

Section 1: Accounting as a profession

No.	Answers	Further Explanations
1	D	
2	B	
3	D	
4	B	
5	D	
6	C	
7	C	
8	D	All industries use cash in their businesses. Therefore, people trained and skilled in accounting are needed in all of them.
9	B	
10	D	
11	C	
12	A	
13	D	
14	D	
15	A	
16	D	

Section 2: Accounting as a system

No.	Answers	Further Explanations
1	C	
2	B	
3	A	
4	C	
5	C	
6	A	
7	A	
8	D	
9	A	
10	C	
11	D	
12	A	Assets = Capital + Liabilities Capital = Assets - Liabilities Assets = 80 500 Liabilities = 5 500 Capital = 80 500 - 5 500
13	A	
14	A	
15	C	
16	C	
17	A	
18	D	

No.	Answers	Further Explanations
19	A	
20	B	
21	A	
22	D	
23	C	
24	A	
25	D	
26	C	

Section 3: Books of original entry

No.	Answers	Further Explanations
1	A	
2	C	When goods are undercharged the additional charges are entered in the Sales/Purchases Journal, whereas overcharges are entered in Returns Journals.
3	C	
4	D	
5	D	
6	A	
7	C	
8	A	
9	C	
10	D	

No.	Answers	Further Explanations
11	B	The term '5/14, n/30' means that the customer is entitled to a 5% cash discount if the amount is paid within 14 days, otherwise the balance is due in 30 days.
12	C	
13	B	
14	B	
15	B	
16	D	
17	A	
18	D	
19	A	
20	C	The amount to be entered in the Purchases Journal is the list price less the trade discount. $\$1\,800 - (10\% \text{ of } 1\,800) = 1\,800 - 180 = \$1\,620$. The cash discount will only become effective if the debt is settled within the given time frame.
21	B	
22	B	
23	A	Since the discount is already deducted the \$2 910 represents 97% (100% - 3%). $1\% = 2\,910 \div 97 = \$30$. Therefore $3\% = \$30 \times 3 = \90 .
24	B	Stapler Inc. allowed a discount – Mr. Gary received the discount.
25	B	
26	D	
27	D	
28	A	

No.	Answers	Further Explanations
29	B	
30	D	

Section 4: Ledgers and trial balance

No.	Answers	Further Explanations
1	D	
2	C	
3	A	
4	C	
5	D	
6	B	
7	D	
8	C	
9	D	
10	C	
11	C	<p>Calculation of discount = total debt \times discount = $500 \times 5\% = \\$25$</p> <p>Net cash = total debt – discount = $500 - 25 = \\$475$</p> <p>Therefore, in the books of M & M Limited, Ariel's account will be debited for the full amount of \$500. However, the Cash account cannot be credited for \$500 because of the 5% cash discount. Therefore the net cash is \$475 and the Discount Received account will be credited \$25.</p>
12	D	The equipment purchased is an asset. All assets are debited. Raebekah is a creditor, and therefore that account has to be credited.
13	A	The cost of the motor vehicle is \$100 000. However, the total amount of money was not paid in full at the time of the acquisition. The amount paid was \$10 000 and an old motor vehicle traded in. The calculation of the trade in value of the old motor vehicle is \$90 000 ($\$100\,000 - \$10\,000$).

No.	Answers	Further Explanations
14	D	The amount taken as goods by Ateeba for his own use in the business will reduce total purchases. Note that debit drawing, credit sales is incorrect, as the owner is taking inventory out of the business and not paying for it.
15	A	
16	B	
17	A	
18	D	
19	B	
20	C	
21	C	
22	A	
23	C	
24	A	
25	D	
26	A	To balance Accounts Receivable - Aaliyah Devulge's account add the total debits less total credits: Total debits: $800 + 3\,000 + 2\,000 = 5\,800$. Total credits: $800 + 2\,500 + 300 + 1\,500 = 5\,100$. The balance is 700. As the debit side is greater than the credit, the balance of \$700 is a debit balance.
27	C	To balance the cash accounts add the total debits less total credits: Total debits: $10\,000 + 3\,000 = 13\,000$ Total credits: $8\,000 + 3\,000 = 11\,000$ The balance carried down is 2 000

No.	Answers	Further Explanations
28	B	According to the invoice, Riaz should be paying a total of \$8 000. However, he is given a trade discount of 25%, and therefore his bill is reduced by \$2 000 ($8\,000 \times 25\%$) so he has to pay \$6 000 ($8\,000 - 2\,000$). As Riaz returned 1/5 of goods the value of goods returned is \$1 200 ($6\,000 \div 5$)
29	D	
30	A	
31	A	
32	B	
33	C	
34	D	
35	A	

