Answer **all** questions

1 Osmond runs a textile business with a financial year end of 31 March. He has provided the following information about the business' motor vehicles.

Motor vehicles account

Date	Particulars	Debit	Credit	Balance
2019		$	$	$
Apr 1	Balance b/d			80 000 Dr
2020				
Jan 1	Trade payable – Ozark Motors	45 000		125 000 Dr
2020				
Apr 1	Balance b/d			125 000 Dr

Accumulated depreciation – motor vehicles account

Date	Particulars	Debit	Credit	Balance
2019		$	$	$
Apr 1	Balance b/d			16 000 Cr
2020				
Mar 31	Depreciation of motor vehicles		**?**	

REQUIRED

(a) Interpret the entry on 1 January 2020 in the motor vehicles account.

On 1 January 2020, the business bought motor vehicles $45,000 on credit from

trade payable Ozark Motors. **[1]**

[1]

(b) Calculate the depreciation expense for the year ended 31 March 2020 given that the business provides depreciation at a rate of 20% per annum on net book value.

Depreciation for old motor vehicles = ($80,000-$16000) x 20% = $12,800 **[0.5]**

Depreciation for new motor vehicles = $45,000 x 20% **[0.5]** x 3/12 **[1]** = $2,250

Depreciation expense for 31 March 2020 = $12,800 + $2,250 = $15,050 **[1/OF]**

[3]

On 18 March 2020, Osmond purchased cutting equipment from Cutty Trading and incurred the following amounts.

	$	**Payment by**
Cost of cutting equipment	23 000	On credit
Delivery fee to transport cutting equipment	300	Cheque
Installation of cutting equipment	200	Cheque
Electricity to run cutting equipment	700	Bank transfer
Replacement of faulty screws on the cutting equipment	20	Cash

REQUIRED

(c) Prepare the equipment account for the month of March 2020 to record the purchase on 18 March 2020.

This is the business' first equipment purchase.

Equipment account

Date	Particulars	Debit $	Credit $	Balance $
2020 Mar 18	Trade payable – Cutty Trading	23,000 **[1]**		23,000 Dr
	Cash at bank ($300+$200)	500 **[1]**		23,500 Dr
Apr 1	Balance b/d **[1]**			23,500 Dr
	$20 is insignificant to decision-making hence, revenue expenditure			

[3]

[Total: 7]

2 Nadine sells shoes. She has provided the following information relating to her business for the year ended 31 March 2022.

	$
Premises	132 300
Trade payables	11 000
Inventory	23 450
Capital	144 610
Sales revenue	46 000
Loan to employee	8 000
Cost of sales	7 300
Cash at bank (overdraft)	5 000
Drawings	360
General expenses	2 200
Trade receivables	**?**

REQUIRED

(a) Use the expanded accounting equation to calculate trade receivables.

Assets = Liabilities+Capital+(Income-Expenses)-Drawings **[1]**

$163,750+Trade receivables = $16,000+$144,610+36,500-$360 **[0.5]**

Trade receivables = $196,750-$163,750 = $33,000 **[1]**

Assets = Premises+Inventory+Loan to employee+Trade receivables

= $132,300+$23,450+$8,000+Trade receivables
= $163,750 **[1]** + Trade receivables

Liabilities = Trade payables+Bank overdraft

= $11,000+$5,000
= $16,000 **[0.5]**

Profit/(Loss) = Income – Expenses
= Sales revenue-Cost of sales-General expenses

= $46,000-$7,300-$2,200
= $36,500 [1]

[5]

(b) State and explain the type of business Nadine is operating.

Nadine is operating a trading business [1] which buys goods and sells them to customers to earn an income [1].

[2]

(c) Explain two reasons for a business' owner's equity to decrease over the year.

Business made a loss for the year. [1]

Owner took drawings during the year. [1]

[2]

Asher is one of Nadine's business competitors. The following information is provided by both businesses for the two years ended 31 March 2021 and 31 March 2022.

