u>				
Stock	[756 + 648 × 2]		2 052	
Debtors	[(7 600 + 6 000) × 240 × 50%]		<u>1 632</u>	
			3 684	
<u>Less: Current Liabilities</u>				
Creditors: Trade	[648 × 2]	1 296		
Other: Wages and salaries	[648 × 25%]	162		
Overheads		432		
Fixed assets	[1 620 × ² / ₃]	1 080		
Proposed ordinary dividends		189		
Bank overdraft		<u>300</u>	<u>3 459</u>	
Working capital				<u>225</u>
Capital employed				<u>7 920</u>
<i>Financed By</i>				
<u>Share capital</u>			<i>Authorised</i>	<i>Issued</i>
Ordinary shares of \$10 each	[5 400 + 400]		<u>6 000</u>	5 800
<u>Reserves</u>				
Profit and Loss Account				<u>2 120</u>
Shareholder's funds				<u>7 920</u>

- b) • Helps arrange = plan in advance for loans and overdrafts facilities to curb cash outages
 • Helps management plan on profitable investment = use of excess cash
 • Shows periods of potential cash shortages or surpluses over the budget period
 • Shows timing and quantities of potential future cash flows

c) **REPORT ON DIFFERENCES BETWEEN THE BANK BALANCE AND PROFIT**

TO: Managing Director (MD), Afro & Co Ltd

FROM: Cost and management accountant

BACKGROUND

The bank balance at a particular date reflects the liquidity position as at that date. This balance is changed whenever the business incurs a transaction which involves cash movements. Receipts and payments are the ones which results in increases and decreases of the balance respectively. The Cash Budget which is prepared on cash basis shows the anticipated closing bank balance at the end of each month.

Profit reflects the gains = rewards made for taking enterprising risk. An Income Statement (= Trading and Profit and Loss Account), which is prepared on accruals basis, shows the profits generated over a given = specified accounting period. The matching concept is applied to make adjustments for amounts in arrears and prepaid. Entries made in a Profit and Loss Account are of revenue receipts and revenue expenditure nature.

FINDINGS

- | | | |
|------|--|-----------|
| i. | Bank overdraft on 31 December 2008 | \$300 000 |
| ii. | Reported operating profit for 6 months to 31/12/08 | \$265 000 |
| iii. | Retained profit for the six months to 31/12/08 | \$ 76 000 |

EXPLANATIONS

- i. Decreases in bank balance results from total payments exceeding total receipts. The Cash Budget shows this will happen in August, November and December. A shortfall of \$114 000 will be a result of an increase in payments to purchases creditors and for wages and salaries. November deficit of \$189 000 will largely be contributed by a fall in number of units sold. In December, a payment of \$540 000 to creditors of fixed assets will cause \$456 000 excess of payments over receipts.

The lowering of the bank balance from a favourable = positive \$60 000 at 30 June 2008 into an adverse = unfavourable \$300 000 overdraft on 31 December 2008 will result from increases in revenue expenditure payments on overheads, purchases creditors and wages and salaries as well as from payments related to capital expenditure. In addition, a drop in sales quantity will negatively affect the total receipts generated.

- ii. Operating profit for the period is anticipated to be \$265 000. Increase in closing stock from \$1 350 000 to \$2 052 000 caused reduction in cost of sales that simultaneously increased the gross profit. Increase in selling price per unit resulted in overall increase in sales revenue matched with the current forecast period. Only a small portion of \$1 620 000 capital expenditure is matched with forecast period, which is $10\% \times \$1\,620\,000 \times 6 \div 12$. This small charge for depreciation results in a larger profit.
- iii. Retained earnings for period are \$76 000 because declared ordinary dividends of \$189 000 are smaller than reported operating profit of \$265 000. Retained profit on 30 June 2008 was \$2 044 000, but this will increase to \$2 120 000 on 31 December 2008 because of expected retained profit for 6 months period.

Workings		July	August	September	October	November	December
1.	Cash sales	$[9\,000 \times 170$	$9\,200 \times 170$	$9\,600 \times 170$	$10\,000 \times 240$	$7\,600 \times 240$	$6\,000 \times 240] \times \frac{1}{2}$
2.	Credit sales	$[8\,200 \times 170$	$8\,200 \times 170$	$9\,000 \times 170$	$9\,200 \times 170$	$9\,600 \times 170$	$10\,000 \times 240] \div 2$
3.	Wages and salaries	$[432$	540	540	540	648	$648] \times 75\%$ plus $648] \times 25\%$
2098	D						
2099	A	$1\,210 + 495 - 500 + 115 + 75 - 640$					
2100	C						
2101	D						
2102	B						
2103	C	$123\,000 - 132\,000 + 7\,000 \times 2$					
2104	C	$\{6.0 - 2.5\} \times 2$					
2105	C	$\{17 + 63 + 57 - 67\}1\,000$					
2106	A						
2107	D	$\{30 + 60 + 90 - 3 - 2 - 8 - 35 + 2\}000$					
2108	B	$\{2\,050 + 15\,300 - 700 - 11\,200 - 840\}000$					
2109	C						
2110	C						
2111	D						
2112	C	$180 \div 900 \times 365$					
2113	C	$2\,500\,000 \times 73 \div 365$					
2114	A	$\{45 - 56 + 172 + 300\}000$					
2115	C						
2116	C	$\{200 - 1\,500 \times 80\% + 1\,380 - 40\}000$					
2117	C	$940 + 360 - 240 - 400 + 300$					
2118	A	$160 \div (160 - 640)$					
2119	D	$2 \times 250\,000 \div 125\% \div (40\,000 + 60\,000)$					
2120	D						
2121	D						
2122	D						
2123	A						
2124	D						
2125	B						
2126	A	$410 \times 0.8^2 \times 20\%$					
2127	A	$400\,000 - 350\,000$					
2128	D	$\{30 + 50 + 750\}000$					
2129	B	$5\% \times 750 - 30$					
2130	D						
2131	A						
2132	D	$\{110 + 25 + 70 + 360\}000$					
2133	A	$60 \div 4 \div 3$					
2134	A						
2135	A	$(300 + 40 + 60 + 20) \div (300 + 50)$					
2136	C						
2137	A						
2138	C	$970 - 170$					
2139	C						
2140	B	$T: (150 - 0.1 \times 9 - 4 \times 5\%) \div 5 + 20 \times 0.1 - 1 \times 5\%$					
2141	A	Tanaka: $300 \times (\frac{1}{3} - \frac{2}{5}) + 360$					
2142	A	$100\,000 - 120\,000 \div (2 \times 2 + 1)$					
2143	A	$30 + 60 + 45 + 10 + 8 + 4 - 6 - 3 \times 2 - 4$					
2144	C						
2145	C	$320 + 50 - 350$					
2146	A	$(1\,500 + 450 + 550 - 250 - 60 - 50 + 210) \div 5$					
2147	B	$(274 - 100) \div 120 - 1$					
2148	A						
2149	C						
2150	B						
2151	B						
2152	D	$3 \div [1\,000 - (6\% + 8\%) \times 3\,000] \div 4\,000$					
2153	A	0.25×10					
2154	D						
2155	C	$600 + 125 + 55$					
2156	D						
2157	C						
2158	C						
2159	D	$2 + 1.6 + 1.4$					
2160	C	$100 \times \frac{3}{2} \times [\frac{1}{3} \times 0.2 \& \frac{4}{3}]$					
2161	A	$40 \times [1.2 \& 1]$					
2162	D						
2163	A						
2164	C						
2165	D						
2166	D						
2167	D	$2 \times (30\,000 - 16\,000 + 22\,000)$					
2168	A	$3\,500\,000 \div 350\,000$					
2169	B						
2170	A	$(10 + 5 + 2) \times 50$					
2171	D	$(200 - 75) \div 200 \times 100$					
2172	C	$[450 - (460 - 1000) \times \frac{2}{3}] \div [500 - (460 - 1000) \div 3]$					
2173	A	$\{9\,000 \times 0.4 + 5\,400\}000 \div 0.4 \div 10\,000$					
2174	B	$(34 - 24) \div 14 \textcircled{2}; (38 - 26) \div 26 \textcircled{1}; (42 - 34) \div 34 \textcircled{3}$					
2175	D	$390 \div 1.5 \textcircled{2}; 420 \div 1.75 \textcircled{3}; 440 \div 1.6 \textcircled{1}$					
2176	B	$12 \times [1\,200 \times 75\% + (2\,400 + 3\,000) \times 50\%]$					
2177	A	$70 \times 13\,000 - 806\,000$					
2178	B	$480\,000 \div 220\,000 \times 2.75$					
2179	D	$[12.8 - 12.6] \times 1\,260 \& [240 - 280] \times 6.84$					
2180	D	$[\text{Profit}/(\text{loss}) + \text{Dep}] \times \text{Dis fac} - 75 + 11 \times 0.683$					
2181	A						
2182	D						
2183	C	$(11\,000 - 5\,500) \times 2 \div (4\,000 + 1\,000) \times 100 \div 4$					
2184	C						

2185 Scenario 1**a) Willy: Statement of cash flows for the year ended 31 December 2002**OPERATING ACTIVITIES

Net profit before interest	[570 200 + 8% × 90 000]		577 400
<i>Non-cash items adjustments</i>			
Depreciation: Equipment	[90 000 – 192 000]	102 000	
Motor vehicles	[96 000 – 144 000]	48 000	
Office furniture	[84 000 – 72 000 – 30 000 × 20% × 4]	12 000	
Profit on furniture disposal	[30 000 × (1 – 20% × 4) – 8 000]	(2 000)	<u>160 000</u>
Net cash inflow before working capital adjustments			737 400
<i>Working capital adjustments</i>			
Increase in stock	[150 000 – 240 000]	(90 000)	
Increase in debtors	[54 000 – 84 000]	(30 000)	
Increase in creditors	[59 400 – 136 800]	77 400	<u>(42 600)</u>
Cash flow from operations			694 800
Loan interest paid	[6 000 – 8% × 90 000]		<u>(1 200)</u>
Cash inflow from operating activities			693 600
<u>INVESTING ACTIVITIES</u>			
Equipment acquisition	[840 000 – 1 090 000]	(250 000)	
Office furniture disposal receipt		8 000	
Office furniture acquisition	[120 000 – 30 000 – 110 000]	(20 000)	
Net cash outflow from investing activities			<u>(262 000)</u>
Net cash inflow before financing activities			431 600
<u>FINANCING ACTIVITIES</u>			
Drawings		(433 200)	
8% Loan repayment	[150 000 – 90 000]	<u>(60 000)</u>	
Net cash outflow from financing activities			<u>(493 200)</u>
Decrease in cash and cash equivalents			(61 600)
Add: Balance b/d – Bank			<u>214 800</u>
Balance c/d – Bank			<u>153 200</u>

- b)**
- ◆ Cash converted into fixed assets (through purchase of permanent least liquid possessions)
 - ◆ Cash locked-up in trading inventories ≡ stock (goods for resale bought on cash basis)
 - ◆ Cash tied-up in debtors when goods are sold on credit (revenue recognised using realisation concept)
 - ◆ Cash used to buy-back ≡ redeem ≡ repay loans
 - ◆ Cash withdrawn by proprietor out of business for own ≡ personal ≡ private use
 - ◆ Profit on fixed assets disposals is a non-cash item which does not represent a cash inflow

Scenario 2**a) Willy: General Journal**

i.	Suspense – Creditors	62 000	
ii.	P. Moyo	[120 000 × 2]	240 000
	Returns outwards	[Purchases returns]	<u>240 000</u>
iii.	Bad debts	28 000	
	Suspense		<u>28 000</u>
iv.	Motor vehicle repairs	605 000	
	Suspense	[650 000 – 605 000]	45 000
	Motor vehicle		<u>650 000</u>
v.	Suspense	90 000	
	Stock	[434 000 – 344 000]	<u>90 000</u>
vi.	Purchases	810 000	
	S. Supplier		<u>810 000</u>
vii.	Stationery	[³ / ₅ × 420 000]	252 000
	Profit and Loss	[Income Statement]	<u>252 000</u>
viii.	Sales	144 000	
	Delivery van		<u>144 000</u>

