SKH Leung Kwai Yee Secondary School
Mock Examination 2009
F.5 Principles of Accounts

12.3.2009
8.15 am – 10.45 am (2.5 hours)
This paper must be answered in English

Instructions:

1. Answer **FIVE** questions: **THREE** from Section A (42%), and **TWO** from Section B (58%).
2. Write your answers on the answer book provided.
3. Show your workings.

Setter: WHF

Section A

Answer any **THREE** questions from this section. Each question carries 14 marks. Write your answers on the answer sheets provided.

Question 1

A junior accounts clerk is preparing the accounts for your company for the year ended 31 December 2008. However, he is not sure whether the following entries are correct. For each of the situations described below, list and explain the accounting concept involved and explain whether the entry he made is correct.

(a) Some goods were bought for $7,000 in February 2008. They were then damaged in December, leaving a net realizable value of $4,500. They were included in the closing stock at 7,000. (4 marks)

(b) Since 1 January 2008, the office had been sublet to a tenant for a monthly rent of $5,000. However, the rent for November and December had not been received yet. The accounts clerk recorded $50,000 as rental income in the profit and loss account. (3 marks)

(c) A motor van was bought on 1 November 2008 for $200,000. The accounts clerk recorded this amount as an expense in the profit and loss account. (3 marks)

(d) The company received an order for the sale of $200,000 on 1 December 2008. The customer paid a deposit of $20,000 on 15 December 2008 and the related goods were delivered to the customer on 15 January 2009. The account clerks recorded $200,000 as sales revenue in the profit and loss account. (4 marks)

Question 2

Grape Company started business on 1 March 2008, the following was a list of transactions for the month of March:

2008

Mar 1	The proprietor introduced her motor van into the business $1,200.
Mar 4	Goods bought on credit from Chan $3,200.
Mar 20	Bought office equipment on credit from ABC Co $4,000.
Mar 25	The proprietor took goods $500 for private use.
Mar 29	Paid insurance of proprietor's private house by cheque $250.

You are required to:

(a) State how the above transactions are recorded and present your answer in the following format. The first transaction had been done for you as illustration:

Date of transaction	Name of book of original entry	Debit: Account name	Debit: Ledger	Credit: Account name	Credit: Ledger
Mar 1	**General journal**	**Motor van**	**General ledger**	**Capital**	**General ledger**
Mar 4	?	?	?	?	?
Mar 20	?	?	?	?	?
Mar 25	?	?	?	?	?
Mar 29	?	?	?	?	?

(10 marks)

At the end of March 2008, the company received a bank statement which showed a credit balance of $25,200. This amount was different from the cash book balance of $16,980. An examination of the bank column in the cash book and the bank statement disclosed the followings:

(i) Issued cheques amounted to $8,500 had not been presented to the bank for payment.

(ii) The lodgement of $2,380 made on 31 March 2008 had not yet been recorded by the bank.

(iii) A direct deposit of $4,500 had been lodged by a customer.

(iv) An auto-pay was made by the bank for a rental expense of $2,400.

You are required to:

(b) Prepare a bank reconciliation statement as at 31 March 2008 commencing with the balance as per cash book and ending with the balance as per bank statement.

(4 marks)

Question 3

On 31 December 2008, the balances of the control accounts of Rebecca are as follows:

	Dr	Cr
	$	$
Sales ledger control	30,511	
Purchases ledger control		27,606

These balances did not agree with that of the ledger totals. The following errors were discovered:

(i) Purchases day book was undercast by $1,531.

(ii) Total of the discounts received column in the cash book $1,280 was wrongly credited to sales ledger control account as $2,018.

(iii) Cash sales of $3,253 were omitted from the books.

(iv) A debit balance of $38 had been wrongly treated as a credit balance in the list of sales ledger balances.

(v) Carriage inwards of $452 was posted to the debit side of the purchases ledger control account.

(vi) A contra of $610 had been debited to a customer's account and credited to a supplier's account in the ledgers. No entries were made in the control accounts.

(vii) No entries had been made in respect of goods returned by a customer on 31 December 2008. These goods had a cost of $1,000 and were listed at a mark-up of 30%. A trade discount of 5% had been given to the customer.