	Nadine's Business		Asher's Business	
	31 March 2021	31 March 2022	31 March 2021	31 March 2022
Rate of inventory turnover	6.21 times	8.91 times	5.23 times	6.55 times

REQUIRED

(d) Evaluate the rate of inventory turnover for both businesses for both years.

Nadine's rate of inventory turnover has improved from 6.21 times in 2021 to 8.91 times in 2022 [1]. This could be due to Nadine selling inventory faster by reducing selling price for slow-moving items or attracting more customers through marketing campaigns [1].

Asher's rate of inventory turnover has also improved from 5.23 times in 2021 to 6.55 times in 2022 **[1]**. This could be due to Asher selling inventory faster by reducing selling price for slow-moving items or attracting more customers through marketing campaigns **[1]**.

Overall, Nadine has a better rate of inventory turnover for both years as compared to Asher **[1]**. This shows that Nadine is more efficient in inventory management than Asher **[1]**.

Award marks if students include day sales in inventory, 1 mark for each point.

[6]

[Total: 15]

3 Sue owns a medical supplies business. She discovered the following errors in the business' financial statements for the year ended 31 December 2021.

1 A credit sale, $5 000, to Shanice had been posted to the account of Shernice.

2 Equipment repairs of $300 were posted to the equipment account.

REQUIRED

(a) Prepare the journal entries to correct errors 1 and 2.

		Debit $	Credit $
Error 1	Trade receivable – Shanice	5,000	
	Trade receivable - Shernice		5,000 **[1]**
	Correction of error – credit sale $5,000 to Shanice posted wrongly to Shernice. **[1]**		
Error 2	Equipment repairs	300	
	Equipment		300 **[1]**

	Correction of error – equipment repairs $300 wrongly posted to Equipment account. **[1]**		

[4]

(b) Complete the following table by placing a tick (✓) to show the effect of errors 1 and 2 on the profit before correction.

	Overstated	Understated	No effect
Error 1			✓ **[1]**
Error 2	✓ **[1]**		

[2]

(c) For each of the following transaction, identify the source document used to record the information.

	Transaction	Source Document
(i)	Sold medical supplies on credit.	Invoice issued **[0.5]**
(ii)	Sue informed Tom, a credit customer, that he has been undercharged.	Debit noted issued **[0.5]**
(iii)	Received cash for medical supplies sold.	Receipt issued **[0.5]**
(iv)	Purchased a printer on credit.	Invoice received **[0.5]**

[2]

(d) Use an accounting theory to explain the importance of source documents.

According to the objectivity theory **[0.5]**, accounting information recorded must be supported by reliable and verifiable evidence **[1]** so that financial statements are free from opinions and biases **[0.5]**.

[2]

[Total: 10]

4 Ralph is a credit customer of Lauren. Ralph is entitled to a trade discount of 10% on all purchases and a cash discount of 5% if invoices are fully paid within 7 days.

On 1 January 2021, the balance owed by Ralph is $10 670.

Lauren had the following transactions during January 2021.

January 9 Ralph purchased goods with a list price of $5 000. The cost of the goods is $1 000.

13 Ralph fully settled his account by cheque.

REQUIRED

(a) Prepare journal entries to record the above transactions in the books of Lauren. Narrations are not required.

Lauren

Journal

Date	Particulars	Debit $	Credit $
2021 Jan 9	Trade receivable – Ralph (90% x $5,000) **[0.5]**	4,500	
	Sales revenue	**[1]**	4,500
	Cost of sales	1,000	
	Inventory	**[1]**	1,000
13	Cash at bank [$10,670 **[0.5]** +($4,500x95%) **[0.5]**	14,945	
	Discount allowed (5%x$4,500) **[0.5]**	225	
	Trade receivable – Ralph	**[1]**	15,170

[5]

(b) State one reason why Lauren is offering a trade discount to Ralph.

To encourage bulk purchase, loyalty, patronage.

[1]

(c) Explain why Ralph buys goods on credit instead of paying for them immediately.

By not paying cash immediately, Ralph is able to use the cash for other business/operational purposes.

[1]

(d) Explain the going concern theory.

A business is assumed to have an indefinite economic life unless there is credible evidence that it may close down.

[1]

[Total: 8]

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