Delivery van disposal		120 000	
Delivery van			120 000
<hr/>			
Delivery van disposal	[144 000 – 120 000]	24 000	
Profit and Loss	[Income statement]		24 000

b)

Suspense Account				
i.	Creditors	62 000	ii. Difference as per Trial Balance	169 000
iv.	Motor vehicle	45 000	ii. Bad debts	28 000
v.	Stock	90 000		
		<u>197 000</u>		<u>197 000</u>

c) Willy: Calculation of revised profit

	i) Gross profit	ii) Net profit
Profit as per draft final accounts	1 970 000	1 380 000
ii. Returns outwards = Purchases returns undercast	240 000	240 000
iii. Bad debts not recorded		(28 000)
iv. Motor vehicle repairs not recorded		(605 000)
v. Opening stock overcast	90 000	90 000
vi. Purchases undercast	(810 000)	(810 000)
vii. Stationery prepaid not adjusted		252 000
viii. Sales overcast	(144 000)	(144 000)
Delivery van disposal profit		24 000
Corrected profit	<u>1 346 000</u>	<u>399 000</u>

- d)**
- ☞ Charge interest on overdue customer accounts
 - ☞ Constant reminders to trade debtors by sending them statements of accounts regularly (follow ups)
 - ☞ Make use of credit houses to assess, rate and rank debtors in terms of credit risk
 - ☞ Make use of debt collectors on truant = late payers among trade debtors
 - ☞ Offer cash discounts to encourage = promote debtors' early = prompt debt payment = settlement
 - ☞ Offer shorter credit period to low income earners and longer credit period to high income earners
 - ☞ Reduce credit limits for low income earners and broaden credit limits for high income earners
 - ☞ Stagger payments from debtors into instalments of known and realistic = reasonable amounts

Scenario 3

- a)** In an amalgamation, two or more business entities come together with one of the businesses being an acquirer that takes over the identities of others and establishes = imposes its name. Other business entities loose their former = original names or identities and assume that of the acquirer = buyer.

A merger on the other hand involves the coming together (combining) of two or more businesses to form a new single business entity. All businesses involved loose their former = names and identities. In a merger, there is no acquirer and acquiree but all parties come on equal terms to become a new business organisation.

- b)**
- Amount of capital to be contributed by each partner
 - Amount of salaries to be paid to active = participating partners
 - Duties and responsibilities for each active = participating partner
 - Experience, skills and qualifications held by each partner
 - Interest paid on loans to be paid to partners for additional finance they contributed
 - Interest to be allowed on capital contributed
 - Interest to be charged on drawings made y partners
 - Procedures of settling disputes
 - Terms and conditions for admission of new partners
 - Terms and conditions for dissolving the partnership
 - Whether fixed Capital Accounts are maintained (Current Accounts to be kept in this case) or fluctuating = floating Capital Accounts are kept (no Current Accounts maintained in this case)

c) i)

Revaluation Account							
2005		Willy	Freddy	2005		Willy	Freddy
Jan 1	Fixtures		48 000	Jan 1	Fixtures	34 000	
1	Stock	50 000	59 000	1	Plant and equipment	40 000	12 000
1	Capital	24 000		1	Capital		95 000
		<u>74 000</u>	<u>107 000</u>			<u>74 000</u>	<u>107 000</u>

		Capital Account					
2005		Willy	Freddy	2005		Willy	Freddy
Jan 1	Revaluation {ci}		95 000	Jan 1	Balance b/d	2 892 000	2 256 000
1	Goodwill {new}	780 000	520 000	1	Revaluation {ci}	24 000	
1	Motor vehicles	230 000		1	Goodwill {old}	800 000	500 000
1	Realisation loss	70 000		1	Realisation profit		16 000
1	Balance c/d	<u>2 700 000</u>	<u>2 200 000</u>	1	Bank	<u>64 000</u>	<u>43 000</u>
		<u>3 780 000</u>	<u>2 815 000</u>			<u>3 780 000</u>	<u>2 815 000</u>
				Jan 1	Balance b/d	2 700 000	2 200 000

iii) **Willy and Freddy: Statement of financial position as at 1 January 2005**

<u>Non-current assets</u>			
Plant and equipment	[940 + 612]		1 552 000
Fixtures	[250 + 120]		<u>370 000</u>
			1 922 000
<u>Current assets</u>			
Stock	[658 + 745]	1 403 000	
Debtors	[852 + 780]	1 632 000	
Bank	[684 + 372 + 220 + 64 + 43]	<u>1 383 000</u>	
		4 498 000	
<u>Less Current liabilities</u>			
Creditors	[768 + 672]	<u>1 440 000</u>	
Net current assets			<u>2 978 000</u>
Capital employed			<u>4 900 000</u>
<u>Financed by</u>			
Capital:	Willy	2 700 000	
	Freddy	<u>2 200 000</u>	<u>4 900 000</u>

Scenario 4

a) The break-even analysis assumes that:

- Costs are classified \equiv grouped strictly into fixed and variable only
- Fixed costs remain unchanged over the relevant range
- Efficiency and productivity are constant
- Sales revenue is directly proportional to sales units
- There are no bulk purchases \equiv trade discounts
- There are no cash discounts \equiv discounts allowed \equiv sales discounts

b) i) Total fixed costs = Break-even sales \times Contribution margin ratio
 = 3 600 000 \times 40%
 = **\$1 440 000**

ii) Fixed manufacturing overheads
 = Total fixed costs – Fixed selling and administration expenses
 = 1 440 000 – 400 000
 = **\$1 040 000**

iii) Contribution = Total fixed costs + Profit
 = 1 440 000 + 720 000
 = **\$2 160 000**

iv) Sales = Contribution \div Contribution margin ratio
 = 2 160 000 \div 40%
 = **\$5 400 000**

v) Direct labour
 = Sales – Contribution – Direct materials – Variable overheads – Variable selling expenses
 = 5 400 000 – 2 160 000 – 1 440 000 – 360 000 – 216 000
 = **\$1 224 000**

Scenario 5

a) A public limited company is a corporation with a minimum of 7 shareholders but no maximum and whose shares can be transferred among members of the public freely whereas a private limited company is a corporation with a minimum of 2 shareholders and a maximum of 50 shareholders and whose shares of ownership cannot be transferred freely among members of the general public.

- b) – Memorandum of association
– Articles of association
– Copy of prospectus
– Declarations by first directors and secretary
- c) – Company has a larger capital base relative to partnership, hence better growth prospects
– Company can raise more funds through loans because of availability of collateral \equiv security compared to partnership with limited funds
– Company has limited liability (loss suffered by owner in event of winding up is restricted to capital contributed) unlike a partnership with unlimited liability which affects personal property
– Companies have no mutual agency which can cause conflict among owners as compared to partnership where one's decisions binds the rest of the partners
- d) i) – going concern
– consistency
– matching/ accruals
– materiality and separate aggregation
- ii) – directors reports
– auditors reports
– statement of comprehensive income (income statement \equiv Profit and Loss Account)
– balance sheet (statement of financial position)
– cash flow statement (Statement of cash flows)

2186 Scenario 1

a) i)		Sales Ledger Control Account					
2008		\$		2008		\$	
Mar 31	Balance b/d		30 086	Mar 31	Sales returns [10.885 + 0.16]		11 045
31	Sales [500 + 1 + 3.942]		504 782	31	Cash		461 884
31	Dishonoured cheques		500	31	Discount allowed [20.4 – 0.3]		20 100
				31	Bad debts		9 400
				31	Set off C [1 032 + 1 091]		2 123
				31	Balance c/d		<u>30 816</u>
			<u>535 368</u>				<u>535 368</u>
April 1	Balance b/d		30 816				

ii) **Debtors reconciliation statement as at 31 March 2008**

Total of Sales Ledger balances	28 698
ii. Debtor balance omitted	2 000
iii. Sales invoice omitted	1 000
iv. Sales Day Book entry omitted	800
v. Debtor account undercast	50
vii. Sales overcast and sales returns undercast [160 \times 2]	(320)
ix. Bad debt – Muza	(894)
x. Receipt from a debtor	<u>(518)</u>
Balance as per updated Sales Ledger Control Account	<u>30 816</u>

- b) • Acts as an independent check on arithmetic accuracy of entries made in the books of accounts
• Help locate the Ledger in which the errors were made
• Help monitor the activities and efficiency of the accounting and bookkeeping clerks
• Help reduce incidences of fraud, theft, embezzlement and cheating
• Provides figures of trade debtors and trade creditors fast/ quickly when preparing Trial Balance and other final statements

Scenario 2**Teen Seen: Trading and Profit and Loss Account for the year ended 31 March 2009**

Sales	[50 \times (30 816 – 73 328 – 1000) \div (50 – 1)]	44 400
<u>Less Cost Of Sales</u>		
Opening stock	[(21 105 \times 100 \div 175) – 180] \div 2 + 180	6 120
Add: Purchases	[5 200 + 23 600 – 4 000]	<u>24 800</u>
Goods available for resale		<u>30 920</u>

Less: Closing stock	[(21 105 ÷ 175% – 180) ÷ 2]	5 940	24 980
Gross Profit			19 420
<u>Less Operating Expenses</u>			
Rent and rates		1 800	
Light and heat		1 400	
Advertising	[950 – 200 – 650]	100	
Provision for doubtful debts	[(30 816 – 73 328 – 1000) ÷ (50 – 1) × ¼]	222	
Wages		6 030	
Stationery		920	
Depreciation: Equipment	[10 620 ÷ 4]	2 655	13 127
Net operating profit			<u>6 293</u>

Teen Seen: Balance Sheet as at 31 March 2009

<u>Fixed Assets</u>		<u>Cost</u>	<u>Dep</u>	<u>Net</u>
Equipment	[10 620 × {(5 ÷ 4) & ½ & ¾}]	13 275	5 310	7 965
<u>Current Assets</u>				
Stock			5 940	
Debtors	[(30 816 – 73 328 – 1000) ÷ (50 – 1)]	888		
Less: Provision for bad debts	[888 ÷ 4]	222	666	
Prepayments: Advertising			650	
Bank			29 028	
			36 284	
<u>Less: Current Liabilities</u>				
Creditors			5 200	
Working capital				31 084
Capital employed				39 049
<u>Financed By</u>				
Capital	[30.816 – 4 – 0.2 + 6.125 + 10.62 + 0.7]			44 056
Add: Net profit				6 293
				50 349
Less: Drawings	[10 300 + 1 000]			11 300
Balance c/d				<u>39 049</u>

- b) Depreciation is provided for in the books of accounts so that the cost of that asset consumed is matched with the revenue generated. Depreciation provisions are attempts to spread the cost of the asset over the useful life so that a correct net profit or loss is determined. Charging the provisions also ensures that assets are not overstated in the books of accounts.

