For Performance Measurement

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL

GENERAL CERTIFICATE OF EDUCATION
ADVANCED LEVEL

A LEVEL ACCOUNTING

9197

Question Papers and Expected Answers

OCT 2003 - NOV 2004

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL

General Certificate of Education Advanced Level

ACCOUNTING

9197/1

PAPER 1 Multiple Choice

Wednesday **29 OCTOBER 2003** Afternoon 1 hour 15 minutes

Additional materials:
- Multiple Choice answer sheet
- Soft clean eraser
- Soft pencil (type B or HB is recommended)

1 hour 15 minutes

›UCTIONS TO CANDIDATES

t open this booklet until you are told to do so.

your name, Centre number and candidate number on the answer sheet in the spaces provided this has already been done for you.

are **forty** questions in this paper. Answer **all** questions. For each question there are four ›le answers, **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in **soft** l on the separate answer sheet.

very carefully the instructions on the answer sheet.

›RMATION FOR CANDIDATES

correct answer will score one mark. A mark will not be deducted for a wrong answer.

rough working should be done in this booklet.

ılators may be used.

1 A cash flow statement shows the changes in

A cash.
B funds flow.
C gearing.
D working capital.

2 Which of the following items is an example of an adjusting event occurring after the balance sheet date?

A loss of stock through fire
B purchase of a new vehicle
C bankruptcy of a major debtor
D changes in rates of foreign exchange

3 The table shows amounts included in a trial balance at the end of a financial year.

	$
Sales: cash	100 000
credit	300 000
Returns inwards	8 000
Trade debtors	40 000
Prepayments by debtors	1 000

What is the debtors collection period?

A 37 days
B 40 days
C 50 days
D 51 days

4 During the year a company sold a fixed asset. The following information is made available:

	$
original cost	60 000
profit on sale	4 000
proceeds from sale	24 000

What was the accumulated depreciation at the date of sale?

A $32 000
B $36 000
C $40 000
D $44 000

5 Brian and Chipo, having shared profits and losses equally, admitted Zenzo to their partnership on 1 January 2003. Thereafter, the profit sharing ratio was to be:

Brian - $\frac{1}{2}$

Chipo - $\frac{1}{3}$

Zenzo - $\frac{1}{6}$

Zenzo paid $10 000, of which $6 000 was for fixed capital. The goodwill of the business was valued at $12 000 and was not to appear in the balance sheet. Separate capital and current accounts are maintained.

What is the balance on Zenzo's current account after the entries for his admission have been made?

A Nil
B $2 000 debit
C $2 000 credit
D $3 000 credit

6 The information below relates to Divas (Pvt) Ltd.

Share capital

Ordinary shares of $0.50 each, fully paid	$600 000
100 000 10% Preference shares, fully paid	$100 000

Extract from the Income statement.

Profit before tax		$420 000
Taxation		$190 000
		$230 000
Dividends paid and proposed		
Preference	$ 10 000	
Ordinary	$110 000	$120 000
Retained income		$110 000

The market price per share is $0.45.

What is the earnings yield?

A 32.85%
B 37.45%
C 39.32%
D 40.74%

7 Valuing closing stock at the lower of cost and net realisable value is an application of the

A consistency concept.
B materiality concept.
C money measurement concept.
D prudence concept.

8 What effect does a payment made by a trade debtor have on the **current ratio** and **quick ratio** of a company?

	Current Ratio	Quick Ratio
A	increase	decrease
B	increase	increase
C	no effect	decrease
D	no effect	no effect

9 The following information was extracted from a company's trial balance on 31 December 2002.

	Debit	Credit
	$	$
Sales Ledger Control Account	16 000	600
Purchases Ledger Control Account	700	17 000
Bank		1 000
Cash	500	

What is the total for current assets?

A $15 000
B $16 200
C $16 500
D $17 200

10 All of the following are examples of non-cash items **except**

A depreciation.
B decrease in creditors.
C bad debts provision.
D profit on sale of fixed assets.

11 Which of the following items would **not** appear in the debtors control account?

A discounts allowed
B returns inwards
C provision for doubtful debts
D interest charged on overdue accounts [illegible]

12 Jingo Sports Club had the following balances in respect of subscriptions receivable:

	1 January 2002	31 December 2002
	$	$
Subscriptions due	180	60
Subscriptions prepaid	130	50

Cash received during the year was $4 000. What was the income for the year?

A $3 960
B $4 000
C $4 040
D $4 050

13 A company started trading in 1999.

Its bad debts provision account showed the following balances at the year end:

Year	$
1999	2 400
2000	2 300
2001	6 000
2002	8 000

The charges to profit and loss account were highest in

A 1999.
B 2000.
C 2001.
D 2002.

14 The following is an extract from the balance sheet of ABC limited on 31 October 2002:

Share capital and reserves	**\$ 000**
500 000 ordinary shares of \$1 each	500
200 000 7% preference shares of \$1 each	200
Revaluation reserve	100
Profit and loss account	30

The company also issued 12% debentures amounting to \$100 000.

The fair valuation of each ordinary share is

A \$1.26.
B \$1.66.
C \$1.86.
D \$2.06.

15 A company has prepared draft accounts for the year ended 31 December 2002.

It has now been discovered that the following were not taken into consideration:

trade discounts allowed	\$100
cash discounts received	\$700
prepayment for an insurance premium	\$100

What is the adjustment required to the profit and loss account?

A \$600 Cr.
B \$700 Cr.
C \$800 Cr.
D \$900 Cr.

16 Which of the following items does **not** form part of a limited company's equity capital?

A asset replacement reserve
B debenture redemption reserve
C ordinary share capital
D preference share capital

17 In the books of XYZ Ltd, discount allowed of $5 300 was posted as discount received of $3 500 by an inexperienced bookkeeper.

The journal entry needed to correct this error is

	Debit	Credit
A	Discount Allowed Account $5 300	Suspense Account $5 300
B	Discount Received Account $3 500	Suspense Account $3 500
C	Suspense Account $8 800	Discount Allowed Account $5 300
		Discount Received Account $3 500
D	Discount Allowed Account $5 300	Suspense Account $8 800
	Discount Received Account $3 500	

18 At the end of the financial year M and N Ltd had the following items in stock.

Item	P	Q	R
	$	$	$
Cost	2 400	4 000	3 200
Realisable value	2 800	4 700	4 200
Selling expenses	600	900	400

What is the company's value of closing stock?