(viii) A purchase of office equipment for $4,000 had been recorded as a credit purchase of goods.

You are required to prepare:

(a) the sales ledger control and the purchases ledger control accounts showing all necessary adjustments; (8 marks)

(b) a statement to calculate the total of sales ledger before adjustments as at 31 December 2008; and (3 marks)

(c) a statement to calculate the total of purchases ledger before adjustments as at 31 December 2008. (3 marks)

Question 4

The financial statements of Beautiful Limited for the year ended 31 December 2008 are shown below:

Trading and profit and loss account for the year ended 31 December 2008

	$	$
Sales		500,500
Less: Cost of sales		400,000
Gross profit		100,500
Less: Administrative expenses	32,000	
Selling and distribution expenses	18,000	50,000
Net profit		50,500

Balance sheet as at 31 December 2008

		$	$
Fixed assets (at net book value)			
Plant and equipment			155,000
Fixtures and fittings			105,000
			260,000
Current assets			
Stock		100,000	
Debtors		98,100	
Prepayments		10,000	
Bank		11,900	
		220,000	
Less: Current liabilities			
Creditors	85,400		
Accruals	16,600	102,000	
Net current assets			118,000
			378,000
Ordinary share capital			300,000
Reserves			78,000
			378,000

Additional information:

(i) The stock at 31 December 2008 was twice as much as that in 1 January 2008.

(ii) 20% of sales were cash sales and 80% of sales were credit sales.

The company had the following ratios for the year 2007:

Gross profit ratio	22.16%
Net profit ratio	12.68%
Current ratio	1.94:1
Quick ratio	0.98:1
Stock turnover rate	6.28 times
Debtors' collection period	3.16 months
Creditors' collection period	1.78 months
Return on capital employed	15.86%

You are required to:

(a) Compute the following ratios for the year 2008:

- (i) Gross profit ratio
- (ii) Net profit ratio
- (iii) Current ratio
- (iv) Quick ratio
- (v) Stock turnover rate
- (vi) Debtors' collection period (in months)
- (vii) Creditors' payment period (in months)
- (viii) Return on capital employed

(Calculations to two decimal places) (10 marks)

(b) Comment briefly on the profitability and liquidity of Beautiful Limited for the year 2008. (4 marks)

Section B

Answer any **TWO** questions from this section. Each question carries 29 marks. Write your answers on the answer sheets provided.

Question 5

Ricky Ltd is a manufacturer of cigar. The following trial balance was prepared at 31 December 2008:

Ricky Ltd

Trial balance as at 31 December 2008

	$	$
Office premises at net book value	141,700	
Carriage inwards	1,254	
Miscellaneous expenses	1,400	
Retained profit as at 31 December 2007		47,941
Sales commissions	3,740	
Purchases and sales	67,300	300,000
Stock as at 1 January 2008		
Raw materials	18,710	
Work in progress	7,610	
Finished goods	3,800	
Cash	7,900	
Factory wages	26,000	
Returns	315	515
Discounts	570	501
Provision for doubtful debts		53
General reserve		2,300
12% debenture		33,500
Carriage outwards	781	
Electricity	16,980	
Debtors and creditors	1,780	1,900
Plant and machinery at net book value	179,140	
Directors' remuneration	15,000	
Insurance	32,100	
Issued ordinary share capital of $1.6 each, fully paid		166,400
Issued 6% preference share capital of $5 each, fully paid		50,000
Bank	63,330	
Office staff salaries	13,700	
	603,110	603,110

Additional information:

(i) 75% factory wages was direct wages.

(ii) Apportionment of expenses:

	Factory	Office
Insurance	2/3	1/3
Electricity	4/5	1/5
Miscellaneous expenses	1/2	1/2

(iii) The directors proposed a final dividend of $0.7 per ordinary share. Besides, they decided to transfer $4,000 to general reserve and $15,000 to fixed assets replacement reserve.

(iv) Provision for doubtful debts is 1.5% on net debtors.

(v) Annual depreciation of office premises, as well as plant and machinery are 5% and 15% respectively on net book value.

(vi) The company has an authorized ordinary and preference share capital of $200,000 and $50,000 respectively.