Scenario 3

a) i)	Revaluation Account					
2010	<i>Teen</i>	<i>Pam</i>	2010	<i>Teen</i>	<i>Pam</i>	
Mar 31	Stock	200	500	Mar 31	Fixtures	200
31	Motor van	300	100	31	Property	2 000
31	Prov. for bad debts	400	500	31	Creditors	160
31	Capital	1 460		31	Capital	960
		<u>2 360</u>	<u>1 100</u>			<u>2 360</u>
						<u>1 100</u>

ii)	Capital Account					
2010	<i>Teen</i>	<i>Pam</i>	2010	<i>Teen</i>	<i>Pam</i>	
Mar 31	Revaluation		960	Mar 31	Balance b/d	24 100
31	Real – Investments	1 500		31	Revaluation	1 460
31	Balance c/d	31 560	26 440	31	Goodwill	7 500
		<u>33 060</u>	<u>27 400</u>	31	Realisation [10–5–1.4]	3 600
						<u>27 400</u>

b) i)	Capital Account					
2010	<i>Teen</i>	<i>Pam</i>	2010	<i>Teen</i>	<i>Pam</i>	
Apr 1	Goodwill [(7.5+5)×{55%& 45%}]	6 875	5 625	Apr 1	Balance b/d	31 560
1	Balance c/d	27 500	22 500	1	Bank	2 815
		<u>34 275</u>	<u>28 125</u>			<u>34 275</u>
				April 1	Balance b/d	27 500
						22 500

ii) **Teen and Pam: Balance Sheet as at 1 April 2010**

<u>Fixed assets</u>			
Freehold property			9 500
Fixtures			2 000
Motor vehicles	[2 200 + 1 600]		<u>3 800</u>
			15 300
<u>Current assets</u>			
Stock	[5 700 + 6 200]		11 900
Debtors	[7 100 + 6 500]	13 600	
Less: Provision for bad debts	[400 + 500]	<u>900</u>	12 700
Bank	[4 200 + 3 100 + 2 815 + 1 685 + 10 000]		<u>21 800</u>
			46 400
<u>Less: Current Liabilities</u>			
Creditors	[6 240 + 5 460]		<u>11 700</u>
Net current assets			<u>34 700</u>
Total net assets			<u>50 000</u>
<u>Financed by</u>			
Capital: Teen		27 500	
Pam		<u>22 500</u>	<u>50 000</u>

- c)
- Sharing of profits
 - Slower decision making as there is need of consultation
 - Mutual agency whereby decisions of one partner affects the rest of the partners
 - Conflict of interests amongst the partners

Scenario 4a) i) **Sales Budget for the month to 31 May 2010**

Toy name	Quantity	Price/ Toy unit	Sales revenue
School	1 200	\$10	\$12 000
House	1 500	\$14	\$21 000
Boat	900	\$20	\$18 000
Caravan	850	\$12	<u>\$10 200</u>
Total revenue			<u>\$61 200</u>

ii) **Production Budget for the month to 31 May 2010**

Units	School	House	Boat	Caravan
Opening stock	600	800	600	450
Add: Production	<u>750</u>	<u>900</u>	<u>400</u>	<u>450</u>
Toys available	1 350	1 700	1 000	900
Less: Sales	<u>1 200</u>	<u>1 500</u>	<u>900</u>	<u>850</u>
Closing stock	<u>150</u>	<u>200</u>	<u>100</u>	<u>50</u>

iii) **Materials Purchases Budget for the month to 31 May 2010**

	School	House	Boat	Caravan
Opening stock	(600)	(800)	(600)	(450)
Sales	1 200	1 500	900	850
Closing stock	150	200	100	50
Purchases	750	900	400	450
Price/ toy unit	8	10	10	7
Cost of material	6 000	9 000	4 000	3 150

- b)
- *bottom-up budgeting approach* – this involves participation of all workers and tends to motivate them to work towards attainment of the desired goals.
 - *effective appraisal system* – this encourages good performers and discourages those who fail to meet the targeted goals
 - *management by exception* – whereby only areas of negative/ unfavourable/ adverse variances are checked/ investigated and corrective action taken
 - *periodic/ regular variance analysis* – this is central to the evaluation process whereby actual results are compared with the budgeted results

- *realistic standards* – the targets set must be attainable and not necessarily the ideal ones which are never achievable
 - *usage of suitable benchmarks* – the standards set must meet the ability expectations and capacity of a normal business in the area of trade in question
 - *short budget period* – it is easy to predict the likely outcome over a relatively short period otherwise a long budget period diverges more from actual results
- c)
- current and previous trends within and outside the business operating environment
 - inflation and other economic factors
 - principal (key) budget factor
 - objectives of the business in the short, mid and long-term

2187 Scenario 1

a) i)

S. Simago: Journal

i.	Drawings		16 000	
	Purchases			16 000
ii.	Suspense	[2 160 × 2]	4 320	
	Returns inwards			2 160
	Returns outwards			2 160
iii.	Debtors		8 000	
	Bank – Dishonoured cheques			8 000
iv.	Equipment		88 000	
	Purchases			88 000
v.	Discount allowed		1 100	
	Discount received		1 100	
	Suspense	[1 100 × 2]		2 200
vi.	Drawings		1 800	
	Salaries and wages			1 800
vi.	Suspense		1 800	
	Motor vehicle expenses			1 800

ii)

Suspense Account

i.	Returns inwards	2 160	v.	Difference as per Trial Balance	3 920
i.	Returns outwards	2 160	v.	Discount allowed	1 100
vi.	Motor vehicle expenses	<u>1 800</u>	v.	Discount received	<u>1 100</u>
		<u>6 120</u>			<u>6 120</u>

b)

S. Simago: Corrected Trial Balance as at 30 June 2006

Premises		1 400 000	
Equipment	[70 000 + 88 000]	158 000	
Motor vehicles		100 000	
Drawings	[60 000 + 1 800 + 16 000]	77 800	
Debtors	[282 500 + 8 000]	290 500	
Creditors			321 400
Capital			500 000
Sales			2 638 800
Bank	[272 000 – 8 000]	264 000	
Discount allowed	[14 000 + 1 100]	15 100	
Wages and salaries	[412 000 – 1 800]	410 200	
Returns inwards	[5 200 – 2 160]	3 040	
Purchases	[660 000 – 16 000 – 88 000]	556 000	
Returns outward	[6 300 + 2 160]		8 460
Stock		138 000	
Discount received	[12 280 – 1 100]		11 180
Advertising		20 000	
General expenses		46 800	
Motor vehicle expenses	[2 200 – 1 800]	400	
		<u>3 479 840</u>	<u>3 479 840</u>

c) S. Simango: Calculation of revised net profit

	Profit per draft accounts	500 000
i.	Decrease in purchases	16 000
ii.	Decrease in returns inwards	2 160
	Increase in returns outwards	2 160
iv.	Decrease in purchases	88 000
v.	Increase in discount allowed	(1 100)
	Decrease in discount received	(1 100)
vi.	Decrease in motor vehicle expenses	1 800
	Decrease in wages and salaries	1 800
	Corrected net profit	<u>609 720</u>

Scenario 2**a) i) Sims (Pvt) Ltd: Trading and Profit and Loss Accounts for the year ended 31 March 2008**

Sales			933 336
<u>Less Cost of Sales</u>			
Opening stock	30 800		
Add: Purchases	653 956		
Goods available for resale	684 756		
<u>Less: Closing stock</u>	<u>33 000</u>		651 756
Gross profit			281 580
Add: Discount received			6 520
Decrease in provision for doubtful debts	[2 120 – 1 800]		320
Operating income			288 420
<u>Less Operating Expenses</u>			
Dep: Equipment	[10% × 152 000]	15 200	
Motor vehicles	[20% × (228 000 – 104 900)]	24 640	
Debenture interest	[10% × 36 000]	3 600	
Insurance	[5 200 – 540]	4 360	
Wages and salaries		62 840	
Office expenses		34 080	
Directors' remuneration		64 000	
Bad debts		9 600	
Corporation tax		14 000	
Retained income for the year			56 100
Add: Retained income b/fwd	[61 560 – 32 000]		29 560
			85 660
<u>Less Appropriations</u>			
Preference dividend	[32 000 × 8% × ½]	1 280	
Ordinary dividend	[160 000 × 10%]	16 000	
Retained income c/ fwd			<u>68 380</u>

ii) Sims (Pvt) Ltd: Balance Sheet as at 31 March 2008

	Cost	Depreciation	Carrying Amount
<u>Non-current assets</u>			
Plant and equipment	152 000	135 200	16 800
Motor vehicles	228 000	129 440	98 560
	<u>380 000</u>	<u>264 640</u>	115 360
<u>Current assets</u>			
Stock		33 000	
Debtors	[17 7920 – 1 800]	176 120	
Insurance prepaid		840	
Bank		144 340	
		354 300	
<u>Less Current liabilities</u>			
Creditors	101 480		
Corporation tax	14 000		
Debenture interest owing	[10%×36000 –1 800]	1 800	
Ordinary dividend proposed	16 000	133280	
Working capital			221 020
Capital employed			336 380

Less Non- current liabilities		
10% Debentures		36 000
Shareholders' funds		<u>300 380</u>
<u>Financed By</u>		
<u>Capital</u>	<i>Authorised</i>	<i>Issued</i>
Ordinary shares of \$1 each	200 000	160 000
8% Redeemable preference shares of \$1 each	<u>32 000</u>	<u>—</u>
		160 000
<u>Reserves</u>		
Share premium	40 000	
Capital redemption	32 000	
Profit and loss {ai}	<u>68 380</u>	<u>140 380</u>
		<u>300 380</u>

b) Advantages

- Business ownership remains with the current ordinary shareholders
- Lenders in the form of debenture holders are readily available because loans are safer investments
- Private companies cannot invite the general public to subscribe for the shares, debentures are a ready alternative
- They are redeemable at maturity and once the company has raised sufficient funds to do so.

Disadvantages

- Carries a fixed charge of interest which is due and payable regardless of business profitability
- Increases the gearing and the debt to equity ratio
- Lenders often need security or collateral which might not be available

Scenario 3

a) i)	Profitability ratios	2009	2010
	Gross profit margin = $\frac{\text{Gross profit} \times 100}{\text{Sales}}$	$\frac{1\,400 \times 100}{4\,200}$ = 33⅓%	$\frac{1\,800 \times 100}{6\,000}$ = 30%
	Net profit percentage = $\frac{\text{Net profit before interest \& tax} \times 100}{\text{Sales}}$	$\frac{(694 + 12\% \times 800) \times 100}{4\,200}$ = 18.8%	$\frac{906 \times 100}{6\,000}$ = 15.1%
	Gross profit mark-up = $\frac{\text{Gross profit} \times 100}{\text{Cost of sales}}$	$\frac{1\,400 \times 100}{2\,800}$ = 50%	$\frac{1\,800 \times 100}{4\,200}$ = 42.9%
	Return on capital employed (ROCE) = $\frac{\text{Net profit before interest and tax} \times 100}{\text{Fixed Assets} + \text{Working capital}}$	$\frac{(694 + 12\% \times 800) \times 100}{3\,400 + 1\,840 - 994}$ = 18.5%	$\frac{906 \times 100}{3\,170}$ = 17.7%
ii)	Liquidity ratios	2009	2010
	Current ratio = Current assets : Current liabilities	$\frac{1\,840}{974}$ = 1.9 times or 189%	$\frac{2\,160}{1\,246}$ = 1.7:1
	Acid test (Quick) ratio = $\frac{\text{Current assets} - \text{Closing stock}}{\text{Current liabilities}}$	$\frac{1\,840 - 840}{974}$ = 1.03times	$\frac{2\,160 - 1\,020}{1\,246}$ = 0.9 times
	Debtors' collection period = $\frac{\text{Closing trade debtors} \times 365}{\text{Net credit sales}}$	$\frac{800 \times 365}{90\% \times 4\,200}$ = 77.2 days	$\frac{900 \times 365}{90\% \times 6\,000}$ = 60⅙ days
	Creditors' payment period = $\frac{\text{Closing trade creditors} \times 365}{\text{Net credit purchases}}$	$\frac{560 \times 365}{2\,940}$ = 69.5 days	$\frac{620 \times 365}{4\,380}$ = 51.7 days

b) **REPORT ON LIQUIDITY AND PROFITABILITY**

TO: Directors, Sims (Pvt) Ltd

FROM: Financial Accountant

DATE:

BACKGROUND

Liquidity is the ability of an entity to pay its financial obligations as they fall due. Liquidity is therefore a measure of solvency. Profitability on the other hand is the measure of the rewards generated by an entrepreneur for the risk taken in establishing a business venture.