A $9 000
B $9 200
C $9 600
D $10 200

19 A manufacturing company has the following balances at its financial year end:

	$
Closing stock of raw materials	1 000
Direct manufacturing wages	5 000
Purchases of raw materials	5 000
Production overheads	2 000
Opening work in progress	200
Closing work in progress	300
Opening stock of raw materials	500

The factory cost of finished goods produced is

A $9 400.
B $11 400.
C $11 500.
D $12 400.

20 The table shows data made available by a limited company.

	At 31 December 2001	At 31 December 2002
	$	$
Stock	80 000	90 000
Debtors	80 000	60 000
Bank	30 000	40 000
Creditors	70 000	80 000

Operating profit before interest and depreciation was $100 000. The interest and depreciation charges for the year were $10,000 and $40 000 respectively.

What was the net cash inflow from operating activities in 2002?

A $80 000
B $120 000
C $130 000
D $170 000

21 Which of the following items is **not** an example of a capital instrument?

A debentures issued
B ordinary shares
C preference dividends
D preference shares

22 Which of the following items should **not** be disclosed in a published profit and loss statement?

A auditors' fees
B hire of plant
C depreciation for the year
D the average number of employees in a department

23 A company has the following issued share capital.

20 000 Ordinary Shares of $1 each
10 000 5% Preference Shares of $0.50 each

An ordinary dividend of $0.10 per share for the year is recommended.

What is the total amount of dividends payable for the year?

A $2 250
B $2 500
C $7 000
D $20 000

24 A partner withdrew stock costing $10 000 for own use.

What is the correct double entry used to record this transaction?

	Debit	Credit
A	Partner's Drawings Account $10 000	Purchases Account $10 000
B	Purchases Account $10 000	Partner's Drawings Account $10 000
C	Profit and Loss Account $10 000	Stock Account $10 000
D	Stock Account $10 000	Profit and Loss Account $10 000

25 The table shows information relating to Bingaguru Ltd for the year ended 31 December 2002.

	$
Debtors at 1 January 2002	10 000
Bad debts written off	500
Cash from credit customers	20 000
Cash sales	5 000
Credit sales	30 000
Increase in provision for doubtful debts	1 000
Returns inwards	2 000

What is the balance on Bingaguru Ltd's Sales Ledger Control Account at 31 December 2002?

A $16 500
B $17 500
C $21 500
D $22 500

26 What is the correct double entry for recording the loss arising from the revaluation of a partnership's fixed assets?

	Debit	**Credit**
A	Capital Accounts	Revaluation Account
B	Current Accounts	Revaluation Account
C	Revaluation Account	Capital Accounts
D	Revaluation Account	Current Accounts

27 The following information relates to Banda's Tuckshop which commenced operating on 1 January 2002.

	$
Capital at 1 January 2002	20 000
Drawings during the year	1 000
Gift from friend	6 000
Net profit for the year	11 000

What is the value of the net assets at 31 December 2002?

A $30 000
B $36 000
C $37 000
D $38 000

28 In the books of a sole trader, purchases returns of $600 were debited to the creditors' account as $60.

A Suspense Account was created to complete the trial balance.

What is the balance on the Suspense Account?

A $60 Cr.
B $60 Dr.
C $540 Cr.
D $540 Dr.

29 Which of the following items is a product cost under absorption costing but a period cost un marginal costing?

A administrative expenses
B fixed production overheads
C raw materials consumed
D variable production overheads

30 Below is an extract from Greens limited company's statements:

		$
Profit on ordinary activities		265 000
Taxation		(50 000)
Profit after tax		215 000
Preference dividends		(15 000)
Ordinary dividends: -	interim	(25 000)
-	proposed	(75 000)
Retained profit for the year		100 000

What is the dividend cover for the ordinary shares?

A 1.1 times
B 1.3 times
C 2.0 times
D 2.7 times

31 A company with fixed costs totalling $5 000 makes a profit of $800 on a turnover of $16 000.

What is the break-even point expressed in terms of sales value?

A $10 200
B $11 000
C $12 207
D $13 793

32 Which investment appraisal technique takes depreciation into account?

A accounting rate of return
B discounted cash flow
C internal rate of return
D pay back period

33 The following details relate to a company that manufactures three products

Product	K	L	M
	$	$	$
Selling price per unit	90	88	64
Unit costs			
Direct materials	40	48	32
Direct labour	12	18	12
Variable overhead	8	6	4

Material costs are $8 per kilogram for all products.

If material is limited in supply, which order of priority should the company adopt when planning its production?

	First →		Last
A.	K	L	M
B.	K	M	L
C.	L	M	K
D.	M	L	K

34 The data relates to Bee Vee Ltd which manufactures and sells a single product.

	April units
Opening stock	Nil
Sales	2 000
Production	4 000

	$
Selling price per unit	40
Variable production costs per unit	20
Fixed production overheads incurred	50 000
Predetermined overhead absorption rate per unit	12

Using absorption costing, what is the value of closing stock for the month of April?

- **A** $40 000
- **B** $64 000
- **C** $65 000
- **D** $80 000

35 The following budgeted and actual data relates to a manufacturing company.

	Budgeted	Actual
Production overhead	$50 000	$60 000
Direct labour hours	8 000	11 200

The company uses an absorption costing system and production overheads are absorbed on a direct labour hour basis.

Production overheads during the period were

- **A** over-absorbed by $4 444.
- **B** over-absorbed by $10 000.
- **C** under-absorbed by $4 444.
- **D** under-absorbed by $10 000.

36 A company's budget for the production of Tongolites is shown below.

Budgeted output level	500 units	1 000 units
	$	$
Direct materials	10 500	21 000
Production overheads	30 000	40 000

What would be the budgeted production overheads figure for 900 units?

A $38 000
B $40 000
C $48 000
D $54 000

37 Puleng Ltd manufactures Romanium which involves one process.

The process costs for June 2003 were:

	$
Direct materials	2 500
Direct labour	3 150
Production overhead	3 875

500 units were put into the process.

Normal loss is 5% of input and scrapped units sell for $1 each.

What is the cost per unit for the output?

A $19
B $19.05
C $20
D $20.27

38 Leribe Pvt Ltd uses a standard costing system. The following data is for April 2002:

	Standard cost per unit Based on a budgeted output of 1 200 units	Actual cost 1 000 units produced
Direct labour	1.5 hours @ $3 per hour	1550 hours @ $2.70 per hour

What is the labour efficiency variance?

