**SECTION A**

**ANSWERS**

1. A
2. D
3. A
4. C
5. C
6. B
7. A
8. A
9. C
10. A
11. C
12. B
13. A
14. C
15. A
16. D
17. A
18. C
19. B
20. B

**SECTION A**

**Question 2**

**Requirement (a)**

**Income Statement and Profit and Loss Appropriation Account for The Year Ended 30th June 2016**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **MK** |  | **MK** |
| Sales **0.5 mark** |  |  | 1,236,500 |
| **Less: Cost of Goods Sold** |  |  |  |
| Opening Inventory **0.5 mark** | 419,790 |  |  |
| Add: Purchases **0.5 mark** | 854,160 |  |  |
|  | 1,273,950 |  |  |
| Less: Closing Inventory **0.5 mark** | 563,400 |  | 710,550 |
| **Gross Profit** |  |  | **525,950** |
| Add: Reduction in Provision for Bad Debts **0.5** |  |  | 800 |
|  |  |  | **526,750** |
| **Less Expenses** |  |  |  |
| Salaries and Wages (MK 189,170 + 2,000) **1mark** | 191,170 |  |  |
| Office Expenses (MK 24,160 + 960) **1 mark** | 25,120 |  |  |
| Carriage Outwards **0.5 mark** | 12,880 |  |  |
| Discount Allowed **0.5 mark** | 1,150 |  |  |
| Bad Debts  **0.5 mark** | 5,030 |  |  |
| Loan Interest **0.5 mark** | 40,000 |  |  |
| Depreciation: Fixtures **0.5 mark** | 7,700 |  |  |
| Buildings **0.5 mark** | 10,000 |  | 293,050 |
| **Net Profit** |  |  | **233,700** |
|  |  |  |  |
| **Add: Interest on Drawings** |  |  |  |
| James **0.5 mark** | 1,800 |  |  |
| Peter **0.5 mark** | 1,200 |  | 3,000 |
|  |  |  |  |
| **Less: Interest on Capital** |  |  |  |
| James **0.5 mark** | 35,000 |  |  |
| Peter **0.5 mark** | 29,500 |  | 64,500 |
|  |  |  |  |
| Salary: James **0.5 mark** |  |  | 8,000 |
|  |  |  | **164,200** |
| **Balance of Profit Shared** |  |  |  |
| James **0.5 mark** | 82,100 |  |  |
| Peter **0.5 mark** | 82,100 |  | **164,200** |

**PRESENTATION = 1 mark**

**Requirement (b)**

**Statement of Financial Position as at 30th June 2016**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Non-Current Assets** | **Cost** |  | **Depreciation** |  | **NBV** |
|  | **MK** |  | **MK** |  | **MK** |
| Buildings **1 mark** | 750,000 |  | 260,000 |  | 490,000 |
| Fixtures **1 mark** | 110,000 |  | 40,700 |  | 69,300 |
|  |  |  |  |  | **559,300** |
| **Current Assets** |  |  |  |  |  |
| Inventory **0.5 mark** |  |  | 563,400 |  |  |
| Receivables (MK 162,430 - 3,200) **1** |  |  | 159,230 |  |  |
| Bank  **0.5 mark** |  |  | 6,770 |  | 729,400 |
|  |  |  |  |  | **1,288,700** |
| **Capital Liabilities** |  |  |  |  |  |
| Capital Accounts: James **0.5 mark** |  |  | 350,000 |  |  |
| Peter  **0.5 mark** |  |  | 295,000 |  | 645,000 |
|  |  |  |  |  |  |
| Current Accounts: James **0.5 mark** |  |  | 72,360 |  |  |
| Peter **0.5 mark** |  |  | 56,880 |  | 129,240 |
|  |  |  |  |  | 774,240 |
| Loan From Commercial Bank |  |  |  |  | 400,000 |
| **Current Liabilities** |  |  |  |  |  |
| Payables **0.5 mark** |  |  | 111,500 |  |  |
| Expenses Owing **0.5 mark** |  |  | 2,960 |  | 114,460 |
| **Total Capital and Liabilities** |  |  |  |  | **1,288,700** |