(vii) Bad debts $180 was omitted from the books.

(viii) Miscellaneous expense was accrued by $150.

(ix) Stock as at 31 December 2008 were: raw materials $47,600; work in progress $17,600; and finished goods $33,000.

Required:

Prepare a manufacturing, trading and profit and loss appropriation account for the year ended 31 December 2008, together with a balance sheet at that date. (29 marks)

Question 6

Wong and Chiu were in partnership for many years and shared profits and losses equally. On 1 February 2008, See was admitted to the partnership with the following arrangements:

(i) Profits or losses of January 2008 were to be shared between Wong and Chiu only.

(ii) The following assets were revalued:

	Balance at 31 January 2008	New valuation
	$	$
Premises	300,000	400,000
Equipment	45,000	39,000
Fixtures	20,000	12,000

(iii) On 1 February 2008, the partners also decided to make a doubtful debt provision of $2,200 on the debtors of $54,000.

(iv) Goodwill was to be valued at $60,000. No goodwill account was to be opened.

(v) Starting from 1 February, the three partners, Wong, Chiu and See shared profits and losses in the ratio 1:2:3 respectively.

The new partnership continued to use the books of the business and no entries, except the capital contribution of $170,000 from See, were made to reflect the above transactions relating to the admission of See.

The new business did not operate as successfully as originally expected. Heavy losses were incurred and the partnership was dissolved on 31 December 2008.

The list of balances at 31 December 2008 immediately before the dissolution is shown below:

	Dr	Cr
	$	$
Premises	300,000	
Equipment	45,000	
Fixtures	20,000	
Stock	10,000	
Debtors	22,000	
Capital accounts:		
Wong		50,000
Chiu		50,000
See		170,000
Current accounts:		
Wong		36,000
Chiu		40,000
Bank loan		400,000
Cash at bank	4,000	
Creditors		123,000
Net loss for the year ended 31 December 2008	468,000	
	869,000	869,000

The following arrangements were made to dissolve the partnership:

(i) All fixed assets and the bank loan were taken over by Wong at their book values after adjusting for revaluation as described above. Other assets were sold for cash as follows:

	$
Stock	5,000
Debtors	20,000

(ii) Expenses paid for realization of assets amounted to $3,500 and creditors were settled at $120,000.

(iii) All partners contributed cash to settle their deficiency in the partnership.

You are required to prepare:

(a) the revaluation account to record revaluations made on 1 February 2008; (3 marks)

(b) the partnership profit and loss appropriation account in columnar form for the period 1 January to 31 January and 1 February to 31 December, assuming all income and expenses accrued evenly over the year; (3.5 marks)

(c) the realization account; (6 marks)

(d) the bank account; and (3 marks)

(e) the partners' capital and current accounts in columnar form, showing all necessary adjustments. (13.5 marks)

Question 7

Alfred is a sole trader selling only one type of goods on credit at a uniform gross profit of 25% on cost. On 28 February 2009, a fire occurred which destroyed all his stock and most of his financial records.

In assessing the loss suffered by Alfred, you ascertained the following information:

(i) The net assets of the business were as follows:

	31 Dec 2008	28 Feb 2009
	$	$
Fixed assets	69,700	?
Stock	144,060	?
Trade debtors	69,060	86,200
Insurance prepaid	2,470	-
Insurance accrued	-	3,150
Cash in hand	2,990	2,690
Cash at bank	36,420	?
Trade creditors	122,010	26,000
Bank loan	86,700	?

(ii) An analysis of the bank statements for the period 1 January 2009 to 28 February 2009 provided the following summary:

	$
Deposits	317,300
Payments	
Repayment of bank loan	5,250
Trade creditors	287,500
Personal expenses of the owner	15,900
Insurance	12,000
Rent for the quarter ended 31 March 2009	10,200
Bank charges	1,010

(iii) The following payments were made out of takings before banking:

	$
Cash drawings	?
Wages of part-time	3,900
Miscellaneous expenses	4,550

(iv) In late February, goods costing $40,000 were sent to a customer for inspection. The customer confirmed his acceptance of the goods on 8 March 2009.