A $150 adverse
B $150 favourable
C $465 adverse
D $465 favourable

39 A project has an internal rate of return (IRR) of 12% and the firm's cost of capital is 14%.

At that cost of capital, the net present value (NPV) will be

A zero.
B negative.
C positive.
D equal to the internal rate of return.

40 A project involves an initial outlay of $100 000. The net present value has been calculated at two discount rates as shown below.

Discount rate	Net Present Value
10%	$6 120
14%	$(3904)

Estimate the maximum interest rate that the company should pay if it needs to borrow money to finance the project.

A 9.8%
B 10%
C 12.44%
D 14%

ACCOUNTING

SUBJECT 9197

PAPER 1 **NOVEMBER 2003**

1. A
2. C → IAS 10
3. C
4. C → Disposal account
5. A
6. D → Earnings are profits after tax and preference dividends
7. D → IAS 2
8. D
9. D
10. B
11. C
12. A
13. C
14. A → Valuation of shares and securities
15. C
16. D
17. D
18. B → IAS 2 Take the lower figure of each item of stock, between cost and net realizable value

19. B

20. B → FRS I, IAS 7

21. C

22. D

23. A → Dividend rate applied on the value of shares

24. A

25. B

26. A

27. B

28. C

29. B

30. C → $\dfrac{\text{Earnings}}{\text{ordinary dividends paid and proposed}}$

31. D → Turnover = $\dfrac{5000}{x} + 800$

Contribution sales ration x = 0,3625, found by solving the above equation. Then calculate B/E point.

32. A

33. B → Calculate the contribution per limiting factor by (dividing contribution per product by quantity of limiting factor demanded per unit)

34. C → Multiply closing stock (2 000 units) by full cost of production per unit

35. B

36. A → Change in output 500 units
Change in O/heads $10000

400 units X $20	=$8000
$30000 + $8000	=$38000

Then determine production overhead per unit in order to get the overheads for 900 units

37. B → Proceeds from sale of scrap reduce cost of production

38. B → 3 [1550 – (1,5 x 1000)]

39. B

40. C → Calculation of IRR required

Candidate Name	Centre Number	Candidate Number

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL
General Certificate of Education Advanced Level

ACCOUNTING — 9197/2
PAPER 2 Structured Questions

Thursday **6 NOVEMBER 2003** Afternoon 1 hour 30 minutes

Candidates answer on the question paper
Additional materials:
Supplementary answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper. If you require extra paper, ask the supervisor for supplementary answer paper.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

You may use a calculator.

FOR EXAMINER'S USE	
1	
2	
3	
4	
TOTAL	

This question paper consists of 20 printed pages.

For Examiner's Use

1 **(a)** Define the term depreciation.

[2]

(b) List **four** main causes of depreciation of fixed assets.

[4]

(c) What **four** factors should be taken into account when deciding on the amount of depreciation to be charged on a fixed asset per annum?

[4]

For Examiner's Use

(d) Chitsinde Ltd maintains a fleet of taxis. The following is an extract from the company's fixed asset register:

Taxi Number	Date Purchased	Cost $
CL 101	1 January 1998	25 600
CL 102	1 April 1999	32 000
CL 103	1 February 2000	38 400
CL 104	1 October 2000	44 800

The financial year end of the business is 31 December.

It is company policy to depreciate the vehicles at the rate of 25% per annum on the reducing balance basis. A full year's depreciation is provided for in the year of acquisition but no depreciation is charged in the year of disposal.

On 1 July 2002, taxi number CL 105 was purchased at a cost of $48 000 from Karombe Motors, who accepted taxi number CL 101 in part exchange for $8 500.

The balance of the purchase price was financed by a loan from Benza Finance.

(i) Draw up the Taxis Account for the year ended 31 December 2002.

[4]

For Examiner's Use

(ii) Draw up the Taxis Provision for Depreciation Account for the year ended 31 December 2002.

[4]

(iii) Draw up the Asset Disposal Account.

[4]

For Examiner's Use

(e) Explain any **three** significant difficulties likely to be faced when comparing financial results of businesses engaged in the same activity.

[6]

For Examiner's Use

2 (a) What is a Statement of Affairs?

____

____

____

____ [1]

(b) What is the accounting treatment for each of the following in the year end financial statements?

Subscriptions in arrears.

____

____

____

____ [1]

Subscriptions paid in advance

____

____

____

____ [1]

For Examiner's Use

(c) The information below is a summary of the receipts and payments of Highway Charity Club for the year ended 31 December 2002.

	$		$
Bank balance		Purchase of drinks	13 500
(1 January 2002)	6 000	Wages (Kiosk attendant)	900
Sale of drinks	30 000	Typists expenses	600
Donations received	7 500	Donations to charitie	6 750
Members' subscriptions:		Stationery	300
2001	1 200	Fuel cost	2 550
2002	2 400	Electricity for the kiosk	2 500
2003	600	Groundsman's wages	1 200
		Balance c/d	19 400
	47 700		47 700

Additional information.

1. Subscriptions in arrears at 31 December 2001 and 31 December 2002 were $750 and $1 050 respectively.

2. Stocks of drinks:

1 January 2002	$1 650
31 December 2002	$1 200

3. On 31 December 2001, motor vehicles were valued at $75 000 and are to be depreciated at 5% per annum.

(i) Prepare the Refreshments' Trading, Profit and Loss Account for the year ended 31 December 2002.

(b) An example-based question. Candidates can give LEDC or MEDC and should address both transport systems (modes) and networks (inter-connectivity) projects, schemes for chosen country.

Measures may include:

- dualization of highways
- trolley (roro) system
- electrification of rail
- new bus termini
- new airports and seaports
- dredging of waterways
- ringroads and by-passes
- park and ride
- feeder systems
- flyovers
- mass transit system – tram
- sub ways – tubal trains
- train buses
- double deckers

Credit (1) for 8 single points
Credit (2) for 4 developed measures **/8**

Assessment-tangible schemes and projects to be evaluated **/7**
General answer max (7) **(15)**
[25]

14(a) (i) **Core region**

- the most economically developed region of a country (1)
- includes towns, ports and other industrial areas (1)
- it has the highest standard of living (1)
- has high levels of technology, capital, labour and growth rates (1)

/4

(ii) **Resource frontier region**

- areas where resources have been discovered or are being exploited (1)
- examples are mines, tourist resources etc (1)
- part of the periphery but generates economic development (1) /3

(iii) **Downward transition region**

- characterised by stagnant or declining economies (1)
- is part of the periphery (1)
- exhaustion or primary resources e.g minerals (1) /3 (10)

(b) Show in text nature of imbalances /5
- regional policy/policies /5
- how successful it/they have been /5

e.gs may include Venezuela, Brazil, Italy, Costa Rica, Zimbabwe, UK, France, Sierra Leone **(15)**

[25]

For Examiner's Use

[3]

(ii) Draw up the Subscriptions Account.