Section 5: The preparation and analysis of financial statements of a sole trader

No.	Answers	Further Explanations
1	D	
2	D	
3	B	
4	D	
5	B	
6	B	
7	C	
8	B	
9	A	

No.	Answers	Further Explanations
10	D	
11	B	
12	A	
13	B	
14	B	
15	D	
16	A	Returns Outwards = Purchases – *Net Purchases *Net Purchases = Cost of Goods Available for Sale – Opening Inventory = 38 000 – (37 500 – 4 000) = 4 500
17	B	Net Income = *Gross Profit – Total Expenses *Gross Profit = Net Sales – Cost of Sales Net Income = (57 500 – 35 000) – 10 500 = 12 000
18	D	
19	C	
20	C	
21	B	
22	A	
23	B	
24	A	
25	C	Working Capital = Current Assets – Current Liabilities Working Capital = (7 000 + 500 + 4 000) – (2 000 + 4 500) = 5 000
26	B	Inventory Turnover = Cost of Sales ÷ *Average Inventory *Average Inventory = (Opening Inventory + Closing Inventory) ÷ 2 Inventory Turnover = 34 000 ÷ [(8 600 + 10 800) ÷ 2]

No.	Answers	Further Explanations
27	B	Gross Profit Percentage = $\text{Gross Profit} \div \text{Net Sales} \times 100$ Gross Profit Percentage = $31\,000 \div 65\,000 \times 100 = 47.69\%$
28	C	Net Income = $\text{Net Sales} \times \text{Net Profit Percentage}$ Net Income = $65\,000 \times 18\% = 11\,700$
29	B	
30	D	Working Capital Ratio = $\text{Current Assets} \div \text{Current Liabilities}$ Working Capital Ratio = $(10\,000 + 8\,000 + 3\,000 + 4\,000) \div (15\,000 + 5\,000) = 1.25:1$
31	B	Acid Test Ratio = $(\text{Current Assets} - \text{Inventory}) \div \text{Current Liabilities}$ Acid Test Ratio = $(8\,000 + 3\,000 + 4\,000) \div (15\,000 + 5\,000) = 0.75:1$
32	C	
33	B	Net Income/Net Profit = $\text{Capital at End} + \text{Drawings} - \text{Capital at Start}$ Net Profit = $36\,000 + 4\,000 - (20\,000 + 8\,000) = \$12\,000$
34	B	Net Income = $\text{Capital at End} + \text{Drawings} - \text{Capital at Start} - \text{Additional Capital Invested}$ Net Profit = $49\,000 + 3\,500 - 25\,000 - 7\,000 = \$20\,500$
35	B	$39\,000 + 17\,000 - 45\,000 = \$11\,000$
36	C	The Acid Test Ratio is the ratio that reflects a firm's ability to repay short-term debt if demanded immediately by creditors. This ratio is the best ratio as it shows the assets that can easily be changed into cash by the business at short notice. Inventory is excluded as the business cannot force customers to buy their products to get cash.
37	C	Expense % = $\text{Gross Profit \%} - \text{Net Profit \%}$ Expense % that is highest is Firm B's = $60\% - 30\% = 30\%$

Section 6: Accounting adjustments

No.	Answers	Further Explanations
1	D	
2	D	

No.	Answers	Further Explanations
3	A	
4	B	
5	C	
6	B	
7	A	
8	A	A common error is to work with the totals of the amount and percentage columns, e.g., 6% of \$25 000. This practice is incorrect.
9	D	
10	A	
11	D	
12	A	$\$850 \times 0.40 = \340
13	A	$\$850 - 340 = \510
14	B	
15	D	
16	C	5% of \$25 000 = \$1 250. Remember only the amount of the increase/decrease is Dr/Cr in the Income Statement. Therefore the entry needed is for $\$1250 - \$300 = \$950$.
17	D	The entire amount of the provision (5% of \$25 000) is to be deducted from debtors in the Balance Sheet.
18	A	$[10\ 000 - (10\ 000 \times 5\%)] \times 5\% = \475
19	B	(Fixed Asset at cost \times Depreciation Rate)
20	B	
21	C	
22	C	The balance of the Provision account is equivalent to Accumulated Depreciation under any method.