(v) Sales for January and February were $351,000.

(vi) During the period, a debtor was agreed to offset the amount own to him with the amount due from him by $3,450.

(vii) Depreciation was ignored.

You are required to prepare:

(a) a statement of affairs showing the capital balance as at 31 December 2008; (4.5 marks)

(b) a two-column cash book; (9.5 marks)

(c) a trading and profit and loss account for the period ended 28 February 2009 showing clearly the amount of stock loss; and (9 marks)

(d) a balance sheet as at that date. (6 marks)

END OF PAPER

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F5 Principles of Accounts

Suggested Solutions

<u>Question 1</u>

(a) Conservatism (Prudence) concept

- Conservatism means that when choosing among accounting alternatives, the best choice is one that is least likely to overstate assets and profits.
- The company should adopt the lower of cost or market value in the valuation of stock.
- The damaged stock should be valued at market value.
- The loss in damaged stock should be recognized / recorded in the trading or profit and loss account. (4 marks)

(b) Accrual concept

- Under the accrual concept, revenues and expenses are accrued, i.e. revenues and expenses are recognized and included in the financial statements when they are earned or incurred, not when they are received or paid in cash.
- Rental income accrued for November and December should be included as revenues in the current accounting period. (3 marks)

(c) Materiality principle

- The principle of materiality justifies expensing small capital expenditures rather than treating them as depreciable assets.
- However, when the cost of the motor van is significant enough to influence the decisions of users, it should then be capitalized and depreciated. (3 marks)

(d) Realisation principle

- Revenue for a financial year is determined by applying the realization principle, which requires that revenue be recognized in the period when goods are sold or when services are rendered.
- The sales revenue for the year ended 31 December 2008 should not include the sales order of $200,000. The revenue should only be recognized upon the delivery of goods in January 2009. (4 marks)

Question 2

(a)

Date of transaction	Name of book of original entry	Debit Account name	Debit Ledger	Credit Account name	Credit Ledger
Mar 1	**General journal**	**Motor van**	**General ledger**	**Capital**	**General ledger**
Mar 4	Purchase journal	Purchases	General ledger	Creditors	Purchase ledger
Mar 20	General journal	Office equipment	General ledger	Other creditors	General ledger
Mar 25	General journal	Drawings	General ledger	Purchases	General ledger
Mar 29	Cash book	Drawings	General ledger	Bank	Cash book

(0.5 mark each)

(b)

Grape Company

Bank reconciliation Statement as at 31 March 2008

	$	$	
Balance as per cash book		16,980	
Add : (i) Unpresented cheque	8,500		**1**
(iii) Direct deposit	4,500	13,000	**1**
		29,980	
Less: (ii) Uncredited deposit	2,380		**1**
(iv) Auto-pay	2,400	4,780	**1**
Balance as per bank statement		25,200	

Question 3

(a)

Sales ledger control

	$			$	
Bal b/f	30,511	**0.5**	Contra (vi)	610	**0.5**
Discounts received (ii)	2,018	**0.5**	Returns inwards (vii)	1,235	**1**
			(1,000 × 1.3 × 0.95)		
			Bal c/f	30,684	**0.5**
	32,529			32,529	

Purchases ledger control

	$			$	
Discounts received (ii)	1,280	**0.5**	Bal b/f	27,606	**0.5**
Contra (vi)	610	**0.5**	Purchases undercast (i)	1,531	**1**
Office equipment (vii)	4,000	**1**	Carriage inwards (v)	452	**1**
Bal c/f	23,699	**0.5**			
	29,589			29,589	

(b)

Rebecca

Statement to ascertain the total balance of the sales ledger before corrections

			$	
Total balance of the sales ledger before corrections			33,043	**0.5**
Add	(iv) Debit balance treated as credit		76	**1**
			33,119	
Less	(vi) Contra posted wrong side (610 × 2)	1,220		**0.5**
	(vii) Returns inwards	1,235	2,435	**1**
Total balance of the sales ledger after corrections			30,684	**0.5**

(c)

Rebecca

Statement to ascertain the total balance of the purchases ledger before corrections