For Examiner's Use

[5]

(iii) Draft the club's Income and Expenditure Account for the year ended 31 December 2002.

For Examiner's Use

[5]

(iv) Prepare the club's Balance Sheet as at 31 December 2002.

For Examiner's Use

[7]

3 Ellipso Ltd plans to manufacture three products Eff, Zet and Plus which are made from the same raw material.

The following costs and revenue per unit are anticipated:

	Eff	Zet	Plus
Unit selling price	$43	$50	$36
Direct material cost	$15	$10	$ 6
Direct labour cost	$10	$25	$20

Direct material costs $30 per kilogram.
Direct labour cost is $10 per hour.
Direct materials available per month total 500kg.
A maximum of 1 000 units **per** product can be produced and sold per month.
The monthly rental of the premises is $6 000 and annual rates are $21 600.

(a) In production, what is the meaning of *key factor*?

[2]

For Examiner's Use

(b) What is the meaning of *contribution*?

[2]

(c) Calculate the unit contribution for
(i) Eff,

[2]

(ii) Zet,

[2]

For Examiner's Use

(iii) Plus.

[2]

(d) Calculate the contribution per unit of direct materials for

(i) Eff,

[1]

(ii) Zet,

[1]

For Examiner's Use

(iii) Plus.

[1]

(e) Calculate the number of units for each product, to be manufactured to yield the highest profit.

For Examiner's Use

[12]

4 Anne, Betsy and Clara were in partnership sharing profits and losses in the ratio 5:3:2 respectively. They decide to dissolve the partnership when their balance sheet was as follows:

Balance sheet as at 1 April 2002

		$	$
Fixed assets			
	Property		37 950
	Vehicles		3 565
	Furniture		920
			42 435
Current assets			
	Stock	15 640	
	Debtors	18 285	
		33 925	
Less	Current Liabilities		
	Creditors	5 290	28 635
			71 070
Less	Long term liabilities		
	Mortgage loan		17 250
			53 820
Capital accounts			
	Anne		26 220
	Betsy		16 330
	Clara		11 270
			53 820

Additional information:

(i) Clara took over the property at $40 480 and assumed responsibility for the mortgage loan.

(ii) Anne took over part of stock at $5 520, all the debtors at $10 580 and goodwill at $4 140.

For Examiner's Use

(iii) Betsy took over one vehicle at $1 150.

(iv) Other assets were sold for the following amounts:

	$
Vehicles	1 656
Furniture	644
Stock	9 384

(v) Creditors were paid $4 900 in full settlement.

(vi) Anne was allowed $575 for her services in connection with the dissolution. Other dissolution expenses were $920.

Prepare:

(a) The Bank Account,

[5]

(b) The Realisation account,

For Examiner's Use

[11]

For Examiner's Use

(c) The Partners' Capital accounts in **columnar form**.

[8]

For Examiner's Use

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL

General Certificate of Education Advanced Level

POSSIBLE ANSWERS

ACCOUNTING **9197/2**

NOVEMBER 2003

(a) Depreciation is a measure of the wearing out, consumption or other loss of value of a fixed asset whether arising from the passage of time, obsolescence through technology and market changes.

A process of allocating the useful economic value of an asset over Its life (IAS 16).

[2]

(b)

- physical deterioration – wear and tear, rot, rust, erosion caused by exposure to elements.

- economic factors – obsolescence, inadequacy of capacity.

- time factor – with respect to assets with a fixed period of legal life, e.g. leases, copyrights

- depletion – in respect of a wasting nature, e.g. mines, oil wells.

[4]

(c)
- cost of asset/revalued value of an asset
- estimated useful life
- estimated residual value
- usage
- matching of cost of earnings by the asset

[4]

(d) (i)

Taxi Account

2002			2002		
January 1	Balance b/d	140 800	July 1	Disposal	25 600
July 1	Disposal Benza Finance	8 500	Dec 31	Balance c/d	163 200
		39 500			
		188 800			188 800
2003					
Jan 1	Balance b/d	163 200			

[4]

(ii)

Provision for depreciation – Taxis

2002			2002		
July 1	Disposal	17 500	Jan 1	Balance b/d	72 400
Dec 31	Balance c/d	81 975	Dec 31	P/L	27 075
		99 475			99 475
			2003		
			Jan 1	Balance b/d	81 975

[4]

(iii)

Asset Disposal Account

2002			2002			
July 1	Taxi	25 600	July 1	Prov for depreciation	17 500
	P/L	400		Taxi	8 500
		26 000			26 000

[4]

(e) - Financing structures may be different in terms of size, capital and long term liabilities, low fixed assets and high labour content.

- The non-quantifiable factors of each business, e.g. calibre of The management team, location of business, age of the business.

- Accounting practices and policies applied by the business Might be different.

[6]

2 (a) A statement of affairs is a statement from which the capital of the proprietor is deduced by eliminating liabilities from assets.

[1]

(b) Subscription in arrears
- as a current asset in the balance sheet or
- as and additional income item in the Income and Expenditure Account.

[1]

Subscription in advance

- as a current liability in the balance sheet or
- as a deduction from income in the Income and Expenditure account.