**PRESENTATION = 1 MARK**

**Support Workings**

**Current Account**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **James** |  | **Peter** |
|  | **MK** |  | **MK** |
| Balance b/d | 13,060 |  | 2,980 |
| Add: Interest on Capital | 35,000 |  | 29,500 |
| Add: Salary | 8,000 |  | 0 |
| Add: Balance of Profit | 82,100 |  | 82,100 |
|  | **138,160** |  | **114,580** |
| Less: Drawings | 64,000 |  | 56,500 |
| Less: Interest on Drawings | 1,800 |  | 1,200 |
|  | **72,360** |  | **56,880** |
|  |  |  |  |

**Question 3**

**Requirement (a)**

DR CR

1. Suspense Account 80,000

Discount Received 80,000

Being Reversal of Discount Received of MK 80,000 that was wrongly debited to the Discount Allowed Account. **2 MARKS**

1. Suspense Account 30,000

Cash Book 30,000

Being Correction of Omission of MK 30,000 rent paid by cheque from the Cash Book. **2 MARKS**

1. Motor vehicle Repairs 170,000

Motor vehicle Account 170,000

Being correction of MK 170,000 Motor Vehicle Repairs that was wrongly debited to the Motor Vehicle Account.  **2 MARKS**

1. Interest Paid Account 40,000

Cash Book 40,000

Being entry of Interest paid amounting to MK 40,000 that was completely omitted from the Financial Statements. **2 MARKS**

1. Electricity Account 9,000

Suspense Account 9,000

Being Correction of an Error made when posting Electricity paid amounting to MK 65,000 into the Electricity Account. Instead of Posting MK 65,000 the amount posted was MK 56,000. **2 MARKS**

**Requirement (b)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Suspense Account** | | | |
|  | **MK** |  | **MK** |
| Cash Book **1 mark** | 30,000 | Balance B/d **1 mark** | 101,000 |
| Discount Allowed **1 mark** | 80,000 | Electricity **1 mark** | 9,000 |
|  |  |  |  |
|  | **110,000** |  | **110,000** |
| **Presentation= 1 mark** |  |  |  |

**Requirement (c)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **MK** |  | **MK** |
| Previous Profit **1 mark** |  |  | 367,000 |
| Add: Discount Received (8,000 X 2) **1 mark** | 160,000 |  |  |
| Less: Motor Vehicle Repairs **1 mark** | (170,000) |  |  |
| Interest **1 mark** | (40,000) |  |  |
| Electricity **1 mark** | (9,000) |  | (59,000) |
| **Correct Profit** |  |  | **308,000** |
|  |  |  |  |

**Question 4**

**Requirement (a)**

**Mr. Nyirenda**

**Income Statement for The Year Ending 30th June 2016**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **MK** |  | **MK** |
| Sales **0.5 mark** |  |  | 443,659 |
| **Less: Cost of Goods Sold** |  |  |  |
| Opening Inventory **0.5 mark** | 23,445 |  |  |
| Add: Purchases **0.5 mark** | 246,890 |  |  |
| Less: Closing Inventory **0.5 mark** | (26,430) |  | (243,905) |
| **Gross Profit** |  |  | **199,754** |
| Discount Received **1 mark** |  |  | 460 |
|  |  |  | 200,214 |
| **Less: Expenses** |  |  |  |
| Interest (6% X MK 10,000) **1mark** | 600 |  |  |
| Rent **1 mark** (18000-2000) | 16,000 |  |  |
| Heat and Light **1 mark** (24500+450) | 24,950 |  |  |
| Wages **1 mark** (58500+2340) | 60,840 |  |  |
| Motor Expenses **0.5 mark** | 12,350 |  |  |
| Insurance **0.5 mark** | 15,600 |  |  |
| Irrecoverable Debts **0.5 mark** | 450 |  |  |
| Depreciation: Fixtures **0.5 mark** | 28,850 |  |  |
| Van **0.5 mark** | 5,040 |  |  |
| Discount Allowed **0.5 mark** | 240 |  |  |
| Allowance for Receivables **1 mark** | 290 |  | 165,210 |
| **NET PROFIT** |  |  | **35,004** |