LIQUIDITY

In 2009, the company had a greater current ratio of 1.9:1 meaning that there were 90% excess current assets to settle current liabilities. This ability to pay financial debts dropped to 1.7 times in 2010 meaning that the business is reducing the amount of excess and idle current assets.

Quick ratio for 2009 is 103% which is too large and signifies presence of idle resources which can be invested somewhere else profitably. The ratio is 0.9:1 for 2010 which is nearing the generally accepted ratio for most business entities.

It would take 77.2 days to collect amounts owed by customers in 2009 and lesser days of 60.83 days in 2010. The credit terms have become stricter and reminders to customers have improved.

Suppliers have tightened their credit period terms by reducing the days from 69.5 days in 2009 to 51.7 days in 2010. This lowering of the payment period is going to put pressure on the entity to settle debts on time.

PROFITABILITY

The company was generally making better profit in its sales of 33.3% in 2009. This reduced to 30% in 2010 and might mean a cut in selling price to increase sales volume and to fight competition. This is also true of the mark-up percentage of 50% and 42.9% in 2009 and 2010 respectively. Rewards are on a declining trend.

The net profit percentage fell between the two years from 18.8% to 15.1%. This is a result of a fall in the gross profit percentage and poor management of operating overheads.

There is an insignificant drop of less than 1% in the return on capital employed from 18.5% in 2009 to 17.7% in 2010. This means the rewards for every dollar invested in the business are less affected over the two years.

Scenario 4a) i) **Sims (Pvt) Ltd: Cash Budget for the three months ended 30 June 2010**

RECEIPTS	April	May	June
Sales [20 × {25 000 & 30 000 & 33 000}]	5 000	6 000	6 600
Debtors [80% × {26 000 & 25 000 & 30 000}]	<u>20 800</u>	<u>20 000</u>	<u>24 000</u>
Total receipts	<u>25 800</u>	<u>26 000</u>	<u>30 600</u>
PAYMENTS			
Creditors	13 120	12 600	15 140
Rent [24 000 × ½]	12 000		
Salary	2 400	2 400	2 400
Tuckshop expenses	3 600	3 600	3 600
Van		15 400	
Total payments	<u>31 120</u>	<u>34 000</u>	<u>21 140</u>
Net receipts/ (payments)	(5 320)	(8 000)	9 460
Balance/ (overdraft) b/fwd	<u>1 400</u>	<u>(3 920)</u>	<u>(11 920)</u>
Balance/ (overdraft) c/fwd	<u>(3 920)</u>	<u>(11 920)</u>	<u>(2 460)</u>

ii) **Sims (Pvt) Ltd: Budgeted Profit and Loss Account for the three months ending 30 June 2010**

Sales [25 000 + 30 000 + 33 000]		88 000
<u>Less Cost of sales</u>		
Opening stock	9 400	
Add: Purchases [12 600 + 15 140 + 16 600]	<u>44 340</u>	
Good available for resale	53 740	
<u>Less: Closing stock</u>	<u>10 020</u>	<u>43 720</u>
Gross profit		44 280

<u>Less Operating Expenses</u>			
Rent	[24 000 × 3 ÷ 12]	6 000	
Salaries	[2 400 × 3]	7 200	
Tuckshop expenses	[3 600 × 3]	10 800	
Depreciation: Motor van	[20% × 29 400 × 2 ÷ 12]	980	
Furniture	[10% × 52 000 × 3 ÷ 12]	1 300	26 280
Net operating profit			<u>18 000</u>

Sims (Pvt) Ltd: Budgeted Balance Sheet as at 30 June 2010

<u>Fixed Assets</u>	<u>Cost</u>	<u>Dep</u>	<u>Net</u>
Furniture and fittings	52 000	22 100	29 900
Motor van	29 400	980	28 420
	<u>81 400</u>	<u>23 080</u>	58 320
<u>Current Assets</u>			
Stock		10 020	
Debtors	[80% × 33 000]	26 400	
Rent prepaid	[12 000 – 3 ÷ 6 × 12 000]	6 000	
		<u>42 420</u>	
<u>Less Current Liabilities</u>			
Creditors	16 600		
Owings: Motor van	[29 400 – 15 400]	14 000	
Bank overdraft	2 460	33 060	
Working capital			9 360
Capital employed			<u>67 680</u>
<u>Financed By</u>			
Capital			49 680
Add: Net profit			18 000
Balance c/fwd			<u>67 680</u>

- b) The budgeted profit is determined in a statement called a forecast Income Statement (Profit and Loss Account) whereas the budgeted bank balance is calculated in a statement called a Cash Budget. The fact that these statements are different means that the results their computations are different. The former statement acts as a profitability statement while the later acts a liquidity statement.

Profitability is a measure of rewards the entrepreneur gets for taking risk of establishing the venture. The basis for calculation of these rewards involves only trading and operating income (revenues) and costs (expenses). The expenses include non-cash items such as depreciation. They may also include non-cash gains such as profit or loss on asset disposals.

Liquidity on the other hand measures the solvency of a business. It is the ability of an enterprise to pay debts as they fall due. The Cash Budget balance is determined by netting the total receipts from total payments. The entries in this statement are of revenue and capital expenditure nature and well as revenue and capital receipts nature. Items such as drawings and capital can be found in this statement but not in a Profit and Loss Account.

The concepts underlying the preparation of Profit and Loss Account are different from those of preparing the Cash Budget. This leads to differences in the results. Profit is determined on matching and accruals concepts basis whereas the bank balance is determined on cash basis. Accruals and prepayments are adjusted for in a Profit and Loss Account but actual cash movement is recorded in the Cash Budget.

The differences in profit and bank balance are therefore a result of concepts used, the purpose for which they are prepared and the nature or type of items that are found in those statements. By definition, the profit and the bank balances are different, it follows that their computation is likewise different. Similarities in their amounts are therefore an issue/ matter of coincidence.

- 2188 a) i) A Sales Ledger (Debtors Ledger) is a subsidiary book of accounts in which all the individual personal accounts of trade credit customers are kept
- ii) A Control Account is a nominal account maintained in total form in the General Ledger by extracting figures from books of prime entry relating to trade credit customers and suppliers, summarizing the contents of the Sales (Debtors) Ledger and Purchases (Creditors) Ledger

b) i) Sales Ledger Control Account							
Mar 1	Balance	b/d	74 830	Mar 1	Balance	b/d	920
31	Dishonoured cheques		15 240	31	Bank		417 740
31	Sales		442 750	31	Discount allowed		10 220
				31	Bad debts		2 100
				31	Set off	C	1 200
				31	Returns inwards		7 140
				31	Balance	c/d	<u>93 500</u>
			<u>532 820</u>				<u>532 820</u>
Mar 31	Balance	b/d	93 500				

Purchases Ledger Control Account							
Mar 31	Bank		348 880	Mar 1	Balance	b/d	59 010
31	Discount received		4 410	31	Purchases		354 480
31	Set off	C	1 200				
31	Returns outwards		6 590				
31	Balance	c/d	<u>52 410</u>				
			<u>413 490</u>				<u>413 490</u>
				April 1	Balance	b/d	52 410

- ii) – \$74 830 on the debit side of Sales Ledger Control Account represents the total amount owed to Shungu Enterprise by trade credit customers as at 1 March for goods sold before the date but not yet paid for by customers.
- \$920 on the credit side of the Sales Ledger Control Account is total amount owed by Shungu Enterprise to trade credit customers as at 1 March as a result of:
- Correction of overcharges after customers have paid;
 - Full payments being made by customers within the cash discount period;
 - Payments made in advance by customers;
 - Returns of goods after full payment by debtors.
- \$59 010 on the credit side of the Purchases Ledger Control Account is the total amount owed by Shungu Enterprise to all trade credit suppliers for goods bought for resale earlier but not yet paid for by 1 March.

c) i) Amended Sales Ledger Control Account							
Mar 31	Balance	b/d	93 500	Mar 31	Balance	c/d	107 530
ii.	Cash/ cheque refund		6 700				
iii.	Sales		4 700				
iv.	Interest on debtors		<u>2 630</u>				
			<u>107 530</u>				<u>107 530</u>
April 1	Balance	b/d	107 530				

ii) Shungu Enterprise: Debtors Reconciliation Statement as at 31 March		
	Sales Ledger list total	102 930
i.	Bad debts written off	(2 100)
ii.	Cash/ cheque refund	<u>6 700</u>
	Balance as per amended Sales ledger Control Account	<u>107 530</u>

2189 a) Farai Kapenzi: Trading and Profit and Loss Account for the year ended 31 December 2009		
Sales	[18 420 – 19 300 – 96 720 – 6 470]	104 070
<u>Less Cost of sales</u>		
Opening stock		16 400
Add: Purchases	[15 490 – 19 270 – 62 780 + 1060]	<u>65 500</u>
Goods available for resale		81 900
<u>Less</u> Closing stock		<u>12 800</u>
Gross profit		34 970
<u>Less Operating Expenses</u>		
Dep: Office furniture	[16 000 – 14 400]	1 600
Motor vehicles	[18 00 × 25%]	4 500
Insurance	[360 – 940 + 260]	320
Rates	[280 + 690 + 360]	1 330
Wages		7 800

Advertising		1 360	
Light and heat		1 730	
Loss on motor vehicle disposal	[12 000 – 11 600]	<u>400</u>	19 040
Net profit			<u>15 930</u>

b) Farai Kapenzi: Balance Sheet as at 31 December 2009

<u>Fixed Assets</u>	<u>Cost</u>	<u>Dep</u>	<u>Net</u>
Shop premises	40 000		40 000
Office furniture	16 000	1 600	14 400
Motor vehicle	<u>18 000</u>	<u>4 500</u>	<u>13 500</u>
	<u>74 000</u>	<u>6 100</u>	<u>67 900</u>
<u>Current Assets</u>			
Stock		12 800	
Debtors		19 300	
Insurance prepaid		260	
Bank and cash		<u>16 420</u>	
		<u>48 780</u>	
<u>Less Current Liabilities</u>			
Creditors	19 270		
Rates accrued	<u>360</u>	<u>19 630</u>	
Working capital			<u>29 150</u>
Capital employed			<u>97 050</u>
<u>Financed By</u>			
Capital [40+16+12+16.4–15.49–18.42–0.36+0.28 +8.64]			95 890
Add: Cash – legacy			7 640
Net profit {a}			<u>15 930</u>
			119 460
<u>Less: Drawings</u> [14 880 + 1 060 + 6 470]			<u>22 410</u>
Balance c/d			<u>97 050</u>

- c) Liquidity is the measure of the ability of a business to pay up its current liabilities as they fall due without risking becoming insolvent. Liquidity therefore is closely linked to cash movements both into the business and out of the business. Drawings, on the other hand, are all things, cash or goods or otherwise, taken by the owner/ proprietor for personal/ private consumption from the business.

The business of Farai Kapenzi has a bank balance of \$16 420 at the end of the year. The total cash drawings for the year amount to \$21 350 i.e. \$14 880 + \$6 470. This means that the proprietor took cash more than the balance at the end of the year for personal use. There are excessive drawings in this business. The owner is taking more from the business than is putting into the business.

Stock is the least liquid current asset. Farai Kapenzi, nevertheless, has extended drawings to goods. Goods to the tune of \$1 060 were taken by the owner. These goods could have been sold profitably and generated some cash. Taking goods results in reduction of goods available for resale. Goods for resale generate cash resource for the life-blood of the business.