[1]

(c) (i) Refreshments' Trading, P/L Account for year ended 31 December 2002

	$	$
Sales of drinks		30 000
Less cost of sales		
Initial stock	1 650	
Purchases	13 500	
	15 150	
Less Fin. Stock	(1 200)	(13 950)
Gross profit		16 050
Less drinks – wages	900	
Electricity	2 500	(3 400)
Net profit to Income Statement		12 650

[3]

(ii)

Subscription Account

Balance b/d	750	cash	(2001)	1 200
Income and Expenditure	3 900		(2002)	2 400
Balance c/d	600		(2003)	600
		Balance c/d		1 050
	5 250			5 250
Balance b/d	1 050	Balance b/d		600

[5]

(iii) **Income and Expenditure Account for year ended 31 December 2002**

	$	$
Subscriptions		3 900
Trading		12 650
Donations received		7 500
		24 000
Less expenditure		
Typist expenses	600	
Donations to charities	6 750	
Stationery	300	
Fuel costs	2 550	
Depreciation	3 750	
Groundsman's wages	1 200	(15 150)
Surplus		8 900

[5]

(iv) Workings: Accum. Fund at start

Vehicles	75 000
Bank	6 000
Stock of drinks	1 650
Debtors (subscriptions)	750
∴ Accum. Fund	83 400

(v) **Highway Charity Club**

Balance sheet as at 31 December 2002

	Cost	Acc. Deprec.	NBV	
Fixed assets	75 000	3 750	71 250	
Current assets				
Stock	1 200			
Debtors (subscriptions)	1 050			
Cash	19 400			
	21 650			
Less C. Liab				
Subs in Adv.	(600)		21 050	
				92 300
Accum. fund			83 400	
Add surplus			8 900	
				92 300

[7]

3 (a) Key factor - the limiting factor of production that sets the upper limit to the level of that production.

- A factor restricting/restraining the productive activity.

[2]

(b) Contribution - excess of selling price over the total variable costs which goes towards meeting the fixed costs.

- marginal income derived through sales over and above the variable costs.

[2]

(c) Unit contribution:

	Eff (i)	Zet (ii)	Plus (iii)
Sales	$43	$50	$36
Less: V.C.			
D/materials	(15)	(10)	(6)
Labour	(10)	(25)	(20)
	18	15	10

[6]

(d) Contribution per unit of direct materials.

	Eff (i)	Let (ii)	Pl.IS (iii)
Unit contribution	$18	$15	$10
D/materials	1/2 kg	1/3 kg	1/5 kg
	$36 per kg	$45 per kg	$50 per kg

[3]

(e)

Given contribution per key factor	$36 per kg	$45 per kg	$50 per kg
Ranking	3	2	1

[6]

	Production Units	Available	Consumed	Balance
D/mat for 3 prod		500 kg		
Less Plus (1000 x 1/5 kg)	1 000		(200 kg)	300 kg
D/mat for Eff & Zet		300 kg		
Less Zet (1000 x 1/3 kg) = 333,3 kg But limited to 300 kg	900		(300 kg)	NIL

Optimum product mix - 1 000 units of plus [2]
900 units of Zet [2]
0 units of Eff [2]

4 (a)

Bank Account

Realisation	11 684	Creditors	4 900
Cap-Clara	12 742	Realisation costs	920
		Cap-Betsy	14 007
		Cap-Anne	4 599
	24 426		24 426

[5]

(b)

Realisation Account

Sundry Assets	76 360	Cap – Clara		40 480
Goodwill	8 280	Anne		20 240
Cap-Anne	575	Betsy		1 150
Bank-realisation costs	920	Bank		11 684
		Creditors		390
		Cap – Anne	6 096	
		Betsy	3 657	
		Clara	<u>2 438</u>	<u>12 191</u>
	<u>86 135</u>			<u>86 135</u>

[11]

Capital Accounts

	Anne	Betsy	Clara		Anne	Betsy	Clara
Realisation	20 240	1 150	40 480	Balance b/d	26 220	16 330	11 270
Realisation-loss	6 096	3 657	2 438	Mortgage loan			17 250
Bank	4 599	14 007		goodwill	4 140	2 484	1 656
				Realisation cost	575		
				Bank			<u>12 742</u>
	<u>30 935</u>	<u>18 814</u>	<u>42 918</u>		<u>30 935</u>	<u>18 814</u>	<u>42 918</u>

[8]

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL
General Certificate of Education Advanced Level

ACCOUNTING

9197/3

PAPER 3 Case Study

Friday 14 NOVEMBER 2003 Morning 2 hours 30 minutes

Additional materials:
Answer paper

TIME 2 hours 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer **all** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper fasten the sheets together.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

All accounting statements are to be presented in good style. Workings should be shown.

Question **3(b)** must be answered in sentence form, not in note form, with supporting figures.

You should read the Instructions at the top of page 2 before answering the questions.

You may use a calculator.

The businesses in this question paper are intended to be fictitious.

This question paper consists of 8 printed pages.

Instructions

Each scenario in this case study describes an event in the life of a business and is followed by a question. Answer **all** questions. You are advised to answer the questions in the order in which are set.

Scenario 1. Tanaka's business is converted into a company

Tanaka Enterprises traded as a sole trader for a long time. On 1 January 2000 the business was transformed into a company, Tantan Ltd, with an authorised share capital of $600 000 made up 600 000 ordinary shares of $1 each. On the same date, all assets and liabilities of Tanaka Enter with the exception of motor vehicles, were transferred to Tantan Ltd.

Table 1 shows the Balance Sheet of Tanaka Enterprises as at 31 December 1999, just before the takeover

Table 1

	Cost	Depreciation	Net Book Value
Fixed Assets	$	$	$
Freehold property	330 000	-	330 000
Plant and equipment	300 000	180 000	120 000
Furniture and fittings	30 000	15 000	15 000
Motor vehicles	60 000	45 000	15 000
	720 000	240 000	480 000
Investments			50 000
Current Assets			
Stock		35 600	
Trade debtors		120 000	
Bank		49 400	
		205 000	
Less Current Liabilities			
Trade creditors	127 500		
Accruals	7 500		
		135 000	70 000
			600 000
Capital – Balance at 1 January 1999		574 500	
Add Net profit		142 500	
		717 000	
Less Drawings		117 000	
			600 000

Additional information

1. Motor vehicles were taken over by Miss Tanaka at a value of $30 000.

2. Freehold property was taken over at $300 000 while plant and equipment was valued at $75 000. All other assets were transferred to Tantan Ltd at their book values.

3. The purchase consideration was agreed at $600 000, to be satisfied by the issue of 500 000 ordinary shares of $1 each to Miss Tanaka in the new company. Miss Tanaka gave $\frac{1}{4}$ of her shares to her daughter.