**PRESENTATION = 1 mark**

**Requirement (b)**

**Mr. Nyirenda**

**Statement of Financial Position as at 31st December 2016**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Non-Current Assets** | **Cost** |  | **Depreciation** |  | **NBV** |
|  | **MK** |  | **MK** |  | **MK** |
| Buildings **0.5 mark** | 100,000 |  | 0 |  | 100,000 |
| Fixtures **1 mark** | 288,500 |  | 45,350 |  | 243,150 |
| Delivery Van **1 mark** | 32,000 |  | 11,840 |  | 20,160 |
|  |  |  |  |  | 363,310 |
| **Current Assets** |  |  |  |  |  |
| Inventory **0.5 mark** |  |  | 26,430 |  |  |
| Receivables **0.5 mark** |  |  | 84,150 |  |  |
| Bank **0.5 mark** |  |  | 6,240 |  |  |
| Cash **0.5 mark** |  |  | 664 |  |  |
| Prepayments **0.5 mark** |  |  | 2,000 |  | 119,484 |
| **Total Assets** |  |  |  |  | **482,794** |
|  |  |  |  |  |  |
| **Capital and Liabilities** |  |  |  |  |  |
| Capital **0.5 mark** |  |  |  |  | 540,000 |
| Add: Net Profit **0.5 mark** |  |  |  |  | 35,004 |
| Less: Drawings **0.5 mark** |  |  |  |  | (124,560) |
|  |  |  |  |  | 450,444 |
| **Current Liabilities** |  |  |  |  |  |
| Payables **0.5 mark** |  |  | 18,960 |  |  |
| Loan **0.5 mark** |  |  | 10,600 |  |  |
| Accruals **0.5 mark** |  |  | 2,790 |  | 32,350 |
| **Total Capital and Liabilities** |  |  |  |  | **482,794** |
|  |  |  |  |  |  |

**Question 5**

**Requirement (a)**

If the opening balance of an account is known together with information of the additions and deductions entered in the account, the closing balance can be calculated.

**2 marks**

**Requirement (b) i**

|  |  |  |  |
| --- | --- | --- | --- |
| **Receivable Ledger Control Account** | | | |
|  | **MK** |  | **MK** |
| Balance b/d **1 mark** | 46,462 | Balance b/d **1 mark** | 245 |
| Sales **1 mark** | 126,024 | Contra **1 mark** | 455 |
| Cash Paid **1 mark** | 52 | Irrecoverable Debts **1 mark** | 1,253 |
|  |  | Discount Received **1 mark** | 746 |
|  |  | Cash Received **1 mark** | 120,464 |
|  |  | Balance c/d **1 mark** | 49,375 |
|  | **172,538** |  | **172,538** |
|  |  |  |  |

**Requirement (b) ii**

|  |  |  |  |
| --- | --- | --- | --- |
| **Receivable Ledger Control Account** | | | |
|  | **MK** |  | **MK** |
| Balance b/d **1 mark** | 1,472 | Balance b/d **1 mark** | 25,465 |
| Purchase Return **1 mark** | 2,154 | Purchases **1 mark** | 76,474 |
| Contra **1 mark** | 455 |  |  |
| Discount Received **1 mark** | 1,942 |  |  |
| Cash to Suppliers **1 mark** | 70,476 |  |  |
| Balance c/d **1 mark** | 25,440 |  |  |
|  | **101,939** |  | **101,939** |
|  |  |  |  |

**PRESENTATIONN= 1 mark**

**Question 6**

**Requirement (a)**

Causes of Depreciation are:

1. Physical Deterioration

* Wear and Tear
* Erosion, Rust and Decay

1. Economic Deterioration

* Obsolesce
* Inadequacy **1 mark for each point up to 3 points TOTAL = 3marks**

**Requirement (b) i**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Machinery Accounts** | | | | | |
| **2014** |  | **MK** | **2014** |  | **MK** |
| 1 Jan | Bank | 600,000 | 31 Dec | Balance c/d **0.5 mark** | 600,000 |
|  |  |  |  |  |  |
| **2015** |  |  | **2015** |  |  |
| 1 Jan | Balance b/d | 600,000 | 31 Dec | balance c/d **0.5 mark** | 600,000 |
|  |  |  |  |  |  |
| **2016** |  |  | **2016** |  |  |
| 1 Jan | Balance b/d **0.5M** | 600,000 | 30 June | Disposal **0.5 mark** | 200,000 |
| 2 Jan | Bank **0.5 mark** | 220,000 | 31 Dec | Balance c/d **0.5 mark** | 620,000 |
|  |  | **820,000** |  |  | **820,000** |
|  |  |  |  |  |  |