			$	
Total balance of the purchases ledger before corrections			28,919	**0.5**
Less	(vi) Contra posted wrong side (610 × 2)	1,220		**0.5**
	(viii) Office equipment	4,000	5,220	**1**
Total balance of the purchases ledger after corrections			23,699	**0.5**

Question 4

(a)

(i) Gross profit ratio:

$$\frac{100{,}500}{500{,}500}\times 100\% = 20.08\% \qquad \textbf{(1)}$$

(ii) Net profit ratio

$$\frac{50{,}500}{500{,}500}\times 100\% = 10.09\% \qquad \textbf{(1)}$$

(iii) Current ratio

$$\frac{220{,}000}{102{,}000} = 2.16:1 \qquad \textbf{(1)}$$

(iv) Quick ratio

$$\frac{220{,}000-100{,}000}{102{,}000} = 1.18:1 \qquad \textbf{(1)}$$

(v) Stock turnover rate

$$\frac{400{,}000}{(50{,}000+100{,}000)/2} = 5.33 \text{ times} \qquad \textbf{(1)}$$

(vi) Debtors' collection period

$$\frac{98{,}100}{400{,}400}\times 12 \text{ months} = 2.94 \text{ months} \qquad \textbf{(1)}$$

(vii) Creditors' payment period

$$\frac{85{,}400}{400{,}000+100{,}000-50{,}000}\times 12 \text{ months} = 2.28 \text{ months} \qquad \textbf{(2)}$$

(viii) Return on capital employed

$$\frac{50{,}500}{378{,}000}\times 100\% = 13.36\% \qquad \textbf{(2)}$$

(b) Profitability

The profitability of the company has deteriorated as shown by decreases in the gross profit ratio, the net profit ratio and the return on capital employed. **(2)**

Liquidity

The liquidity position of the company has improved as shown by increases in the current ratio, the quick ratio and the creditors' payment period and a shortening of the debtors' collection period. However, the company was slower in selling its stock in 2008. **(2)**

Question 5

Ricky Ltd

Manufacturing, trading and profit and loss account for the year ended 31 December 2008

	$	$	$	
Raw materials consumed				
Opening stock		18,710		**0.5**
Add Purchase	67,300			**0.5**
Carriage inwards	1,254			**0.5**
Less Returns inwards	515	68,039		**0.5**
		86,749		
Less Closing stock		47,600	39,149	**0.5**
Direct wages (26,000 × 75%)			19,500	**0.5**
Prime cost			58,649	
Factory overhead				
Indirect wages (26,000 × 25%)		6,500		**0.5**
Miscellaneous expenses (1,400 + 150) × 1/2		775		**0.5**
Electricity (16,980 × 4/5)		13,584		**0.5**
Insurance (32,100 × 2/3)		21,400		**0.5**
Depreciation – plant and machinery (179,140 × 15%)		26,871	69,130	**0.5**
			127,779	
Add: Work-in-progress as at 1.1.2008			7,610	**0.5**
			135,389	
Less: Work-in-progress as at 31.12.2008			17,600	**0.5**
Production cost of goods completed			117,789	
Sales			300,000	**0.5**
Less: Returns inwards			315	**0.5**
			299,685	
Less: Cost of goods sold				
Opening stock		3,800		**0.5**
Add: Production cost of goods completed		117,789		**0.5**
		121,589		
Less: Closing stock		33,000	88,589	**0.5**
Gross profit			211,096	
Add: Discounts received			501	**0.5**
Decrease in provision for doubtful debts			29	**1**
[53 – (1,780 – 180) × 1.5%]				
			211,626	
Less: Expenses				
Miscellaneous expenses (1,400 + 150) × 1/2		775		**0.5**
Sales commission		3,740		**0.5**
Discounts allowed		570		**0.5**
Carriage outwards		781		**0.5**