Question 1

(a) Prepare a Realisation Account showing the transfer of the business on 1 January 2000. [6]

(b) Draw up Miss Tanaka's Capital Account as at 1 January 2000. [4]

(c) Prepare Tantan Ltd's Balance Sheet as at 1 January 2000, soon after the takeover. [15]

Scenario 2. Tantan Ltd values its stock

On 31 December 2000, the annual stock taking exercise by Tantan Ltd did not take place due to staff shortage. As a result, the accountant had to calculate the company's closing stock using the information given in Table 2 below.

Table 2

1.	Purchases for the year totalled \$330 000.
2.	Sales for the year amounted to \$382 000.
3.	Returns outwards amounted to \$17 000 whilst returns inwards were \$7 200.
4.	During the year goods costing \$20 000 were stolen. The insurance company rejected the claim for compensation.
5.	In September 2000 goods costing \$7 400 were found to be valueless and therefore destroyed.
6.	Goods costing \$13 000 were sent on a sale or return basis to Mulenga Mulinga in November 2000. The goods were unsold at 31 December 2000.
7.	Mark–up is $33\frac{1}{3}\%$ on cost.

Question 2

(a) Calculate the value of the company's closing stock at cost at 31 December 200

(b) Draw up a Trading Account for Tantan Ltd for the year ended 31 December 2

(c) What is the basis for stock valuation?

Scenario 3. The directors of Tantan Ltd approve and effect a scheme of capital restructuring.

For the past two years, the company has been recording losses and yet there is a residue of retained income in the balance sheet. Creditors and banks are pressing for management changes and possibly some form of capital restructuring. The latest balance sheet of the company as at 31 December 2002 is shown in Table 3.

Table 3

	$ 000	$ 000	$ 000
Fixed Assets			
Freehold property			1 400
Plant and equipment			700
Furniture and fittings			20
			2 120
Current Assets			
Stock		1 260	
Trade debtors		740	
		2 000	
Less Current Liabilities			
Trade creditors	1 660		
Bank overdraft	1 120		
Loan interest due	100		
		2 880	
			(880)
			1 240
Ordinary shares of $1 each		600	
Retained profits		140	
			740
10% Loan stock			500
			1 240

Additional information

During an extraordinary meeting the shareholders passed the following resolutions:

1. Plant and equipment was to be revalued at $540 000.
2. Stock costing $310 000 was found to be valueless.
3. Freehold property whose original cost was $1 000 000 and with a net book value of $600 000 was to be sold immediately for $1 500 000. Other properties which had cost $400 000 (depreciation to date $240 000) were revalued to $500 000.
4. Creditors totalling $800 000 agreed to defer the balance on their claims for three years in retu for an immediate payment of 30% of their outstanding balances.
5. The loan interest due was to be paid off immediately.
6. Bad debts of $120 000 were to be written off.
7. All cash received to be used to reduce the bank overdraft by 75% after settling amounts due under the scheme and any excess to be used to partly pay off the loan.

Question 3

(a) Draw up the company's balance sheet soon after the restructuring scheme. Show all your working. [14]

(b) Management at Tantan Ltd intends to introduce the use of computers in their business. Write a report to management outlining the advantages and limitations of using computerized accounting systems. [18]

Scenario 4. Tantan Ltd prepares a cash budget

The company is putting in place a system of forward planning and on 28 February 2003 the accounts clerk made available the following information:

1.

Month	Credit Sales	Cash Sales	Credit Purchases
	$	$	$
February (actual)	820 000	500 000	220 000
March (budgeted)	600 000	410 000	420 000
April (budgeted)	200 000	600 000	180 000
May (budgeted)	250 000	800 000	240 000

2. The actual bank balance on 28 February 2003 is $200 000 (credit).

3. Trade debtors are allowed one month's credit.

4. Trade creditors are paid two months after purchase. No purchases were made in January.

5. The 10% loan stock, excluding interest due, will be paid on 1 March 2003.

6. The following expenses are paid monthly: wages $300 000; administration $150 000. After March, the wage bill is expected to rise by 10% every month.

7. On 1 March, all equipment would be replaced at a cost of $500 000. $300 000 will be allowed on the old equipment and the balance will be paid by cheque. Depreciation is allowed at the rate of 10% per annum.

8. Rent payable will be $360 000 for the year ending 31 December 2003, payable in 4 equal instalments at the end of each quarter.

[Turn over

Question 4

(a) Prepare a Cash Budget for Tantan Ltd for the **three** months to 31 May 2003. [9]

(b) **(i)** Discuss the requirements of an effective budgetary control system. [8]

(ii) State any **four** possible limitations, on the level of activity of a business, that could be principal budget factors. Suggest a way of overcoming each limitation. [8]

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL
General Certificate of Education Advanced Level

MARKING SCHEME

NOVEMBER 2003

ACCOUNTING **9197/3**

1. (a) Realisation Account: 1 January 2000

	$		$
Freehold property	330 000	Trade creditors	127 500
Plant equipment	120 000	Accruals	7 500
Furniture and fittings	15 000	Tanaka-Capital	30 000
Stock	35 600	Tantan Limited	600 000
Debtors	120 000		
Cash at bank	49 400		
Investments	50 000		
Motor vehicles	15 000		
Capital – Tanaka	30 000		
	765 000		765 000

(All items to be shown individually for full marks). [7]

This is because ledger balances are transferred one by one tot the realisation account.

(b) Tanaka's Capital Account: 1 January 2005

	$		$
Realisation – Motor vehicles	30 000	Balanced b/d	600 000
Ordinary Shares in Tantan	600 000	Realisation-profit	30 000
	630 000		630 000

In Tanaka's capital account, the narration Ordinary Share Capital for $600 000-00 on the debit side is not correct.

[3]

(c) **Tantan Limited 's Balance Sheet as at 1 January 2000**

Fixed Assets			
Intangible – goodwill (wi)			90 000
Tangible: Freehold property		300 000	
Plant and equipment		75 000	
Furniture and fittings		15 000	
			390 000
			480 000
Investments			50 000
Current Assets			
Stock		35 600	
Debtors		120 000	
Bank		49 400	
		205 000	
Less: **Current liabilities**			
Trade creditors	127 500		
Accruals	7 500		
		135 000	70 000
Capital and Reserves			600 000
500 000 ordinary shares @ $1 each fully paid		500 000	
Share premium		100 000	
			600 000

[15]

The figure 500 000 for the ordinary shares can be left out.

