1 (a)

Insurance account

		$			$
1 April 2014 (1)	Balance b/d	500	31 March 2015	I/S(1)	4350
31 March 2015	Bank	4000 (1)		Balance c/d	150
		4500			4500
1 April 2015	Balance b/d	150 (1)			

Commission receivable account

		$			$
31 March 2015	Income statement (1)	1650 (1)	1 April 2014	Balance b/d	250
			31 March 2014	Bank	1200 (1)
			31 March 2015	Balance c/d	200
		1650			1650
1 April 2015	Balance b/d	200 (1)			

[8]

(b) accrued insurance (1) current liability (1)

(c) commission receivable in arrears (1) current asset (1)

(d) matching (1) accept any correct explanation (1)

(e)

	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	Prudence(1)
3	Value the inventory at market price	Prudence (1)
4	Place a value on the skill of the workforce in the financial statements	Money measurement (1)
5	Exclude expenses owing from the income statement	Matching (1)
6	Recording the prepaid income in the income statement.	Accruals (1)
7	Without giving inventory to the customer, treating the amount received in advance as income to the business.	Realization (1)

2 (a) (i) Depreciation is the continuing diminution in value of a non-current asset (2) [2]

(ii) Wear and tear, Obsolescence, Depletion, Passage of time
(1) × 2 points [2]

(iii) Apportions an equal amount of depreciation to each year of ownership
More appropriate to fixed assets that depreciate by an equal amount each year
a. × 1 point [1]

(iv) Revaluation method

(b) (i) Equipment provision for depreciation account

		$				$	
Jan 31	Disposal	16 800	(1)	Sept 1	Balance b/d	24 000	(1)
Aug 31	Balance c/d	20 600		Aug 31	Income statement	13 400	(1)
		37 400				37 400	
				Sept 1	Balance b/d	20 600	(1of)

(ii) Equipment disposal account

						$	
Jan 31	Equipment	28 000	(1)	Jan 31	Provision for deprec'n	16 800	(1)
				Jan 31	Bank	10 000	(1)
				Aug 31	Income statement	1 200	(1)
		28 000				28 000	[8]

(c) Statement of financial position (extract) at 31 August 2015

Non-current assets	Cost		Accumulated depreciation		NBV		
	$		$		$		
Equipment	67 000	(1)	20 600	(1)	46 400	(1of)	
Office computer	8 600	(1)	6 350	(1)	2 250	(1of)	
	75 600		26 950		48 650		[6]

[Total: 20]

3 (a) Bad debts
Amounts owing to a business (1) which will not be paid by the credit customer (1)

Provision for doubtful debts
An estimate (1) of the amount which a business will lose because of bad debts (1) [6]

(b) Reduce credit sales/sell on a cash basis
Obtain references from new credit customers
Fix a credit limit for each customer
Improve credit control
Issue invoices and monthly statements promptly
Refuse further supplies until outstanding balance is paid
Any 2 points (1) each [2]

(c) A provision for doubtful debts ensures that the profit for the year is not overstated (1)
the trade receivables are not overstated (1) [2]

(d) Nisha Sharma

Journal

		Debit $	Credit $
1	Bad debts AX Limited Amount owed by AX Limited written off	150	150 (1) (1) (1)
2	Provision for doubtful debts Income statement Reduction in provision for doubtful debts	21	21 (1) (1)

(1)

[6]

(e)

	Overstated $	Understated $
Bad debts written off	*150 (2)*	
Adjustment to provision for doubtful debts		21 (2)OF

(1) for direction and (1) for amount for each item [4]

(2) [Total: 23]

4 (a)

	Category	Item	Correct treatment
(i)	Capital income	Income from sale of noncurrent assets (1)	Add to gross profit (1)
(ii)	Capital expenditure	Purchase of noncurrent assets (1)	Statement of financial position (1)
(iii)	Revenue income	Discount received (1)	in income statement (other income) (1)
(iv)	Revenue expenditure	Rent and rates paid (1)	In income statement (expenses) (1)

(b)

	$	$
Sales		100000
Less: Cost of sales		(60000)
Gross profit		40000 (1)
Add: income from sale of noncurrent asset	20000 (1)	
Discount received	900 (1)	20900
Less: rent and rates paid	5000 (1)	
Sundry expenses	20000	(25000)
Revised profit for the year		35900 (1 of)

(c) & (d) accept any correct answer (2) & (2)

[total: 17]

5 (a)

Income statement for the year ended 31 October 2015

	$	**$**
Sales		1600000 (1)
Less: Cost of Sales		
Opening inventory	124000 (1)	
Add: Purchases (946000 – 3550)	942450 (2)	
Less: closing inventory	(219000) (1)	(847450) (1 of)
Gross profit		752550
Add: other income		
Decrease in allowance for doubtful debts		1244 (1)
Gain on disposal		1000 (1)
Less: Expenses		

Wages (160000+12000)	172000 (1)	
Distribution expenses (43000+5000)	48000 (1)	
Insurance (30000-2000)	28000 (1)	
Interest expense	12000 (1)	
Advertising	79000 (1)	
Business rates	50000 (1)	
Bad debts	9700 (1)	
Depreciation:		
Building	30040 (2)	
Warehouse fitting	35000 (2)	(463740) (1 of)
Profit for the year		291054

(b)

Statement of financial position as at 31 October 2015

	Cost $	Accumulated depreciation $	Net Book value $
Noncurrent assets			
Building	1502000 (1)	(350040) (1)	1151960 (1)
Warehouse fitting	296000 (1)	(191000) (1)	105000 (1)
			1256960
Current assets			
Inventory		219000 (1)	
Cash at bank		56250 (1)	
Trade receivable(360000 – 9700)	350300 (2)		
Less: allowance for doubtful debts	(7006) (1)	343294	
Other receivables		2000 (1)	
		620544	
Current liabilities			
Trade payables	92000 (1)		
Other payables	23000 (1)	(115000)	
Working capital			505544 (1)
Net assets			1762504
Financed by:			
Capital			1400000
Add: profit for the year			291054 (1 of)
Less: Drawings (25000 + 3550)			(28550) (2)
			1662504
Add: Noncurrent liabilities			
12% loan repayable			100000 (1)
			1762504