Electricity (16,980 × 1/5)		3,396		**0.5**
Directors' remuneration		15,000		**0.5**
Insurance (32,100 × 1/3)		10,700		**0.5**
Office staff salaries		13,700		**0.5**
Bad debts		180		**0.5**
Depreciation – office premises (141,700 × 5%)		7,085		**0.5**
Debenture interest (33,500 × 12%)		4,020	59,947	**0.5**
Net profit			151,679	
Add: Retained profit b/f			47,941	**0.5**
			199,620	
Less: Appropriations				
Transfer to general reserve		4,000		**0.5**
Transfer to fixed assets replacement reserve		15,000		**0.5**
Proposed final dividend (166,400 ÷ 1.6 × 0.7)		72,800		**1**
Proposed preference dividend (50,000 × 6%)		3,000	94,800	**0.5**
Retained profit c/f			104,820	**0.5**

Ricky Ltd

Balance sheet as at 31 December 2008

		$	$	
Fixed assets				
Office premises (141,700 – 7,085)			134,615	**0.5**
Plant and machinery (179,140 – 26,871)			152,269	**0.5**
			286,884	
Current assets				
Stock				
Raw materials		47,600		**0.5**
Work in progress		17,600		**0.5**
Finished goods		33,000		**0.5**
Debtors (1,780 – 180)	1,600			
Less: Provision for doubtful debts	24	1,576		**0.5**
Bank		63,330		**0.5**
Cash		7,900		**0.5**
		171,006		
Less: Current Liabilities				
Creditors	1,900			**0.5**
Accruals (150 + 4,020)	4,170			**0.5**
Proposed dividend	75,800	81,870		**0.5**
Net current assets			89,136	
Less: Long term Liabilities				
12% debentures			33,500	**0.5**
			342,520	

Authorized share capital		
Ordinary share capital of $1.6 each	200,000	**0.5**
Preference share capital of $5 each	50,000	**0.5**
Issued share capital		
Ordinary share capital of $1.6 each	166,400	**0.5**
Preference share capital of $5 each	50,000	**0.5**
General reserve (2,300 + 4,000)	6,300	**0.5**
Fixed assets replacement reserve	15,000	**0.5**
Retained profits	104,820	**0.5**
	342,520	

Question 6

(a)

Revaluation

	$			$	
Equipment (45,000 – 39,000)	6,000	**0.5**	Premises	100,000	**0.5**
			(400,000 – 300,000)		
Fixtures (20,000 – 12,000)	8,000	**0.5**			
Provision for doubtful debts	2,200	**0.5**			
Profit on revaluation					
Wong	41,900	**0.5**			
Chiu	41,900	**0.5**			
	100,000			100,000	

(b)

Profit and loss appropriation account

	1/1/2008 – 31/1/2008	1/2/2008 – 31/12/2008	
Net loss	39,000	429,000	**1**
Share of loss			
Wong	19,500	71,500	**1**
Chiu	19,500	143,000	**1**
See		214,500	**0.5**
	39,000	429,000	

(c)

Realisation

	$			$	
Premises	400,000	**0.5**	Bank – Stock	5,000	**0.5**
Equipment	39,000	**0.5**	– Debtors	20,000	
Fixtures	12,000	**0.5**	Capital – Wong	451,000	**0.5**
Stock	10,000	**0.5**	Discounts received	3,000	**0.5**
Debtors (22,000 – 2,200)	19,800	**0.5**	Loss on realization		
Realization expenses	3,500	**0.5**	Wong	883	**0.5**
			Chiu	1,767	**0.5**
			See	2,650	**0.5**
	484,300			484,300	

(d)

Bank

	$			$	
Bal b/f	4,000		Realization expenses	3,500	**0.5**
Realization – Stock	5,000	**0.5**	Creditors	120,000	**0.5**
– Debtors	20,000		Capital – Wong	5,017	**0.5**
Capital – Chiu	22,367	**0.5**			
Capital – See	77,150	**0.5**			
	128,517			128,517	

(e)

Capital

	Wong	Chiu	See			Wong	Chiu	See	
	$	$	$			$	$	$	
Goodwill written off	10,000	20,000	30,000	**1.5**	Bal b/f	50,000	50,000	170,000	**1.5**
Current	55,000	122,500	214,500	**1.5**	Profit on revaluation	41,900	41,900		**1**
Realization – Asset taking over	451,000			**0.5**	Goodwill	30,000	30,000		
Loss on realization	883	1,767	2,650	**1.5**	Bank Loan	400,000			**0.5**
Bank	5,017			**0.5**	Bank		22,367	77,150	**1**
	521,900	144,267	247,150			521,900	144,267	247,150	