Working 1

Calculation of Goodwill

⇒ Net assets less purchase price

Freehold property	300 000
Plant and equipment	75 000
Furniture and fittings	15 000
Investments	50 000
Stock	35 600
Debtors	120 000
Bank	49 400
	645 000
Less: Total liabilities	(135 000)
Net assets	510 000

Goodwill ⇒ 600 000 – 510 000 (4)

90 000

Instead of this arithmetical calculation the answer could have been given as a Purchase of Business Account as follows:

Purchase of Business

	$		$
Creditors	127 500	Freehold property	300 000
Accruals	7 500	Plant and Equipment	75 000
Tantan Limited	600 000	Furniture and fitting	15 000
		Investments	50 000
		Stock	35 600
		Debtors	120 000
		Bank	49 400
		Goodwill	90 000
	735 000		735 000

(4)

In the Business Purchase Account the entries were not to be reversed.

The marks were awarded either in the balance sheet or in the calculation but not in both.

2 (a) **Computation of Closing Stock at 31 December 2000**

		+	—
Opening stock	35 600		
Purchases		330 000	
Purchases returns			17 000
Sales at cost			286 500
Sales returns at cost		5 400	
Obsolete stock			7 400
Stolen stock			20 000
Net effect	+4 500	335 400	330 900
Closing stock	40 100		

[10]

The answer to question 2(a) could be given in the form of a trading account as in (b). In that case the net sales at cost figure of 281 100 gets 4 marks.

(b) **Trading Account for the year ended 31 December 2000**

Sales			382 000
Less: Sales returns			7 200
Net sales/turnover			374 800
Opening stock		35 600	
Add: Purchases	330 000		
Less: Returns outwards	17 000		
Net Purchases		313 000	
		348 000	
Less: Stolen stock		20 000	
Obsolete stock		7 400	
Closing stock		40 100	
Cost of sales			281 100
Gross profit			93 700

[6]

(c) At the lower of cost and net realizable value [2]

3 (a) **Balance Sheet after Capital Restructuring Scheme**

	$ 000	$ 000	$ 000
Fixed Assets			
Freehold property			1 140
Plant and equipment			540
Furniture and fittings			20
			1 700
Current Assets			
Stock		950	
Trade debtors		620	
		1 570	
Less: Current Liabilities			
Trade Creditors	860		
Bank overdraft	280	1 140	430
			2 130
Long Term Liabilities			
10% Loan Stock		180	
Trade creditors (due after 3 years)		560	(740)
			1 390
Share Capital and Reserves			
Ordinary shares of $1 each		600	
Retained earnings		610	
Capital Reserve		180	
			1 390

[14]

Cash received 1 500 – 240 – 100 = 1 160
1 160 – 840 = 320 which pays off part of the loan.

3 (a) Workings

		Dr	Cr
1	Capital reconstruction	160 000	
	Plant and equipment		160 000
2	Profit and Loss account	310 000	
	Stock		310 000
3	(i) Bank	1 500 000	
	Properties		600 000
	Profit and Loss Account		900 000
	(ii) Properties	340 000	
	Capital reconstruction		340 000
4	Creditors	240 000	
	Bank		240 000
5	Loan interest due	100 000	
	Bank		100 000
6	Profit and Loss Account	120 000	
	Debtors		120 000
7	Loan	320 000	
	Bank		320 000

(Alternative presentations of workings acceptable)

3 (a) Alternative answer

The Journal

		$000 Dr	$000 Cr
1	Capital reconstruction	160	
	Plant and equipment		160
2	Capital reconstruction	310	
	Stock		310

3	Asset disposal: freehold property	1 000	
	Freehold property		1 000
	Provision for depreciation: freehold property	400	
	Asset disposal: freehold property		400
	Bank	1 500	
	Asset disposal: freehold property		1 500
	Asset disposal: freehold property	900	
	Profit and Loss		900
	Freehold property	100	
	Provision for depreciation	240	
	Capital reconstruction		340
4	Trade creditors	240	
	Bank		240
5	Loan interest	100	
	Bank		100
6	Capital reconstruction	120	
	Trade debtors		120
7	10% loan stock	320	
	Bank		320
8	Profit and loss	250	
	Capital reconstruction		250

Balance Sheet as at 31 December 2002 (after restructuring)

	$000	$000	$000
Fixed Assets			
Freehold Property (-600+340)		1 140	
Plant and Equipment		540	
Furniture and Fittings		20	1 700
Current Assets			
Stock (-310)	950		
Trade Debtors (-120)	620	1 570	
Less Current Liabilities			
Trade Creditors (-800)	860		
Bank Overdraft	280	1 140	
Working Capital			430
			2 130
Financed by:			
Ordinary shares of $1 each			600
Reserves			
Profit and Loss (+900-250)			790
Shareholders' Equity			1 390
Long Term Liabilities			
10% Loan Stock (-320)		80	
Trade Creditors (Due after 3 years)		560	740
			2 130

(b) **Report on advantages and limitations of computerized accounting systems**

- Report to be written in an acceptable formal format

- Speed and accuracy of capturing and calculating data;
- Whole task approach to processing transactions

- Limiting cases of fraud and thefts (especially pilferage);
- Instant access to accounting information
- "What if?" calculations on alternatives open to management
- Computers are aids to instant decision making
  (Other reasonable points).

Limitations should include the following:

- Computers can only process data fed into them.
- Any future changes to business operations/activities will be expensive in software requirements
- A breakdown in the equipment brings business to a halt
- Programmes can be infected/affected by a virus
- System can be expensive to set up
- Technology is ever changing. [18]

Total 32

4 (a) **Cash Budget**

	March	April	May
	$ 000	$ 000	$ 000
Receipts			
Cash sales	410	600	800
Credit sales	820	600	200
	1 230	1 200	1 000
Payments			
Purchases	-	(220)	(420)
Loan stock	(180)		
Wages	(300	(330)	(363)
Administration	(150)	(150)	(150)
Equipment	(200)	-	-
Rent	(90)	-	-
	(920)	(700)	(933)
Net receipts/(payments)	310	500	67
Balance at start	(200)	110	610
Closing balance	110	610	677

[9]

(b) **Requirements of an effective budgetary control system**

(i) The structure of the organization must be defined clearly, emphasizing areas of responsibility so that managers can be accountable for adverse results from areas under their control.

(ii) There is need for adequate records of accounts and procedures, in order that measurement of performance be relied on.

(iii) Everybody should be allowed to participate in the budgetary process in order to boost morale, hence coordinating efforts of everybody to work towards the budget.