No.	Answers	Further Explanations
23	B	
24	A	Reducing Balance Method, depreciation = x% of Net Book Value = 10% of (240 000 – 45 600)
25	B	
26	D	
27	B	
28	C	Capital expenditure includes not only the purchase of the fixed asset but all costs needed to bring it to its present location and position.
29	B	
30	C	
31	B	
32	B	
33	B	
34	A	The payment of \$1 800 is for a 3-month period. Therefore the amount of the expense each month is $1\,800/3 = \$600$.
35	A	

Section 7: Control systems

No.	Answers	Further Explanations
1	D	
2	A	
3	A	
4	B	
5	D	

No.	Answers	Further Explanations																
6	B																	
7	D	To correct the error, the difference of the trial balance totals must be calculated ($12\,100 - 11\,200 = 900$). The difference will affect the sales account because the amount from the sales book was overstated by \$900. The sales account has to be reduced by \$900 (Dr sales \$900 and Cr suspense \$900).																
8	C																	
9	A	To calculate the revised profit, add the discount received of \$100 that was understated to the net profit (so that the profit will increase) and deduct the understated purchases of \$150 from the net profit (this will decrease the profit). The revised profit calculation is $(2\,500 + 100 - 150) = 2\,450$.																
10	B																	
11	C																	
12	A																	
13	C																	
14	D																	
15	B Credit sales (balancing figure) 27 500	<p>To calculate the credit sales:</p> <ul style="list-style-type: none"> determine what are the entries to be placed on the debit and credit side of a sales ledger control account post the entries on the correct side of the account find the difference of the two sides (note that the difference or balancing figure should be on the debit side); this difference is credit sales. <p style="text-align: center;">Sales Ledger Control a/c</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 50%;">Debtors at the start</td> <td style="width: 10%; text-align: right;">10 000</td> <td style="width: 50%;">Cash received from debtors</td> <td style="width: 10%; text-align: right;">25 000</td> </tr> <tr> <td></td> <td></td> <td>Bad debts written off</td> <td style="text-align: right;">500</td> </tr> <tr> <td></td> <td></td> <td>Debtors at end of year</td> <td style="text-align: right;">12 000</td> </tr> <tr> <td></td> <td style="text-align: right;">37 500</td> <td></td> <td style="text-align: right;">37 500</td> </tr> </tbody> </table>	Debtors at the start	10 000	Cash received from debtors	25 000			Bad debts written off	500			Debtors at end of year	12 000		37 500		37 500
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No.	Answers	Further Explanations
16	B	To find purchases for the month: total debits less total credits (38 000 – 15 000) = 23 000.
17	B	To find sales for the month: total debits less total credits (30 800 – 51 800) = 13 800. Although the usual balance is a debit balance it is not uncommon to have a credit balance at the end. This credit balance figure must be carried down on the debit side.
18	D	
19	A	
20	D	
21	D	
22	B	The total credit entries will be added and the total debit entries will be deducted. The calculation is as follows: total credits (260 + 1 000 + 40) – (50 + 45) = 1 205. Total credits are greater than total debits.
23	C	The adjusted cash book will include those entries shown in the bank statement and not on the cash book. Debits shown in the bank statement will be shown on the credit side in the cash book. Credits shown in the bank statement will be shown on the debit side in the cash book. The new cash book balance is: cash book balance + interest received – bank charges = (3 000 + 80) – 50 = 3 030.
24	B	(Overdraft 7 000 less interest received 1 600 add bank charges 600 = 6 000 overdraft). The interest received will reduce the overdraft and the bank charges increase the overdraft.
25	C	To calculate the new cash book balance: (beginning balance + direct debit + bank charges) – credit transfer = (4 740 + 1 000 + 100) – 2 000 = 5 640

Section 8: Accounting for partnerships

No.	Answers	Further Explanations
1	D	
2	A	

No.	Answers	Further Explanations												
3	B													
4	A													
5	D													
6	D													
7	B													
8	A													
9	D													
10	A													
11	B	$2500 \times 1/5 = 500$												
12	B	$2/12 \times 15000 = 2500$												
13	C													
14	C													
15	D	$45500 + 50000 = 95500 \times 5\% = 4775$												
16	B	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">SOP</td> <td style="text-align: right;">6000</td> </tr> <tr> <td>Int. on cap.</td> <td style="text-align: right;">300</td> </tr> <tr> <td>Salary</td> <td style="text-align: right;"><u>600</u></td> </tr> <tr> <td></td> <td style="text-align: right;">6900</td> </tr> <tr> <td>Less Int. on drawing</td> <td style="text-align: right;"><u>(160)</u></td> </tr> <tr> <td></td> <td style="text-align: right;">6740</td> </tr> </table>	SOP	6000	Int. on cap.	300	Salary	<u>600</u>		6900	Less Int. on drawing	<u>(160)</u>		6740
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25	B	$15\,000 - (11\,000 \times 10\%) = 13\,900$ Cr																																

Section 9: Accounting for limited liability companies, co-operatives and non-profit organisations

No.	Answers	Further Explanations
1	B	
2	A	
3	B	
4	A	Patronage Refund is an appropriation (payment) of part of the cooperative's profits given to members for utilizing the services. For example, a member borrowing from a financial cooperative can have a portion of the interest payments refunded to him.