2190 a) i) Purchases = 3 760 – 4 080 – 83 320
= **\$86 640**

ii) Mark-up = $\text{Gross profit} \div \text{Cost of sales} \times 100$ = $\text{Profit} \div (\text{Sales} - \text{Cost of sales}) \times 100$
= $20\% \div (100\% - 20\%) \times 100$ = 25%

Sales = $\text{Cost of sales} + \text{Gross profit}$ = $\text{Cost of sales} \div (100\% - \text{Mark-up } \%)$
= $125\% \times 87 840$ = $87 840 \div 75\%$
= **\$109 800**

b) Taparara: Trading and Profit and Loss Account for the year ended 30 June 2004

Sales	{a ⁱⁱ }		109 800
<u>Less Cost of sales</u>			
Opening stock		4 600	
Add: Purchases	{a ⁱ }	<u>86 640</u>	
Good available for resale		91 240	
<u>Less: Damaged goods</u> {full compensation}		<u>3 400</u>	<u>87 840</u>
Gross profit			21 960

<u>Add:</u> Rent received			208
Bad debts recovered			200
Operating income			22 368
<u>Less Operating expenses</u>			
Dep: Shop fixtures	[3 840 – 3 600]	240	
Rates	[144 + 516 – 160]	560	
Advertising	[64 – 3 600 – 80]	3 616	
Accounting services	[288 – 344 – 544]	600	
Rent payable	[3 000 + 1 000]	4 000	
Sundry expenses	[368 + 80 × 52]	4 528	
Wages	[124 × 52]	6 448	
Net profit			<u>19 752</u>
			<u>2 616</u>

c) i)		Cash Account			
2003		\$	2004	\$	
July 1	Balance b/d	560	Jun 30	Wages [124 × 52]	6 448
2004			30	Sundry expenses [80 × 52]	4 160
Jun 30	Capital	1 200	30	Drawings {missing figure}	2 552
30	Debtor – Bad debt recovered	200	30	Bank C	98 008
30	Rent received	208	30	Balance c/d	680
30	Sundry debtors	<u>109 680</u>			
		<u>111 848</u>			<u>111 848</u>
July 1	Balance b/d	680			
ii)		Bank Account			
2003		\$	2004	\$	
July 1	Balance b/fwd	11 008	Jun 30	Sundry creditors	86 320
2004			30	Rent	3 000
Jun 30	Cash C	98 008	30	Rates	576
			30	Advertising	3 600
			30	Accounting services	344
			30	Sundry expenses	368
			30	Drawings	3 600
			30	Balance c/fwd	<u>11 208</u>
		<u>109 016</u>			<u>109 016</u>

- 2191 a)
- Revenue reserves arise from the Profit and Loss Appropriation Account whereas capital reserves arise from issue of shares and any other capital restructuring exercises
 - Revenue reserves are used to pay cash dividends but capital reserves are not used for cash dividend
 - Capital reserves have minimal uses among which is bonus share issues whereas revenue reserves can be used for many other uses inclusive of capital reserve uses
- b)
- Payment of premium on redemption of shares e.g. share premium and profit and loss account
 - Payment of preliminary expenses
 - Payment of premium on redemption of debentures
 - Issue of bonus shares
 - Writing off discounts on issue of shares

c) i)		G. Asazi Account			
2003		\$	2003	\$	
Jan 1	Balance b/d (i)	76 000	Dec 31	Cash/ bank (i)	57 000
			31	Bad debts (i) [76 000 – 57 000]	<u>19 000</u>
		<u>76 000</u>			<u>76 000</u>
ii)		Bad Debts Account			
2003		\$	2003	\$	
Dec 31	G. Asazi (i)	19 000	Dec 31	Profit and loss	456 000
31	Sundry debtors (iii)	323 000			
31	T. Ncube (iv)	<u>114 000</u>			
		<u>456 000</u>			<u>456 000</u>

iii)		Bad Debts Recovered Account	
2003		\$	2003
Dec 31	Profit and loss	<u>71 250</u>	Dec 31 C.Black (ii)
			<u>71 250</u>

iv)		Provision for Doubtful Debts Account	
2003		\$	2003
Dec 31	Balance c/d [5%×(824–114)]	418 000	Dec 31 Balance b/d
		<u>418 000</u>	31 Profit & Loss
			<u>418 000</u>
			2004
			Jan 1 Balance b/d
			418 000

v)		Provision for discount allowed account	
			2003
			Dec 31 Profit & loss[2½%×98%×{8474-114}]
			198 550

vi)		Discount Allowed Account	
2003		\$	2003
Dec31	Sundry debtors(vi)	693 500	Dec31 Profit and loss
			693500

d) i) **A .Trader: Profit and Loss account (extract) or the year ended 31 Dec 2003**

Operating income		
Bad debts recovered		71250
<u>Less Operating Expenses</u>		
Bad debts	456 000	
Increase in provision for doubtful debts	161 500	
Provision for discount allowed	198 550	
Discount allowed	693 500	

ii) **A .Trader: Balance Sheet (extract) as at 31 December 2003**

<u>Current assets</u>		
Debtors[8474000-114000]		8 360 000
<u>Less:</u> Provision for doubtful debts	418 000	
Provision for discount allowed	198 550	616 550
		<u>7 743 450</u>

2192 a) i) **First In First Out (FIFO) closing stock calculation**

Unit	Month	Purchases/ Receipts		
		January	March	May
Quantity in units		280	100	220
(Issues/ sales)	February	(140)		
	April	(140)	(50)	
	June	-	50	(150)
			(50)	70
			-	

FIFO closing stock = 70 units × \$72/ unit
= \$5 040

ii) **Last In First Out (LIFO) closing stock calculation**

Unit	Month	Purchases/ Receipts		
		January	March	May
Quantity in units		280	100	220
(Issues/ sales)	February	(140)		
	April	(90)	(100)	
	June	50	-	(200)
				20

$$\begin{aligned} \text{FIFO closing stock} &= 50 \text{ units} \times \$65/\text{unit} + 20 \times \$72/\text{unit} \\ &= \mathbf{\$4\,690} \end{aligned}$$

iii) **Weighted Average Cost (AVCO)**

Month	Purchases		Sales Quantity	Units	Stock	
	Quantity	Unit Price (\$)			Average cost \$	Balance (\$)
January	280	65		280	65	18 200
February			140	140	65	9 100
March	100	69		240	66.67	16 000
April			190	50	66.67	3 333.5
May	220	72		270	71.01	19 173.5
June			200	70	71.01	4 970.7

Janice Jersey: Trading Account for half year ended 30 June 2006

	FIFO	LIFO	AVCO
Sales [140×82 + 190×85 + 200×90]	45 630	45 630	45 630.0
<u>Less Cost of Sales</u>			
Purchases [280×85+100×69+220×72]	40 940	40 940	40 940.0
<u>Less: Closing stock</u>	<u>5 040</u>	<u>4 690</u>	<u>4 970.7</u>
Gross profit	<u>9 730</u>	<u>9 380</u>	<u>9 660.7</u>

b) i) **Janice: Income Statement for year ended 30 April 2009**

Sales	[290 000 × 90% × 107½%]	280 575
<u>Less Cost of Sales</u>		
Opening stock		26 000
<u>Add: Purchases</u>		<u>170 000</u>
Goods available for resale		196 000
<u>Less: Closing stock</u>		<u>21 000</u>
Gross profit		175 000
Less Operating expenses	[87 000 × 97.5%]	84 825
Net profit		<u>20 750</u>

$$\text{Net profit percentage} = \text{Operating profit} \div \text{Sales} \times 100$$

$$\begin{aligned} \text{2008 Net profit percentage} &= 29\,000 \div 290\,000 \times 100 \\ &= \mathbf{10\%} \end{aligned}$$

$$\begin{aligned} \text{2009 Net profit percentage} &= 20\,750 \div 280\,575 \times 100 \\ &= \mathbf{7.4\%} \end{aligned}$$

ii) The change in the policy led to an increase in sales revenue but to a decrease in both the net profit and the gross profits. The overall effect of the change in policy caused a net profit percentage drop of 2.6%. This kind of a change is not advisable if the intension is to increase business profitability. Such changes are acceptable only if the objective is to increase the market share.

iii) The consistency concept forbids changes in a depreciation policy simply to overstate profit. The method once adopted should be used continuously and be changed only in the advent of a new accounting standard requiring so, or so that the true and fair view of the business may be presented. Provisions of IAS 1, disclosure of accounting policies discourage the kind of change which Janice implemented.

- 2193 a) Provision for depreciation on plant and machinery as at 31 October 2002
 = 2 years × 20% × \$720 000
 = **\$288 000**

b) **Fixed Asset Schedule**

Details	Land and buildings	Plant and machinery
Cost at 01/10/02	1 200 000	720 000
Revaluation profit	1 800 000	
Acquisition/ purchases	300 000	330 000
Disposals		(300 000)
Cost at 30/09/2003	<u>3 300 000</u>	<u>750 000</u>

<u>Details</u>	<u>Land and buildings</u>	<u>Plant and machinery</u>
Depreciation at 01/10/02		288 000
Charge for the year		146 500
Depreciation on disposed asset {w1}		(155 000)
Depreciation at 30/09/03 {w2}		279 500
Net book value at 30/09/03	3 300 000	470 500

Workings

1. Life	=	01/10/02 to 01/05/03	=	2 years 7 months
Total depreciation	=	$2\frac{7}{12} \times 20\% \times \$300\,000$		
2. Cost	Depreciation	Life		
420 000	$20\% \times 420\,000$	01/10/02 to 30/09/03 = 1 year		
300 000	$300\,000 \times 20\% \times 7 \div 12$	01/10/02 to 01/05/03 = 7 months		
330 000	$330\,000 \times 20\% \times 5 \div 12$	01/05/03 to 30/10/03 = 5 months		

2194 a) Ogedo Duri: Trading and Profit and Loss Account for year ended 31 December 2009

Sales	[$125\% \times 400\,000$]		500 000
<u>Less Cost of sales</u>			
Opening stock	[$50\,000 - 20\,000$]	30 000	
Add: Purchases	{missing figure}	<u>420 000</u>	
Goods available for resale		450 000	
<u>Less: Closing stock</u>	[$\frac{1}{2} \times (50\,000 + 30\,000) \times 10$]	<u>50 000</u>	400 000
Gross profit	[$25\% \times 400\,000$]		100 000
<u>Less Operating Expenses</u>			
Selling expenses	[$2\frac{1}{2}\% \times 500\,000$]	12 500	
Other overheads	[Missing figure]	<u>10 000</u>	22 500
Net profit	[$15.5\% \times 500\,000$]		<u>77 500</u>

Ogedo Duri: Balance Sheet as at 31 December 2009

Fixed Assets at net NBV	[$500\,000 \div 5$]		100 000
<u>Current Assets</u>			
Stock		50 000	
Debtors	[$28\,800 \div 360 \times 500\,000$]	40 000	
Prepayments		<u>4 340</u>	
	[$500\,000 \div 5.3$]	94 340	
<u>Less Current Liabilities</u>			
Creditors	[$420\,000 \div 360 \times 45$]	52 500	
Bank overdraft	[Missing figure]	<u>9 340</u>	61 840
Working capital			<u>32 500</u>
Capital employed	{Balancing figure}		<u>132 500</u>
<u>Financed By</u>			
Capital:	Balance b/fwd		92 500
	Add: Net profit		<u>77 500</u>
			170 000
	Less: Drawings [7½% × 500 000]		<u>37 500</u>
	Balance c/fwd		<u>132 500</u>

