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Question	Answer	Marks

1(a)	**Brian account**
	
	               $ $
	2016 *2017*
	Aug 1 Balance b/d 1 000 July 31 Cash 720 **(1)**
	                                Bad debts 280 **(1)**
	                1 000 1 000
	
	Bad debts account
	
	               $ $
	2017 2017
	July 31 Total to date 990 July 31 Income
	Brian 280 **(1)** Statement 1 270 **(1)OF**
	              1 270 1 270
	
	Bad debts recovered account
	
	           $ $
	2017 2017
	July 31 Income July 31 Bank
	     Statement* 118 **(1)** (AL Stores) 118 **(1)**
	              118 118
	* Alternately accept transfer to bad debts account and net transfer from bad debts to income statement
	
	Rent account
	
	              $ $
	2017 2017
	July 31 Total paid 5 200 July 31 Balance c/d 400
	                             Drawings 1 200 **(1)**
	                             Income Statement 3 600 **(1)OF**
	              5 200 5 200
	2017
	Aug 1 Balance b/d 400 **(1)**
	
	Drawings account
	
	              $ $
	2017 2017
	July 31 Total to date 9 650 July 31 Capital 10 850 **(1)OF**
	     Rent 1 200 **(1)OF**
	             10 850 10 850
	
	Commission receivable account
	
	            $ $
	2017 *2017*
	July 31 Income *July 31* *Total to date* 890
	     Statement 1 040 **(1)** Balance c/d 150
	             1 040 1 040
	2017
	Aug 1 Balance b/d 150 **(1)**
		15

Question	Answer	Marks

1(a)	Provision for depreciation of office fixtures account
	
	                     $ $
	2017 *2016*
	July 31 Balance c/d 15 435 *Aug 1 Balance b/d 11 100*
	                                2017
	                                July 31 Income 4 335 **(1)**
	                                       Statement
	               15 435 15 435
	                            2017
	                            Aug 1 Balance b/d 15 435 **(1)OF**	

1(b)	An estimate **(1)** of the amount which a business will lose/be unable to collect in a financial year because of bad debts **(1)**	**2**
1(c)	Percentage of the total amount owing by credit customers Estimating which individual credit customers will not pay their accounts Considering the length of time the debts have been outstanding Estimate, based on experience, of amount lost each year from bad debts **Any 1 point (1)**	**1**
1(d)		**2**

debit	credit
Income statement **(1)**	Provision for doubtful debts **(1)**

Question	Answer	Marks
1(e)	The profit for the year is not overstated **(1)** The trade receivables (current assets) are not overstated/shown at more realistic value **(1)**	**2**
1(f)	The sales for which a business is unlikely to be paid **(1)** are regarded as an expense of the year in which those sales are made **(1)**	**2**
1(g)	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 Allow cash discount for prompt payment Charge interest on overdue accounts **Any 2 points (1) each**	**2**

Question	Answer	Marks
2(a)	<table><tr><td></td><td>debit</td><td>credit</td><td>no entry</td></tr><tr><td>opening balance owed by credit customers</td><td>✓(1)</td><td></td><td></td></tr><tr><td>credit sales</td><td>✓(1)</td><td></td><td></td></tr><tr><td>cash sales</td><td></td><td></td><td>✓(1)</td></tr><tr><td>provision for doubtful debts</td><td></td><td></td><td>✓(1)</td></tr><tr><td>bad debts written off</td><td></td><td>✓(1)</td><td></td></tr><tr><td>cash discount allowed to credit customers</td><td></td><td>✓(1)</td><td></td></tr><tr><td>trade discount allowed to credit customers</td><td></td><td></td><td>✓(1)</td></tr><tr><td>contra between sales and purchases ledger</td><td></td><td>✓(1)</td><td></td></tr><tr><td>cash received from credit customers</td><td></td><td>✓(1)</td><td></td></tr></table>	9
2(b)	<table><tr><td></td><td>book of prime (original) entry</td></tr><tr><td>returns to credit suppliers</td><td>purchases returns journal **(1)**</td></tr><tr><td>discount received</td><td>cash book **(1)**</td></tr><tr><td>interest charged by credit supplier</td><td>journal **(1)**</td></tr><tr><td>contra entry to sales ledger control account</td><td>journal **(1)**</td></tr></table>	4
2(c)(i)	An entry which appears on the debit side of the purchases ledger control account and the credit of the sales ledger control account **(1)**	1
2(c)(ii)	It is made when a sales ledger account is set off against a purchases ledger account of the same person/business **(1)**	1
2(d)	Overpayment of the amount owing Failure to deduct cash discount due Goods returned after account settled Payment made in advance **Any 2 reasons (1) each**	2
2(e)(i)	$\dfrac{\text{Trade receivables}}{\text{Credit sales}} \times \dfrac{365}{1}$ } **whole formula (1)**	1
2(e)(ii)	$\dfrac{20\,520}{186\,700} \times \dfrac{365}{1}$ } **whole formula (1)** = 40.11 = 41 days **(1)**	2
2(f)	Offer cash discount for prompt payment Charge interest on overdue accounts Improve credit control/send invoices or statements promptly Refuse further supplies until outstanding balance paid Invoice discounting and debt factoring **Any 2 points (1) each**	2