Current

	Wong	Chiu	See			Wong	Chiu	See	
	$	$				$	$		
Share of loss	19,500	19,500		**1.5**	Bal b/f	36,000	40,000		**1**
Share of loss	71,500	143,000	214,500		Capital	55,000	122,500	214,500	**1.5**
	91,000	162,500	214,500			91,000	162,500	214,500	

Question 7

(a)

Alfred

Statement of affairs as at 31 December 2008

	$	$	
Fixed assets		69,700	**0.5**
Current assets			
Inventory	144,060		**0.5**
Debtors	69,060		**0.5**
Prepayment	2,470		**0.5**
Cash at bank	36,420		**0.5**
Cash in hand	2,990		**0.5**
	255,000		
Less: Current liabilities			
Creditors	122,010		**0.5**
Net current assets		132,990	
		202,690	
Less: Long-term liabilities			
Bank loan		86,700	**0.5**
		115,990	
Financed by:			
Capital as at 31 December 2008		115,990	**0.5**

(b)

Cash book

		Bank	Cash				Bank	Cash	
2009		$	$		2009		$	$	
Jan 1	Bal b/f	36,420	2,990	**1**	Feb 28	Bank loan	5,250		**0.5**
Feb 28	Debtors (W1)		330,410	**1.5**	Feb 28	Creditors	287,500		**0.5**
Feb 28	Cash	317,300		**0.5**	Feb 28	Drawings (Bal. fig.)	15,900	4,960	**1.5**
					Feb 28	Insurance	12,000		**0.5**
					Feb 28	Rent	10,200		**0.5**
					Feb 28	Bank charges	1,010		**0.5**
					Feb 28	Wages		3,900	**0.5**
					Feb	Miscellaneous		4,550	**0.5**

				28	expenses				
				Feb 28	Bank		317,300	**0.5**
				Feb 28	Bal c/f	21,860	2,690	**1**
	353,720	333,400				353,720	333,400	

(W1)

Trade debtors

	$		$
Bal b/f	69,060	Contra	3,450
Sales	351,000	Cash (Balancing figure)	330,410
		Bal c/f	86,200
	420,060		420,060

(c)

Alfred

Trading and profit and loss account for the period ended 28 February 2009

	$	$	$	
Sales			351,000	**0.5**
Less: Cost of goods sold				
Opening stock		144,060		**0.5**
Add: Purchases (W2)		194,940		**1.5**
		339,000		
Less: Closing stock		40,000		**0.5**
		299,000		
Less: Stock loss (Balancing figure)		18,200	280,800	**1**
Gross profit (351,000 × 25/125)			70,200	**1**
Less: Expenses				
Insurance (12,000 + 2,470 + 3,150)		17,620		**1**
Rent (10,200 × 2/3)		6,800		**0.5**
Bank charges		1,010		**0.5**
Wages		3,900		**0.5**
Miscellaneous expenses		4,550		**0.5**
Stock loss		18,200	52,080	**0.5**
Net profit			18,120	**0.5**

(W2)

Trade creditors

	$		$
Bank	287,500	Bal b/f	122,010
Contra	3,450	Purchases (Balancing figure)	194,940
Bal c/f	26,000		

316,950	316,950

(d)

Alfred

Balance sheet as at 28 February 2009

		$	$	
Fixed assets			69,700	**0.5**
Current assets				
Inventory		40,000		**0.5**
Debtors		86,200		**0.5**
Prepayment (10,200 × 1/3)		3,400		**0.5**
Cash at bank		21,860		**0.5**
Cash in hand		2,690		**0.5**
		154,150		
Less: Current liabilities				
Creditors	26,000			**0.5**
Accruals	3,150	29,150		**0.5**
Net current assets			125,000	
			194,700	
Less: Long-term liabilities				
Bank loan (86,700 – 5,250)			81,450	**0.5**
			113,250	
Financed by:				
Capital as at 31 December 2008			115,990	**0.5**
Net profit			18,120	**0.5**
			134,110	
Less: Drawings			20,860	**0.5**
			113,250	