- b) i)
 - Profit might be tied up in stock i.e. goods bought thereby reducing cash available
 - Most of the goods might have been sold on credit and no cash received yet
 - Cash generated through profits might have been converted into fixed assets
 - Cash might have been used to pay up creditors and for loan redemption
 - Cash from profits might be withdrawn by the owner
- ii) A company can choose to issue its shareholders bonus shares. These are shares awarded to existing ordinary shareholders free of charge. The shareholders pay nothing but get share certificates which they may sell to get/ generate cash.
- iii)
 - Only existing shareholders are entitled to such shares
 - No cash movement is involved
 - The shares are awarded free of charge in a proportion to current shareholding

- 2195 a) i) – To encourage (foster \equiv promote) the active \equiv participating partners to contribute their expertise, knowledge, skill and experience fully for overall growth, expansion and success of partnership
 – To compensate \equiv reward partners for the effort and different roles they undertake in the day to day running of the business just like any other employees of the partnership business
 – To distinguish and discriminate between the active \equiv participating partners and the dormant \equiv sleeping partners in financial terms not just theoretically as outlined in the partnership deed of agreement
- ii) – To reward partners proportionately to the different amounts they contributed
 – To compensate partners for the time value of their capital used by the business
 – To reward partners for investing in the partnership business instead of other opportunities

b) i) **Bruno, Chula and Darren: Trading and Profit and Loss Account for the year ended 31 May 2008**

Sales									697 500
<u>Less: Cost of sales</u>									
Opening stock						63 000			
Add: Purchases	[420 000 – 15 000]					405 000			
						468 000			
<u>Less: Closing stock</u>						54 000			414 000
Gross profit									283 500
<u>Less: Operating expenses</u>									
Dep: Premises	[2% \times 90 000]					1 800			
Fixtures and fittings	[10% \times (159 000 – 21 000)]					13 800			
Salaries and wages	[96 000 – 1 400 – 800 – 1 300]					92 500			
General expenses						75 200			
Rent, rates and insurance	[16 000 – 3 800 + 3 600]					15 800			
Loan interest: Bruno	[20 000 \times 5%]					1 000			
Bad debts						3 000			
Provision for bad debts	[5% \times (30 000 – 3 000)]					1 350			204 450
Operating profit									<u>79 050</u>

ii) **Bruno, Chula and Darren: Profit and Loss Appropriation Account for the year ended 31 May 2008**

Operating profit									79 050
<u>Less: Appropriations</u>									
Interest on capital: Bruno	[5% \times 120 000]					6 000			
Chula	[5% \times 75 000]					3 750			
Darren	[5% \times 45 000]					2 250		12 000	
Salaries: Bruno						15 000			
Chula						10 000			
Darren						5 000		30 000	42 000
Residue profit for sharing									<u>37 050</u>
Profit share: Bruno	[$\frac{5}{8}$ \times (37 050 – 10 000)]								16 906
Chula	[$\frac{3}{8}$ \times (37 050 – 10 000)]								10 144
Darren									<u>10 000</u>
									<u>37 050</u>

iii) **Current Accounts**

2007		Bruno	Chula	Darren	2007	Bruno	Chula	Darren
Jun 1	Balance b/f		18 000		Jun 1	Balance b/f		15 000
2008					2008			
May 31	Drawings	16 400	800	1 300	May 31	Loan interest	1 000	
31	Balance b/f	46 506	5 094	30 950	31	Int. on cap	6 000	3 750
					31	Salaries	15 000	10 000
					31	Profit share	16 906	10 144
		62 906	23 894	32 250	31		62 906	23 894
					Jun 1	Balance b/f	46 506	5 094
								30 950

- c) – A limited company perpetual succession (indefinite business life) unlike a partnership whose existence is affected by death, admission and retirement of partners.

- A limited company's owners suffer a restricted loss on their possessions (maximum loss is share capital) when the business is wound-up unlike partners who are jointly and severally liable for the debts of the business.
- A limited liability has better chances of growth and expansion as a result of more capital relative to partnerships whose sources of capital are restricted to partners contributions and few loans from banks and friends
- A limited company is managed by appointed people who are professionals and experts in key areas of management but a partnership makes use of its owners and is susceptible to disputes on decision making and implementation

2196 a) Dellow & Coucom: Departmental Trading and Profit and Loss Accounts for year ended 30 April 2010

	Television	Computing	Telephones
Sales	214 000	428 000	107 000
<u>Less Cost of Sales</u>			
Opening stock	8 000	19 000	3 000
<u>Add: Purchases</u>	<u>120 000</u>	<u>220 000</u>	<u>40 000</u>
	128 000	239 000	43 000
<u>Less: Closing stock</u>	<u>17 000</u>	<u>40 000</u>	<u>5 000</u>
Gross profit	103 000	229 000	69 000
<u>Less: Operating Expenses</u>			
Wages [56 ÷ 749 × (214 & 428 & 107)]	16 000	32 000	8 000
Sales-staff salaries [147 ÷ (3+4+1) × (3& 4 & 1)]	55 125	73 500	18 375
Sales-staff commission [1% × (214&428 & 107)]	2 140	4 280	1 070
General expenses [(5+2) ÷ 749 × (214&428& 107)]	2 000	4 000	1 000
Office salaries [35 ÷ 749 × (214&428& 107)]	10 000	20 000	5 000
Advertising [14 ÷ 749 × (214&428& 107)]	4 000	8 000	2 000
Rent [(40+2) ÷ (5 000) × (2 000 & 2 500 & 500)]	16 800	21 000	4 200
Electricity [(9+1) ÷ (5 000) × (2 000 & 2 500 & 500)]	4 000	5 000	1 000
Insurance [5 ÷ (5 000) × (2 000 & 2 500 & 500)]	2 000	2 500	500
Dep: Motor vehicles [20% × 45 ÷ 3]	3 000	3 000	3 000
Furniture & Fittings [20% × 30 ÷ 3]	2 000	2 000	2 000
Net profit/ (loss) b/d	<u>(14 065)</u>	<u>53 720</u>	<u>22 855</u>

b) Dellow & Coucom: Appropriation Account for the year ended 30 April 2010

Net profit b/d (53 720 + 22 855 – 14 065)			62 510
<u>Add: Interest on drawings</u>			
- Dellow [15 000 × 2%]		300	
- Coucom [(4 000 + 1 000) × 2%]		<u>100</u>	<u>400</u>
			62 910
<u>Less: Appropriations</u>			
Interest on capital			
- Dellow [60 000 × 1%]		600	
- Coucom [40 000 × 1%]		400	
Salary		<u>7 600</u>	<u>8 600</u>
Profit for sharing			<u>54 310</u>
Share of profit			
- Dellow [54 310 × 60 ÷ (60 + 40)]		32 586	
- Coucom [54 310 × 40 ÷ (60 + 40)]		<u>21 724</u>	<u>54 310</u>

- c) A department can only be closed when it has negative contribution. This means that although a department is making a loss, this does not justify automatic closure of that department. Contribution is the difference between the sales revenue (selling price) and the variable costs (marginal costs). All fixed costs are excluded from the calculation of contribution. Therefore the decision on whether to continue or close a loss making department is independent of fixed costs.

A loss making department might be established deliberately so that it attracts customers. A loss leader is good that is sold at a price below its cost price. A firm may sell complimentary products this way. Complimentary goods are those that are used together. For instance a tennis ball is sold and used with a racket. One of the products is then sold at a loss so that customers buy the others at a higher price which is profitable to the business.

A loss making department is therefore closed when its contribution is less than its fixed costs. If a loss making department is closed, the overheads have to be apportioned to the remaining departments.

2197 a) West End Sports Club: Income and Expenditure Account for the year ended 31 October 2009

<u>INCOME</u>			
Subscriptions	[(940 + 1) × 400]		376 400
<u>Less EXPENDITURE</u>			
Sports uniform sales		690 000	
<u>Less Cost of uniforms</u>			
Opening stock		62 000	
Add: Purchases	[74 000 – 106 000 – 580 000]	612 000	
Warehousing costs		<u>72 000</u>	
Uniforms available for resale		746 000	
<u>Less: Closing stock</u>		<u>52 000</u>	694 000
Loss on uniforms sales		4 000	
Stationery and postage		46 000	
Rent	[48 000 × 12 ÷ 18]	<u>32 000</u>	<u>82 000</u>
Surplus of income over expenditure			<u>294 400</u>

b) West End Sports Club: Balance Sheet as at 31 October 2009

<u>Non-current assets</u>			
Land			500 000
<u>Current assets</u>			
Stocks of uniforms		52 000	
Rent prepaid	[48 000 × 6 ÷ 18 = 48 000 – 32 000]	<u>16 000</u>	
		68 000	
<u>Less Current liabilities</u>			
Creditors		106 000	
Subscriptions paid in advance	[397 600 – 400 × (940 – 30 + 1)]	33 200	
Bank overdraft		<u>112 260</u>	<u>251 460</u>
Net current liabilities			(183 460)
Total net assets			<u>316 540</u>
<u>Financed By</u>			
Accumulated Fund	[32 140 – 30 × 400 + 62 000 – 74 000]		8 140
Add: Legacy			14 000
Surplus of income over expenditure	{a}		<u>294 400</u>
			<u>316 540</u>

- c)
- Does not show the profitability (rewards) of undertaking the risk. This means the basis of preparing the Receipt and Payments Account is different and not related to surplus or deficit computations
 - Does not show the state of the entity at a particular date. This is done by a Balance Sheet which shows the balances of assets and liabilities
 - Does not show the causes of a favourable or adverse balance. This is normally explained with the aid of a Cash Flow Statement
 - Does not link the profitability and liquidity of an entity. This is only achievable with the assistance of a Cash Flow Statement
 - Shows only actual receipts and payments. Details of accruals and prepayments are not disclosed by the Receipts and Payments Accounts

- 2198 a)
- The Income and Expenditure Account is a profitability statement whereas the Receipts and Payments Account is a liquidity statement.
 - An Income and Expenditure Account is prepared on matching and accruals concepts basis but the Receipts and Payments Account is prepared on cash basis paying no regard to accounting cycle and ignoring the amounts in arrears.
 - An Income and Expenditure Account contains non-cash items such as provision for depreciation, profits and losses on disposal but the Receipts and Payments Account totally leaves out all non-cash items.
 - Only revenue receipts and revenue expenditure appear in the Income and Expenditure Account but a Receipts and Payments Accounts contains both capital and revenue receipts and expenditure.
 - The balance of the Income and Expenditure Account is the resultant benefit/ surplus or deficit/ loss of being in operation whereas the balance of a Receipts and Payments Account is either a current asset or a current liability of the organization.

b) i) Massimo Golf Club: Bar Trading Account for the year ended 31 December 2008		
Sales	[4 100 250 + 79 200]	4 179 450
<u>Less: Cost of sales</u>		
Opening stock		268 950
<u>Add: Purchases</u> – Credit [2 017 950 – 219 450 + 189 750]		1 988 250
– Cash [9 900 – 4 950]		4 950
		<u>2 262 150</u>
<u>Less: Closing stock</u>		<u>305 250</u>
Gross profit		2 222 550
<u>Less: Operating expenses</u>		
Wages		1 369 500
Net profit		<u>853 050</u>

ii) Massimo Golf Club: General Ledger					
Subscriptions Account					
Jan 1	Owing b/d	127 050	Jan 1	Prepaid b/d	41 250
Dec 31	Income & Expenditure	2 224 200	Dec 31	Bank	2 258 850
31	Prepaid c/d	51 150	31	Owing c/d	102 300
		<u>2 402 400</u>			<u>2 402 400</u>
Jan 1	Owing b/d	102 300	Jan 1	Prepaid b/d	51 150

iii) Rent and Rates Account					
Dec 31	Bank	1 300 200	Jan 1	Owing/ balance b/f	123 750
31	Owing/ balance c/f	135 300	Dec 31	Income & Expenditure	1 311 750
		<u>1 435 500</u>			<u>1 435 500</u>
			Jan 1	Balance/ owing b/f	135 300

iv) Massimo Golf Club: Income and Expenditure Account for the year ended 31 December 2008		
<u>INCOME</u>		
Bar profit {bi}		853 050
Subscriptions {bii}		2 224 200
Disco takings		754 050
<u>Less: Disco expenses</u>		<u>589 050</u>
Donations [330 000 – 200 000]		130 000
Savings interest [415 800 – 346 500]		69 300
		<u>3 441 550</u>
<u>Less: EXPENDITURE</u>		
General expenses		1 990 000
Rent and rates {biii}		1 311 750
Surplus of income over expenditure		<u>139 800</u>

c) Massimo Golf Club: Balance Sheet (extract) as at 31 December 2008

<u>Current Assets</u>		
Stock		305 250
Subscriptions in arrears		102 300
Savings Account		415 800
Bank [522 950 + 79 200]		602 150
Cash		4 950
		<u>1 430 450</u>