No.	Answers	Further Explanations
5	A	
6	B	
7	C	
8	B	
9	D	
10	D	
11	C	
12	B	
13	B	
14	A	
15	B	
16	D	
17	B	
18	B	Total number of ordinary shares \times par value 3 000 shares \times \$10 = \$30 000
19	A	(Market Value – Par Value) \times number of ordinary shares (\$12 – \$10) \times 3 000 shares = \$6 000
20	B	
21	D	
22	A	
23	B	

No.	Answers	Further Explanations
24	D	
25	C	Par value \times given % \times number of shares in issue (i.e., sold to date) $\$20 \times 10\% \times 5\,000$ shares = \$10 000
26	A	
27	D	Authorised capital is the total capital for issuing (sale) by a company as approved by the Registrar of Companies (Government) $(200\,000 \text{ ordinary shares} \times \$2) + (50\,000 \text{ preference shares} \times \$4) = \$600\,000$
28	A	Dr: Cash – for cash collected: $\$5 \times 10\,000$ preference shares = \$50 000 Cr: Preference Shares: $\$4 \text{ par} \times 10\,000$ preference shares = \$40 000 Cr: Share Premium: $(\$5 - \$4) \times 10\,000$ preference shares = \$10 000
29	B	Dr: Cash – for cash collected: $\$2.50 \times 40\,000$ preference shares = \$100 000 Cr: Ordinary Shares: $\$2 \text{ par} \times 40\,000$ ordinary shares = \$80 000 Cr: Share Premium: $(\$2.50 - \$2) \times 40\,000$ preference shares = \$20 000
30	C	$\$10\,000 + \$20\,000 = \$30\,000$
31	A	
32	C	
33	B	
34	C	$\$20 \times 15\,000$ Debentures = \$300 000
35	A	
36	D	Dividend = par value \times given percentage \times number of shares $\$4 \text{ par} \times 30\% \times (\$70\,000 \div \$4 \text{ par}) = \$21\,000$
37	B	Debenture Interest = Value of debentures \times Interest charge % $= \$50\,000 \times 6\% = \$3\,000$
38	A	$\$5 \text{ par} \times 8\% \times (\$30\,000 \div \$5 \text{ par}) = \$2\,400$
39	D	Net Income + Opening Retained Profits $\$70\,000 + \$20\,000 = \$90\,000$

No.	Answers	Further Explanations
40	D	Profits available before appropriations of dividends and transfers = \$90 000 Less: Transfer to reserves: (\$5 000 + \$6 000) = <u>(\$11 000)</u> Total profits available after transfer to reserves = <u>\$79 000</u>
41	B	Profits available before appropriations of dividends and transfers = \$90 000 Less: Transfer to reserves: (\$5 000 + \$6 000) = <u>(\$11 000)</u> Less: Preference dividend: (6% × \$90 000) = <u>(\$5 400)</u> Total Profits available to ordinary shareholders = <u>\$73 600</u>
42	C	
43	C	
44	A	
45	D	
46	D	A business' liquidity position is reflected in its current and acid test ratios. The business with the highest in both ratios is San Ignacio.
47	A	The pace at which inventory is sold in shown by the Inventory Turnover ratio.
48	C	A business' performance is reflected in its profitability ratios. There are two represented here: <ul style="list-style-type: none"> • The Gross Profit Percentage which is the profit percentage before expenses are deducted and • The Net Profit Percentage which is the profit percentage.
49	D	
50	D	

Section 10: Manufacturing and inventory control

No.	Answers	Further Explanations
1	A	
2	C	Total direct expenses = Factory wages + Direct materials = 2250 + 3200 = 5 450

No.	Answers	Further Explanations																																							
3	D	Total Indirect Expenses = Factory Lighting + Factory Manager's Salary + Indirect materials = 550 + 2 400 + 625 = 3 575																																							
4	A																																								
5	A																																								
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7	B	<p>Freight charges are another name for Carriage and therefore must be added to the cost of Purchases.</p> <p>Cost of raw materials consumed = Opening Stock + Purchases + Freight – Closing Stock.</p> <p>$250 + 875 + 125 - 200 = 1\ 050$</p>																																							
8	C	The 5% mark up is to be ignored. Unit cost of production is Total Production Cost ÷ Number of Units. $30\ 000 \div 250 = 120$																																							
9	B	The Balance Sheet of a manufacturing concern is easily identified by having three types of stock (Raw Materials, W-I-P, Finished Goods) under the Current Assets section.																																							