Question	Answer	Marks
2(g)	$\dfrac{\text{Trade payables}}{\text{Credit purchases}} \times \dfrac{365}{1}$ **} whole formula (1)**	**1**
2(h)	Will not be pleased May refuse further supplies May charge interest May issue stern reminders/threaten legal action **Or other suitable comment** **Any 2 comments (1) each**	**2**

Question	Answer	Marks
3(a)		**5**

		$	$	
Subscriptions received			12 540	**(1)**
Add Subscriptions outstanding at year end			240	**(1)**
			12 780	
Less Subscriptions prepaid at year end		180 **(1)**		
Subscriptions outstanding at start of year		600 **(1)**	780	
Subscriptions for the year			12 000	**(1)**

Accept alternative presentation

3(b)   Marks: **9**

AS Sports Club
Income and Expenditure Account for the year ended 30 September 2017

	$	$	$
Income			
Subscriptions			12 000 **(1)OF**
Profit on shop – revenue	3 510		
– less purchases	2 410	1 100 **(1)**	
		13 100	
Expenditure			
Rates and insurance			
(1500 **(1)** + 60 **(1)**)		1 560	
Open day – expenses	5 250		
less receipts	4 180	1 070 **(1)**	
Rent		1 800 **}(1)**	
General expenses		2 640 **}**	
Loan interest (5% × 7 000)		350 **(1)**	
Depreciation of Equipment			
((22 000 + 8 000) × 20%)		6 000 **(1)**	13 420
Deficit			320 **(1)OF**

Question	Answer	Marks

3(c)	**AS Sports Club**
	Statement of Financial Position at 30 September 2017
	
	                      \$ \$ \$
	Assets
	Non-current assets Cost Accumulated Book
	                              depreciation value
	Equipment 30 000 10 400 **(1)OF** 19 600 **(1)OF**
	
	Current assets
	Other receivables
	(Subscriptions) 240 **(1)**
	
	Total assets 19 840
	
	Liabilities
	
	Accumulated fund
	Opening balance 11 870 **(1)**
	Less Deficit 320 **(1)OF**
	                                     11 550
	
	Non-current liabilities
	Bank loan
	(repayable 2020) 7 000 **(1)**
	
	Current liabilities
	Other payables 350 **(1)OF**
	(loan interest)
	Subscriptions prepaid 180 **(1)**
	Bank 760 **(1)**
	                                      1 290
	
	Total liabilities 19 840
		9

3(d)	Loan interest is an expense account/any accrued interest is a current liability **(1)** The loan is a non-current liability **(1)** **Accept other valid points**	2

Question	Answer	Marks
4(a)	(87 500 + 56 200 + 100) : (81 500 + 17 100) = 143 800 : 98 600 **(1) whole formula** = 1.46 : 1 **(1)**	2
4(b)	Current assets only approximately 1½ times the current liabilities Lower than the "benchmark" of 2:1 Can meet the current liabilities from the current assets Do not have a lot of surplus current assets available after paying current liabilities Seems to be a little inadequate (depending on the type of business) **Comments to be based on answer to (a)** **Any 2 comments (1) each**	2