2199 a) Amateur Sports Club: Income and Expenditure Account for the year ended 30 April 2006

<u>INCOME</u>		
Subscriptions	[4 400 + 2 880 – 3 040 – 149 120 – 3 520]	148 400
Profit from dinner dance	[16 560 – 15 280]	1 280
Interest from investments	[20% × 76 800]	15 360
		<u>165 040</u>
<u>Less EXPENDITURE</u>		
Rent	[14 400 – 3 600]	10 800
Travel expenses	[26 400 – 8 560 + 4 880]	22 720
Secretarial fees		6 720
Insurance		2 720
Stationery	[4 080 – 1 520]	2 560

Telephone		1 360	
Depreciation on office furniture	[20% × 13 200 × 9 ÷ 12]	<u>1 980</u>	48 860
Surplus of income over expenditure			<u>116 180</u>

b) Amateur Sports Club: Balance Sheet as at 30 April 2006

<u>Fixed Assets</u>	<u>Cost</u>	<u>Depreciation</u>	<u>Net Book value</u>
Buildings	168 000		168 000
Office furniture	<u>13 200</u>	<u>1 980</u>	<u>11 220</u>
	<u>181 200</u>	<u>1 980</u>	179 220
Investments	[76 800 + 11 200]		<u>88 000</u>
			267 220
<u>Current Assets</u>			
Stock of stationery		1 520	
Interest from investments owing		15 360	
Subscriptions in arrears		3 520	
Bank	{w1}	<u>125 120</u>	
		145 520	
<u>Less Current Liabilities</u>			
Travel expenses owing	4 880		
Subscriptions in advance	<u>2 880</u>	<u>7 760</u>	
Net current assets			<u>137 760</u>
Total net assets			<u>404 980</u>
<u>Financed By</u>			
Accumulated fund:	Balance b/d	{w2}	248 800
	Add: Legacy		40 000
	Surplus		<u>116 180</u>
	Balance c/d		<u>404 980</u>

Workings

- Receipts – Payments
= 40 + 14.8 + 16.56 + 149.12 – 15.28 – 14.4 – 11.2 – 6.72 – 26.4 – 2.72 – 13.2 – 4.08 – 1.36
- Assets – Liabilities
= 168 – 3.6 – 3.04 + 4.4 – 8.56 + 76.8 + 14.8

- c)
- If the donations received are for general purpose, then they are credited to the Income and Expenditure Account
 - Special donations received are credited to a Donations Special Fund Account and shown in the Balance Sheet on the 'Financed By' section but not as part of Accumulated Fund
- d)
- The Receipts and Payments Account is a liquidity statement whereas the Income and Expenditure Account is a profitability statement.
 - The Receipts and Payments Account is prepared on cash basis whereas the Income and Expenditure Account is prepared on accruals and matching concepts basis.
 - Receipts and Payments Account show both revenue and capital receipts and payments whereas the Income and Expenditure show only revenue receipts and payments only.

2200 a) Squire Ltd: Cash Flow Statement for the year ended 31 December 2001

<u>OPERATING ACTIVITIES</u>			
Net profit before interest and tax	[47.400 + 16% × 100]		63 400
<u>Non-cash items adjustments</u>			
Depreciation	[270 – 330 – 150 + 190 – 20 + 3 + 0.7]	36 300	
Loss on disposal		<u>3 000</u>	<u>39 300</u>
Net cash inflow before working capital adjustments			102 700
<u>Working capital adjustments</u>			
Decrease in stock	[79 – 63]	16 000	
Increase in debtors	[23 – 15]	(8 000)	
Decrease in creditors	[49.8 -42.8]	<u>(7 000)</u>	<u>1 000</u>
Net cash inflow after working capital adjustments			103 700
Interest paid	[16% × 100]		(16 000)
Tax paid			<u>(11 000)</u>
Net cash inflow from operating activities			76 700

INVESTING ACTIVITIES

Acquisition/ purchase of fixed assets	(80 000)	
Proceeds/ receipts from asset disposals	<u>700</u>	
Net cash outflow from investing activities		(79 300)
Net cash outflow before financing activities		(2 600)

FINANCING ACTIVITIES

Issue of ordinary shares [100 – 40 – 10]	50 000	
Premium on share issues [14 – 10 + 10]	14 000	
Dividend paid [3 + 8]	(11 000)	
Redemption of debentures	<u>(100 000)</u>	
Net cash outflow from financing activities		(47 000)
Decrease in cash and cash equivalents		(49 600)
Balance b/d		<u>22 900</u>
Overdraft c/d		<u>(26 700)</u>

- b)
- Cash in hand is determined by taking into account all cash movements into and out of a business whereas profit is calculated by taking into account accruals and prepayments into account
 - Cash in hand is arrived at in a Cash Book which is prepared on cash basis exclusive of non-cash items but profit is calculated in an Income Statement taking into account trading and operating revenues and expenses.
 - The cash in hand is used to acquire assets and to pay liabilities but profit is not used for such purposes, therefore the two become different

2201 a)	Ratio	Mukai Ltd	Vukani Ltd
i)	Interest Cover	$600 \div 150$	$750 \div 150$
	= $\frac{\text{Net profit before interest and tax}}{\text{Interest charge for year}}$	= 4 times	= 5 times
ii)	Earnings per share (EPS)	$\frac{350 - 50}{400}$	$\frac{420 - 70}{400}$
	= $\frac{\text{Net profit attributable to ordinary shareholders}}{\text{Weighted number of ordinary shareholders}}$	= \$0.75	= \$0.875
iii)	Ordinary dividend cover	$\frac{350 - 50}{150}$	$\frac{420 - 70}{120}$
	= $\frac{\text{Net profit attributable to ordinary shareholders}}{\text{Gross ordinary dividend for the year}}$	= 2 times	= 2.92 times
iv)	Dividend yield	$\frac{150 \div 400 \times 100}{4}$	$\frac{120 \div 400 \times 100}{5}$
	= $\frac{\text{Dividend per ordinary share} \times 100}{\text{Market value per ordinary share}}$	= 9.375%	= 6%
v)	Price earnings ratio (PER)	$\$4 \div \0.75	$\$5 \div \0.875
	= $\frac{\text{Market price per ordinary share}}{\text{Earnings per share}}$	= 5.3	= 5.7

- b) A company which is highly geared is one with the highest amount of fixed cost capital in proportion to the total capital employed. The gearing ratio is determined as follows:

$$\frac{\text{Debt capital} \times 100}{\text{Debt capital} + \text{Equity capital}}$$

The gearing for Mukai Ltd is 67.5% i.e. $\frac{(40 + 1\,500) \times 100}{2\,280}$

The gearing for Vukani Ltd is 70.03% i.e. $\frac{(650 + 1\,500) \times 100}{3\,070}$

From the above computations, Vukani Ltd is the company which is highly geared since its capital structure is made up of 70.03% borrowed capital.

- c)
- An investor interested in loans and debentures should opt for Vukani Ltd since it has low risk in its ability to pay loan interest. Vukani limited is 5 times able to settle interest debts than Mukai Ltd.
 - Vukani Ltd is performing well in terms of earnings. An investor in ordinary shares who is keen to see investments generating large potential rewards should choose Vukani Ltd since the maximum dividend payable per ordinary share is \$0.875 as compared to \$0.75 in Mukai Ltd.

- iii) An investor in ordinary shares interested in large dividends should opt for Mukai Ltd as it has a low dividend cover. A low dividend cover means large dividend was declared and is payable to the ordinary shareholders. On the other hand, an investor who wants to see profits ploughed back and the business expanding should opt for Vukani Ltd.
- iv) The dividend yield is the reflector of how a share is performing on the open market, especially on stock exchange. Mukai Ltd is perceived to be doing better than Vukani Ltd since it has a dividend yield of 9.375% as contrasted to 6% of Vukani Ltd. Investing in Mukai Ltd pays better in relation to price paid to acquire the share on the market.
- v) It would take 5.3 years to use earning to buy a single share in Mukai Ltd and 5.7 years in Vukani Ltd. If an investor wants a shorter period which is less risky, Mukai Ltd is the best option. Choosing Vukani Ltd is risky as it takes more time to use earnings to acquire the share.
- 2202 a)**
- i) Capital reconstruction is term referring to any activity or scheme carried out by a company to change its capital structure through issue or new shares, reduction of share face values, writing off debit balances in reserves and revaluation of assets.
- ii) Convertible loan stock is a debenture to a company which upon maturity is changed from gearing (debt capital) into a known number of ordinary (equity) shares on the basis of predetermined terms
- b) Magadlela Ltd: Balance Sheet as at 1 April 2004**
- | | | |
|--|---|------------------|
| <u>Assets</u> | | |
| Land and buildings | | 3 600 000 |
| Other assets | [1 180 – 350 + 1 500 × 0.28] | <u>1 250 000</u> |
| | | <u>4 850 000</u> |
| <u>Equity and Liabilities</u> | | |
| Ordinary share capital | [8 000 × (1 – 0.8) + 2 000 – 1 300 + 180 + 1 500 × 0.2] | 2 780 000 |
| 6% Redeemable preference share capital | [1 000 – 350] | 650 000 |
| Capital redemption reserve | [350 - 1 500 × 0.2] | 50 000 |
| Capital reconstruction | [3 600 – 3 000 + 8 000 × 0.8] | 7 000 000 |
| Share premium | [1 500 × (0.28 – 0.2)] | 120 000 |
| Profit and loss | [7 000 + 350 – 300] | (7 050 000) |
| 10% Loan stock | | <u>1 300 000</u> |
| | | <u>4 850 000</u> |
- c)**
- i) Bonus issues do not have an effect on the Balance Sheet in that they decrease the reserves which are debited and increase the ordinary share capital with the same amount. The only effect of a bonus issue is that of reducing reserves and increasing ordinary share capital in the Financed By section.
- ii) A rights issue affects the Balance Sheet in a number of ways among which is an increase of the Bank Account balance, an increase of the ordinary share capital and in some cases, an increase of the Share Premium Account balance. A rights issue therefore increases the assets as well as the Financed By section of the Balance Sheet.
- 2203 a)**
- Motivation of staff when they participate and set their goals which are achievable
 - Budgets act as benchmarks/ yardsticks against which progress can be evaluated
 - Useful for management by exception, whereby control and corrective action is done on poorly performing areas
 - Permits coordination and communication amongst departments
- b)** Flexible budgeting is the adjustment of the main/ master budget to the actual level of activity during the budget implementation phase so that actual results can be compared with set targets.
- c) i) Orange Ltd: Income Statement for next year (Alternative 1)**
- | | | |
|-------------------|-----------------------|-----------|
| Sales | [900 × 120%] | 1 080 000 |
| Less Expenses | | |
| Direct materials | [180 X 120%] | 216 000 |
| Packing materials | [80 × 75% × 120% × 1] | 72 000 |
| Direct wages | [240 × 120%] | 288 000 |
| Factory power | [18 × 120%] | 21 600 |
| Factory water | [6 × 120%] | 7 200 |
| Factory rent | | 60 000 |

Factory rates	40 000	
Vehicle licenses	<u>40 000</u>	744 800
Profit		<u>335 200</u>

ii) Orange Ltd: Income Statement for next year (Alternative 2)		
Sales	[900 000 + 25 000 × 12]	1 200 000
<u>Less Expenses</u>		
Direct materials	[180 000 (1 + 1 ÷ 80 ÷ 75% × 25)]	255 000
Direct wages	[240 000 ÷ 75% + 5 000 × 150% × 0.4]	350 000
Factory power	[18 000 ÷ 75% + 5 000 × 120% × 0.3]	25 800
Factory water	[6 000 ÷ 75% + 5 000 × 120% × 0.1]	8 600
Factory rent		60 000
Factory rates		40 000
Vehicle licences	<u>40 000</u>	<u>779 400</u>
Profit		<u>420 600</u>

2204 a) Standard costing is a valuing technique whereby targets are set and used to evaluate performance and to find the worth of the products.

b) The purpose of variance analysis is to determine the quantity and nature of a departure of actual results from the budgeted/ targeted results. This will assist in figuring out the possible causes of the deviations. Where there are adverse variances, corrective action is then carried out. Management time is also saved by applying the management by exception technique.

