1 Smith is a trader. Her financial year ends on 31 January.

She provided the following information.

2015		$
1 February	Insurance prepaid for 2 months to 31 March	440
1 February	Rent receivable Account	250 Cr
1 April	Paid insurance premium for 12 months by cheque	3000

During the year cash book entries showed

Rent received by cheque	1200

On 31 January 2016 Rent receivable of $200 was due to Smith.

(a) Write up the insurance account and rent receivable account as it would appear in Smith's ledger for the year ended 31 January 2016. Bring down the balance on 1 February 2016.

Smith
Insurance account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[7]

Rent receivable account

Date	Details	$	Date	Details	$

[5]

(b) Explain the meaning of the balance on 1 February 2016 in insurance account.

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..... [2]

(c) Explain the meaning of the balance on 1 February 2016 in rent receivables account.

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..... [2]

(d) State and explain the accounting principle which is applied in the two accounts.

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..... [2]

[Total: 18]

2 On 1 October 2013 Natasha Salim started a business altering and mending clothes. On that date she purchased a machine, $4000, paying by cheque.

On 1 January 2014 she purchased another machine, $6000, on credit from ABC Machines.

She decided to depreciate the machines using the reducing (diminishing) balance method at 20% per annum. A whole year's depreciation was to be charged in the year of purchase, but no depreciation in the year of sale.

On 1 February 2015 Natasha decided that the machine purchased on 1 October 2013 was no longer required. She sold it for $2100, cash.

REQUIRED

(a) Prepare the following accounts in the ledger of Natasha Salim for each of the two years ended 30 September 2014 and 30 September 2015.

Balance the accounts & bring down the balances on 1 October 2014 and 1 October 2015.

Natasha
Machine account

Date	Detail	$	Date	Detail	$

[6]

Natasha

Provision for depreciation Machine account

Date	Detail	$	Date	Detail	$

[8]

(b) Prepare disposal account to calculate profit or loss on disposal.

Machine disposal account

Date	Detail	$	Date	Detail	$

[4]

(b) Associate the amount or the balance in the disposal account with the term profit or loss on disposal.

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..... [1]

(d) State two causes of depreciation of non-current assets.

.....

..... [2]

(e) State one advantage of using the straight-line method of depreciation.

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..... [1]

[Total: 22]

3. (a) i) Explain what is meant by the term provision for doubtful debts.

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..... [2]

ii) Explain what is meant by bad debts

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..... [2]

iii) State two reasons why bad debt occur.

1.....

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2.....

..... [2]

On 1 May 2015 Samuel's provision for doubtful debts account showed a balance of $450. On 30 April 2015 his trade receivables amounted to $9750. This included a debt of $250 which had gone bad and should be written off. Samuel provides for doubtful debts at a rate of 4%.

REQUIRED

(c) Prepare Samuel's provision for doubtful debts and Bad debts account. Bring down the balance on 1 May 2016 where necessary.

Samuel
Provision for doubtful debts account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[5]

Bad Debts account

Date	Detail	$	Date	Detail	$

[3]

(d) Name the accounting principle Samuel is applying by maintaining a provision for doubtful debts account.

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..... [1]

(e) Name the one item in the statement of financial position which might be overstated if Samuel did not maintain a provision for doubtful debts account.

..... [1]

(f) Complete the following table to show the effect on the profit for the year ended 30 April 2016 if the items listed were omitted from the income statement.

	Overstated $	Understated $
Bad debts		
Allowance for doubtful debts		

[4]

[Total: 20]

4. (a) Explain the difference between capital expenditure and revenue expenditure.

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..... [2]

b) Explain the difference between capital income and revenue income.

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..... [2]

c) Complete the table below using a tick (✓) to indicate how each item would be classified. The first one has been completed as an example.

	Capital expenditure	Capital receipt	Revenue expenditure	Revenue receipt
Rental income				✓
Purchase of goods for resale				
Purchase of equipment				
Proceeds of sale of fixtures				
Payment of advertising				
Credit sales				
Discount allowed				

[6]

Following financial statements, which contain errors, were prepared by an in experienced book keeper.

Income statement for the year ended 31 July 2015

	$	$
Sales		100000
Income from sale of noncurrent assets		20000
		120000
Cost of goods sold		60000
Gross profit		60000
Sundry expenses	20000	
Purchase of noncurrent assets	30000	50000
Profit for the year		10000

Statement of financial position as at 31 July 2015

	$	$
Rent and rates paid		5000
Inventory		8000
Accounts receivable		2000
Cash		1000
		16000
Capital		10000
Add: profit for the year		10000
Less: drawings		(6000)
		14000
Trade payables	1100	
Discount received	900	2000
		16000

(d) Calculate the corrected net profit for the year ended 31 July 2016.

Corrected net profit for the year ended 31 July 2016

$ $

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..... [5]

(e) Name the accounting principle/concept which would **not** be complied with if each proposal was implemented. The first one has been completed as an example.

	Proposal	Accounting principle/ concept
1	Change the depreciation methods for non-current assets	Consistency
2	Remove the provision for doubtful debts from the financial statements	
3	Place a value on the skill of the workforce in the financial statements	
4	Exclude expenses owing from the income statement	
5	Recording the prepaid income in the income statement.	
6	Without giving inventory to the customer, treating the amount received in advance as income to the business.	

[5]

[Total : 20]

5 Fong Cheng is a sole trader. The following balances were extracted from his books on 30 September 2015.

	$	
Revenue	315 000	
Purchases	165 000	
Returns outwards	2 600	
Wages and salaries	34 800	
Motor vehicle expenses	17 200	
Commission receivable	12 500	
Rent	15 000	
Provision for doubtful debts	1 000	
6% Bank loan (repayable 30 June 2019)	30 000	
Bank interest paid	1 200	
Inventory at 1 October 2014	36 800	
Heat and light	6 500	
Other operating expenses	7 100	
Cash and bank	19 500	debit
Trade payables	25 000	
Trade receivables	34 000	
Capital	15 000	
Drawings	18 000	
Motor vehicles (cost)	50 000	
Fixtures and fittings (cost)	24 000	
Provision for depreciation:		
Motor vehicles	10 000	
Fixtures and fittings	18 000	

Additional information at 30 September 2015

1 On 26 September 2015 goods had been purchased for $3000 cash. The transaction had not been recorded in the books.

2 Inventory was valued at $29980.

3 The rent included a payment of $6000 for the six months ending 31 December2015.

4 Other operating expenses accrued$1100.

5 Commission receivable of $2500 was outstanding.

6 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

(i) Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method

(ii) Fixtures and fittings at the rate of 15% per annum, using the straight-line method.

7 Trade receivables of $2000 are irrecoverable. The provision for doubtful debts is to be maintained at 5% on the remaining trade receivables.

REQUIRED

(a) Prepare the income statement for the year ended 30 September 2015. **[22]**

(b) Prepare the statement of financial position at 30 September 2015. **[18]**

[Total: 40]

Answer Question 5 on the following pages.

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