**Requirement (b) ii**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Provision for Depreciation** | | | | | |
| **2014** |  | **MK** | **2014** |  | **MK** |
| 31 Dec | Balance c/f | 120,000 | 31 Dec | Profit & Loss **0.5 mark** | 120,000 |
|  |  |  |  |  |  |
| **2015** |  |  | **2015** |  |  |
| 31 Dec | Balance c/d **0.5 M** | 216,000 | 1 Jan | Balance b/d **0.5 mark** | 120,000 |
|  |  |  | 31 Dec | Profit & Loss **0.5 mark** | 96,000 |
|  |  | **216,000** |  |  | **216,000** |
| **2016** |  |  | **2016** |  |  |
| 30 June Disposal |  | 72000 | 1 Jan | **0.5 mark** Balance b/d | 216,000 |
| 31 Dec Balance C/D | **I mark** | 239,200 | 31 Dec | **0.5M** Profit & Loss | 95,200 |
|  |  | **311,200** |  |  | **311,200** |
|  |  |  |  |  |  |

**Workings to Support Depreciation Charges in Part (ii)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Machine 1** |  | **Machine 2** |  | **Machine 3** |  | **TOTAL** |
|  | **MK** |  | **MK** |  | **MK** |  | **MK** |
| Year 1 | 200000 x 20% |  | 200000 x 20% |  | 200000 x 20% |  |  |
|  | **40,000** |  | **40,000** |  | **40,000** |  | **120,000** |
|  |  |  |  |  |  |  |  |
| Year 2 | (200000 - 40000) x 20% |  | (200000 - 40000) x 20% |  | (200000 - 40000) x 20% |  |  |
|  | **32,000** |  | **32,000** |  | **32,000** |  | **96,000** |
|  |  |  |  |  |  |  |  |
| Year 3 | None |  | (160000 - 32000) x 20% |  | (160000 - 32000) x 20% |  |  |
|  |  |  | **25,600** |  | **25,600** |  | **51,200** |

Year 3 Fourth Machine Acquired at MK 220,000

Depreciation = MK 220,000 X 20% = MK 44,000

Therefore, Year 3 Total Depreciation Charge

= MK 51,200 + MK 44,000

= **MK 95,200**

**Requirement (b) iii**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Asset Disposal Account** | | | | | |
| **2016** |  |  | **2016** |  |  |
| 30 June | Machine **0.5M** | 200,000 | 30 June | Bank **0.5 mark** | 80,000 |
|  |  |  | 30 June | Depreciation **0.5M** | 72,000 |
|  |  |  | 31 Dec | Loss on Disposal **0.5M** | 48,000 |
|  |  | **200,000** |  |  | **200,000** |
|  |  |  |  |  |  |
|  | **PRESENTATION = 1 MARK** |  |  |  |  |
|  |  |  |  |  |  |

**Requirement (C)**

Depreciation must be charged in books of accounts for the following reasons:

1. To reflect the cost of using non-current assets in the business which generate revenue from them. **1 MARK**
2. The value of the non-current asset diminishes in its value as it is being utilized in the year and so this must be shown in the books of accounts **1 MARK**

**Requirement (C)**

Data recorded in a fixed asset register (and reason for recording the Data) normally includes:

1. Date of Purchase – for calculating Depreciation
2. Cost of Asset – For Calculating Depreciation
3. Expected Sales Value – For Calculating Depreciation
4. Invoice Number – To provide Audit Trail
5. Internal Reference Number - To Identify a Specific Asset
6. Description of Asset - To Identify The Type of Asset
7. Location of the Asset – To Assist in Finding the Asset
8. Serial Number – In Case of Warranty or Claim

**One mark for each point up to 5 points TOTAL = 5 MARKS**

**END OF SUGGESTED SOLUTIONS AND MARKING SCHEME**