		Department X	Department Y
c) i)	Standard direct labour cost per unit	4 × 11.1 = \$44.40	3 × 12 = \$36
ii)	Total labour variance = Standard cost – Actual cost	44.4 × 900 – 37 944 = \$2 016 F	36 × 2 400 – 114 816 = \$28 416 A
iii)	Labour efficiency rate variance = [SH – AH] × SR	[900 × 4 – 3 400] × 11.1 = \$2 220 F	[2 400 × 3 – 9 200] × 12 = \$24 000 A
iv)	Labour rate variance = [SR – AR] × AH	11.1 × 3 400 – 37 944 = \$204 A	12 × 9 200 – 114 816 = \$4 416A

d) i) In Department X, each unit should cost \$44.40. As a result of changes in rates per hour, the department ended up paying more than targeted by \$204 as a result of employing skilled personnel. The skilled personnel took less time to finish production resulting in cost cutting/ saving of \$2 220. The overall effect of the changes in time and rates resulted in cost reduction of \$2 016 (i.e. \$2 220 – \$204). Department X is therefore efficient and performing well.

ii) Each unit of Department X is expected to cost \$36. Of the 2 400 units produced, it took more time than was expected leading to extra costs of \$24 000. This could be because of poor raw materials and usage of inappropriate machinery. In addition to this, the rates paid to the employees were more than planned/ budgeted causing extra overhead of \$4 416. The overall effect is extra overhead of \$28 416 (i.e. \$4 416 + \$24 000). This means Department Y is not doing well in terms of saving time and the employees are being paid too much probably because of trade union pressure.

2205 a) i) A fixed cost is a period overhead that is incurred regardless of the level of activity and whose amount is usually the same from period to period as it does not and is not expected to change in the short-term or in the relevant range.

ii) A variable cost is an expense that is incurred with a degree of relationship to level of activity such that its amount can be linked to volume of output with determinable proportionality and is normally treated as a product cost.

iii) Contribution margin is the difference between the selling price and the sum of variable costs which is meant to cover up fixed costs before the break-even point is reached and to become profit thereafter ≡ beyond the break-even point in the margin of safety region.

iv) Margin of safety refers to the additional sales made beyond the break-even point meant to generate ≡ contribute profit, determined as a range by subtracting the break-even sales level from the actual sales level.

b) i) Tuxedo: Absorption Costing Income Statement for the year ended 31 December 2008			
	Sales		3 000 000
	<u>Less: Total cost of sales</u>		
	Direct materials	750 000	
	Direct labour	500 000	
	Variable overheads	450 000	
	Fixed manufacturing costs	<u>480 000</u>	<u>2 180 000</u>
	Gross profit		820 000
	<u>Less: Operating expenses</u>		
	Marketing and distribution expenses		<u>600 000</u>
	Net profit		<u><u>220 000</u></u>
ii) Tuxedo: Marginal Costing Income Statement for the year ended 31 December 2008			
	Sales		3 000 000
	<u>Less: Variable cost of sales</u>		
	Direct materials	750 000	
	Direct labour	500 000	
	Variable overheads	<u>450 000</u>	<u>1 700 000</u>
	Contribution margin		1 300 000
	<u>Less: Fixed costs</u>		
	Manufacturing costs	480 000	
	Marketing and distribution expenses	<u>600 000</u>	<u>1 080 000</u>
	Net profit		<u><u>220 000</u></u>
c) i) Tuxedo: Forecast Marginal Costing Income Statement for the year ending 31 December 2009			
	Sales	[3 000 000 × 4 500 ÷ 5 000]	3 000 000
	<u>Less: Marginal cost of sales</u>		
	Direct materials	[750 000 × 4 500 ÷ 5 000] 675 000	
	Direct labour	[500 000 × 4 500 ÷ 5 000] 450 000	
	Variable overheads	[450 000 × 4 500 ÷ 5 000] <u>405 000</u>	<u>1 530 000</u>
	Contribution		1 170 000
	<u>Less: Fixed costs</u>		
	Fixed manufacturing costs	480 000	
	Marketing and distribution expenses	<u>600 000</u>	<u>1 080 000</u>
	Net profit		<u><u>90 000</u></u>
ii)	Break-even sales	= $\frac{\text{Total fixed overheads}}{\text{Contribution} \div \text{Sales}}$	
		= $\frac{1\,080\,000}{1\,300\,000 \div 3\,000\,000}$	{bii}
		= 2 492 307.692...	
		≈ <u>\$2 492 308</u>	
iii)	Sales volume (units)	= $\frac{\text{Total fixed costs} + \text{Target profit}}{\text{Contribution per unit}}$	
		= $\frac{1\,080\,000 + 20\,000}{1\,300\,000 \div 5\,000}$	
		= 4 230.769...	
		≈ <u>4 231 units</u>	
d)	The management's consideration would result in:		
	– total variable costs	[1 700 000 × 2]	3 400 000
	– total fixed costs	[1 080 000 – 80 0000]	<u>1 000 000</u>
	– total costs		4 400 000
	– sales	[500 × 10 000]	<u>5 000 000</u>
	– profit		<u><u>600 000</u></u>

The above move, if adopted and properly implemented, would result in an overall profit of \$600 000 which is \$510 000 [\$600 000 – \$90 000] more than the \$90 000 expected when the current promotion and pricing mix is retained. Based on the findings, the management's consideration is therefore viable = favourable = promising in terms of its profitability. It is advisable to cut the selling price per unit but overall profit maximized.

- 2206 B
 2207 C $100\,000 \times 80\%$
 2208 B $5\,400 \times 90\%$
 2209 B
 2210 B
 2211 A $40\,000 - 4\,000$
 2212 A 700×2 Trial Balance shortage
 2213 B $31\,200 \times 2$ & $24\,000 \times 2$ & Difference
 2214 B
 2215 A $(500\,000 - 600\,000) \times 25\% \div 125\%$
 2216 C $6\,000 + 4\,000 \div 125\%$
 2217 A $(130 - 22) + (50 + 10) + (120 - 30)$
 2218 C $[(160 \times 40 + 150 \times 41) + (160 + 150) \times (160 + 150 - 200) + 60 \times 47] \div (160 + 150 - 200 + 60)$
 2219 C $23\,000 - 42\,000 \div 133\frac{1}{3}\% + 38\,000$
 2220 C $1\,300\,000 - 192\,000 \times 75\% + 150\,000$
 2221 C $(300 - 275 - 25 + 55 + 50 - 5) \div 300 \times 100$
 2222 B $-8\,000 + 10\,000$ & $-8\,000 - 10\,000$
 2223 B Sold more goods to get double revenue
 2224 D Has a credit balance
 2225 B $720\,000 - 4\,200\,000 + 1\,750\,000$
 2226 C
 2227 A Non-cash item/ transaction
 2228 A $8 - 40 - 90 + 1 + 3 + 10 + 46$
 2229 C $10 - 12 - 15 + 18 + 279$
 2230 A $115 - 155 - 40 + 105 - 10$
 2231 A $460 - 170 - 550 + 196 - 50 + 120 - 2$
 2232 D
 2233 D
 2234 D $36\,000 \div 4 \times \frac{2}{3}$
 2235 D $120\,000 \div 4 \times \frac{2}{3}$
 2236 C
 2237 C
 2238 C $120\,000 \times [(\frac{2}{3} - \frac{2}{5}) \& (\frac{1}{3} - \frac{2}{5}) \& (0 - \frac{1}{5})]$
 2239 D $135\,042 + 14\,000$
 2240 C $400\,000 \times (2.55 - 0.9)$
 2241 C Increase in denominator
 2242 A
 2243 A
 2244 B $(40\,000 - 12\,000 - 10\,000) \div 3\,700$
 2245 B $18\,000 + 24\,000 - 40\,000 + 50\,000$
 2246 A $420\,000 + 100\,000 - 120\,000 - 160\,000 - 360\,000 \times 0.5$
- 2247 C $400\,000 - 600\,000 - 50\,000$
 2248 D
 2249 D
 2250 C Sum of reserves \div Par value = $\$(4+1+2)$ million \div \$1
 2251 D $(40\,000 + 10\,000 + 20\,000) \div 0.25$
 2252 A Use capital reserves first
 2253 A $\$600\,000 \times (1 + 3) \div 3$
 2254 C $100 - 140 - 290 - 76 - 72$
 2255 D $200 - 30 + 340$
 2256 B $(300 - 10\% \times 500) \div (300 + 600 + 100 + 500) \times 100$
 2257 A $7.5\% \times 12\,000 \times \$1 + 8\,000 \times 5\% \times \0.5
 2258 A $(570 - 7\frac{1}{2}\% \times 200 - 6\% \times 100) \div 2 \div 600$
 2259 C $350 \div 4\,000 \times 10 \div 30 \times 100$
 2260 D $30 \times 80\% \times 0.15$
 2261 B $3 \div (150\,000 \div 800\,000)$
 2262 C $(100 - 38 - 12) \div 0.5$
 2263 B No company can have nil shareholders
 2264 B Increases numerator and denominator
 2265 B Increases equity and total capital, no effect on debt
 2266 D
 2267 B Conditions existed at Balance Sheet date
 2268 C Fire not there at Balance Sheet date
 2269 D
 2270 C $100\,000 \times \$1.5$ & Par value not financed
 2271 A
 2272 B $[13400 - (13400 - 13850) \div (50 - 52.5) \times (50 - 55)] \div 55$
 2273 B $[1310 - (1310 - 1360.5) \div (200 - 210) \times (200 - 220)] \div 220$
 2274 A $(4\,800 - 4\,200) \times \frac{1}{2} + 4\,200$
 2275 A $20\,000 \times 110\% \times 0.6$
 2276 C $1000000 \div 360\,000 \times 400\,000 - 1\,200\,000$
 2277 D $(643\,200 + 33\,600) \div 6$
 2278 C
 2279 C $1\,200\,000 \div 4 \times (100\,000 - 40\,000)$
 2280 A $5\,000 \times (2\,000 - 700 - 500)$
 2281 D $[5 \times 50\,000 - 240\,000] \times 200$
 2282 A $1\,800 - 1\,500 - 900 + 1\,000 - 30\,440$
 2283 A
 2284 C 10% fall in receipts results in negative NPV
 2285 B At 13% NPV=0, at 15% -ve, below 13% +ve

WISH YOU ALL THE BEST IN YOUR STUDIES

THE END