Question	Answer	Marks
4(c)	(56 200 + 100) : (81 500 + 17 100) = 56 300 : 98 600 **(1) whole formula** = 0.57 : 1 **(1)**	**2**
4(d)	Increased expenditure on inventory Increase in bank overdraft/change from positive bank balance to overdraft Purchase of non-current assets Repayment of long-term loan Increase in current liabilities/increase in trade payables Decrease in trade receivables Decrease in cash Increase in drawings **Any 2 reasons (1) each**	**2**
4(e)	Unable to pay debts when they fall due Unable to take advantage of cash discounts Unable to take advantage of business opportunities when they arise May have difficulty in obtaining further supplies May not be able to take drawings **Any 2 points (1) each**	**2**

4(f) — **4**

	current ratio			quick ratio		
	increase	decrease	no effect	increase	decrease	no effect
introduce $20 000 additional capital	✓			✓		
obtain short-term bank loan of $10 000			✓(1)			✓(1)
sell half the inventory at cost price			✓(1)	✓(1)		

Question	Answer	Marks
4(g)	$$\frac{\text{Cost of sales}}{\text{Average inventory}}$$	**1**
4(h)	$$\frac{765\,990}{(87\,500 + 72\,000) \div 2} \quad \textbf{Or} \quad \frac{765\,990}{87\,500 - (15\,500 \div 2)}$$ $$= \frac{765\,990}{79\,750} \} \textbf{(1)}$$ = 9.60 times **(1)**	**2**
4(i)	Higher inventory levels Lower sales activity **Or other suitable reason** **Any 2 reasons (1) each**	**2**

Question	Answer	Marks
5(a)	$$\frac{43\,000}{(500\,000 + 11\,000 + 14\,000 + 75\,000}$$ $$= \frac{43\,000}{600\,000} \; \textbf{(1)} \; \times \frac{100}{1}$$ **(1)** $$= 7.17\% \; \textbf{(1)}$$	3
5(b)	$$\frac{25\,000}{500\,000} \times \frac{100}{1}$$ $$= 5\%$$	1
5(c)	$$\frac{15\,000 + 30\,000}{500\,000 + 100\,000} \times \frac{100}{1}$$ $$= \frac{45\,000}{600\,000} \; \begin{array}{l}\textbf{(1)}\\\textbf{(1)}\end{array}$$ $$= 7.5\% \; \textbf{(1)}$$	3
5(d)	$71\,000 - (3\% \times 75\,000)$ **(1)** $= 71\,000 - 2250$ $= 68\,750$ **(1)**	2

5(e) — Marks: 7

CP Limited
Statement of Changes in Equity for the year ended 30 September 2017

	Ordinary share capital	General reserve	Retained earnings	Total	
	$	$	$	$	
On 1 October 2016	500 000	11 000	14 000	525 000	(1)
Share issue	100 000			100 000	(1)
Profit for the year			68 750	68 750	(1)OF
Dividend paid (for year ended 30 September 2016)			(25 000)	(25 000)	(1)
Dividend paid (for year ended 30 September 2017)			(15 000)	(15 000)	(1)
Transfer to general reserve		5 000	(5 000)		(1)
On 30 September 2017	600 000	16 000	37 750	653 750	(1)

Question	Answer	Marks
5(f)	Long term loans Debenture holders are not members of the company Do not carry voting rights Carry a fixed rate of interest Interest is not dependent on the company's profit Are often secured on the assets of the company's Debenture holders are repaid before the shareholders in a winding-up **Any 2 features (1) each**	2
5(g)	Carry a fixed rate of dividend Dividend may not be paid if there is not enough profit Dividend is paid before ordinary share dividend Preference shareholders are members of the company Do not usually carry voting rights Capital is repaid before ordinary share capital in a winding-up Are not secured on the assets of the company **Any 2 features (1) each**	2
5(h)	(see table below)	5

	increase $	decrease $	no effect
effect on current assets	*300 000*		
effect on non-current liabilities	300 000 **(1)**		
effect on profit for the year		9 000 **(2)***	
effect on profit available for ordinary shareholders		9 000 **(1)OF**	
effect on equity			✓**(1)**

* (1) position + (1) amount