No.	Answers	Further Explanations																												
10	C	Working to calculate Gross profit: <table border="1" style="margin-left: 20px;"> <tr> <td>Sales</td> <td></td> <td>\$150 000</td> </tr> <tr> <td>Opening stock of finished goods</td> <td>\$ 55 000</td> <td></td> </tr> <tr> <td>Cost of goods produced</td> <td><u>120 000</u></td> <td></td> </tr> <tr> <td>Goods available for sale</td> <td>175 000</td> <td></td> </tr> <tr> <td>Less Closing stock of finished goods</td> <td><u>(75 000)</u></td> <td></td> </tr> <tr> <td>Cost of goods sold</td> <td></td> <td><u>100 000</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td><u>\$ 50 000</u></td> </tr> </table>	Sales		\$150 000	Opening stock of finished goods	\$ 55 000		Cost of goods produced	<u>120 000</u>		Goods available for sale	175 000		Less Closing stock of finished goods	<u>(75 000)</u>		Cost of goods sold		<u>100 000</u>	Gross profit		<u>\$ 50 000</u>							
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11	D	(Total production cost ÷ output) + mark-up $(120000 \div 100) + \text{mark-up} = 120 + (120 \times 20\%) = 120 + 24 = 144$																												
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19	B	<p>Working to calculate gross profit using the First in First out Method:</p> <table border="1"> <tbody> <tr> <td>Sales</td> <td></td> <td>\$735</td> </tr> <tr> <td>Purchases</td> <td>640</td> <td></td> </tr> <tr> <td>Less Closing stock (FIFO)</td> <td><u>150</u></td> <td></td> </tr> <tr> <td>Cost of goods sold</td> <td></td> <td><u>490</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td><u>\$245</u></td> </tr> </tbody> </table>	Sales		\$735	Purchases	640		Less Closing stock (FIFO)	<u>150</u>		Cost of goods sold		<u>490</u>	Gross profit		<u>\$245</u>													
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20	C	<p>Working to calculate the average cost on inventory on hand at 3 May:</p> <p>(a) Number of units purchased (1 May and 3 May) 20 units + 40 units = 60 units</p> <p>(b) Goods purchased available for sale (1 May and 3 May) (20 units × \$4) + (40 units × \$5) = \$280</p> <p>(c) Average cost of inventory on hand at 3 May Goods purchased available for sale ÷ Number of units purchased \$280 ÷ 60 = \$4.667 = \$4.67</p>																												

Section 11: Accounting for the entrepreneur

No.	Answers	Further Explanations
1	D	
2	C	
3	A	
4	C	
5	C	
6	A	
7	D	
8	C	
9	B	Zachary made 200 items of which 20 were rejected. $(200 - 20) \times 5 = 900$ In the company there is a guaranteed minimum of \$1 000 per week. As a result he will be paid \$1 000.
10	C	Income tax = $25\% \times 2\,000 = 500$ National Insurance = $3\% \times 2\,000 = 60$ Total deductions = $500 + 60 + 300 = 860$
11	D	$40 \text{ hrs} \times \$30 = 1\,200$ $10 \text{ hrs} \times \$30 \times 2 = 600$ $7 \text{ hrs} \times 30 \times 3 = 630$ Gross wage = $1\,200 + 600 + 630 = 2\,430$
12	A	$\$30 \times 40 \text{ hrs} = 1\,200$ $\$30 \times 10 \times 1.5 = 450$ Gross wage = 1 650 Deductions: $165 + 33 + 20 + 80 = 298$

No.	Answers	Further Explanations																								
13	D	$\$20 \times 40 \text{ hrs} = 800$ $\$20 \times 5 \times 1.5 = 150$ Gross wage = 950 Deductions: $95 + 19 + 20 + 20 = 154$																								
14	B	Total net wage: D. Williams – \$1 352 S. Ferdinand – \$796 S. McIntosh – <u>\$322</u> \$2 470																								
15	B	$3\% \times 150\,000 = \$4\,500$ $150\,000 + 4\,500 = \$154\,500$ Gross monthly salary = $\$154\,500/12 = \$12\,875$																								
16	D	Gross Pay = Net Pay + Deductions $\$8\,125 + \$1\,625 + \$60 + \$20 = \$9\,830$																								
17	C																									
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21	B	Receipts side is less than the payments side. $(\$12\,000 - \$13\,000 = - \$1\,000)$																								
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