(iv) Flexibility is of utmost importance so that plans and objectives may be revised.

(v) Budget committee.

(vi) Budget manual.

(vii) Budget period to enable review of budgets.

(viii) Cooperation from everyone concerned from top management through middle management to line staff.

(ix) There must be clearly defined targets and objectives – goal definition.

(8)

Limitation		Means of Overcoming Limitation
1	Market demand for products or services	Extra advertising or new product
1	Unavailability of skilled labour	Increased mechanization or higher rates of salaries
2	Unavailability of materials	Alternative supplies or alternative raw materials
3	Factory space	Extension or relocating elsewhere
4	Cash shortage	Reducing debt collection period or issue of capital

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL
General Certificate of Education Advanced Level

ACCOUNTING
PAPER 1 Multiple Choice

9197/1

Thursday **3 JUNE 2004** Afternoon 1 hour 15 minutes

Additional materials:
- Multiple Choice answer sheet
- Soft clean eraser
- Soft pencil (type B or HB is recommended)

TIME 1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

Do not open this booklet until you are told to do so.

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.

There are **forty** questions in this paper. Answer **all** questions. For each question there are four possible answers, **A, B, C** and **D**. Choose the **one** you consider correct and record your choice in **soft pencil** on the separate answer sheet.

Read very carefully the instructions on the answer sheet.

INFORMATION FOR CANDIDATES

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

Calculators may be used.

This question paper consists of 13 printed pages and 3 blank pages.

[Turn over

1 Provisions are amounts set aside out of profits to provide for the following **except**

- **A** depreciation of fixed assets.
- **B** cash for buying fixed assets.
- **C** possible losses caused by bad debts.
- **D** liabilities, the amounts of which cannot be estimated with substantial accuracy.

2 Which of the following would **not** appear in a sales ledger control account?

- **A** discounts allowed
- **B** returns inwards
- **C** provision for doubtful debts
- **D** cash received from credit customers

3 The following information relates to Fibs Ltd's Plant and Machinery Account at 31 December 2003.

	$
closing balance	222 000
depreciation for the year	15 000
cost of disposed plant	19 000
new plant acquired	91 000

One of the machines was revalued from $38 000 to $50 000 during the year.

What is the opening balance for the plant and machinery, at cost, on 1 January 2003.

- **A** $126 000
- **B** $138 000
- **C** $153 000
- **D** $200 000

4 The cash book (bank column) of Lillys Ltd had a credit balance of $5 000. There were deposits of $2 000 not yet cleared. The bank statement showed a credit transfer of $600 not yet in the cash book.

What is the balance on the bank statement?

- **A** $3 600 credit
- **B** $3 600 debit
- **C** $6 400 credit
- **D** $6 400 debit

5 The table shows information about subscriptions in the books of a social club.

	$
Subscriptions due on 1 January 2003	3 000
Subscriptions in advance on 1 January 2003	2 340
Subscriptions received during the year	15 670
Subscriptions due on 31 December 2003	340

What is the income credited to Income and Expenditure Account for the year?

A $15 350
B $15 990
C $16 670
D $18 350

6 **M** buys goods from and sells goods to **Y**. On 31 January 2004, **M** owed **Y** $1 200 while **Y** owed **M** $3000. An agreement is in force for the Sales Ledger and Purchases Ledger balances to be offset so that only one payment is made.

Which double entry effects the offset in **M**'s books?

		DR	CR
		$	$
A	Purchases Account	1 200	
	Sales Account		1 200
B	Purchases Ledger Control	1 200	
	Sales Ledger Control		1 200
C	Sales Ledger Control	1 800	
	Purchases Ledger Control		1 800
D	Purchases Ledger Control	1 800	
	Sales Ledger Control		1 800

7 Any donation received by a club for a specific purpose is

A credited to the Donation Special Fund Account.
B credited to the Income and Expenditure Account.
C debited to the Donation Special Fund Account.
D debited to the Income and Expenditure Account.

8 In a partnership business, profit on revaluation should be

A credited to capital accounts.
B debited to capital accounts.
C credited to current accounts.
D debited to current accounts.

9 Variable overheads of $6 760 were included twice in a manufacturing account. The effect of correcting the error will

A increase the prime cost by $6 760.
B increase the production cost by $6 760.
C reduce the prime cost by $6 760.
D reduce the total factory overheads by $6 760.

10 Danda Ltd's final accounts showed a net profit of $46 800. It was discovered that the opening stock had been overcast by $4 620 and the closing stock had been undercast by $2 760.

What is the effect, on the net profit, of correcting the errors?

A net profit decreases by $1 860.
B net profit increases by $1 860.
C net profit decreases by $7 380.
D net profit increases by $7 380.

11 Share premium can be used for the following **except**

A writing off preliminary expenses.
B providing cash for dividend payment.
C paying up unissued shares as fully paid bonus shares.
D providing any premium payable on the redemption of shares.

12 How can a business increase its quick asset ratio?

A increase creditors
B increase debtors
C increase stock
D reduce bank balance

13 What is convertible loan stock?

A a loan which can be cashed anytime
B goods lent to the company for resale
C a loan which may be exchanged for shares at a future date
D preference shares which may be converted into ordinary shares

14 A rent prepayment of $250 was treated as an accrual in preparing a sole trader's profit and loss account. The draft net profit figure was $7 200. What would be the net profit when the error is corrected?

A $6 700
B $6 950
C $7 450
D $7 700

15 In a cash flow statement, which item will be an adjustment to operating profits to arrive at cash flow from operating activities?

A tax payable
B interest payable
C purchase of machinery
D changes in stock levels

16 Information from Tee Pee partnership's accounts is shown in the table below.

	$
net loss before interest	12 460
interest on partner's loan to the firm	2 000
interest on capital accounts	1 000
drawings	7 000

Which loss figure is to be appropriated between the partners?

A $9 460
B $12 460
C $14 460
D $15 460

17 Which accounting concept explains the capitalisation of development costs?

A matching
B prudence
C business entity
D substance over form

18 Which goodwill is **not** recorded in the balance sheet?

A negative goodwill
B positive goodwill
C purchased goodwill
D non purchased goodwill

19 The non-payment of debenture interest at the close of business at the agreed date has the effect of

A increasing the net profit.
B increasing the debentures.
C increasing the bank balance.
D increasing the current liabilities.

20 Buildings of Chako Ltd had an original cost of $100 000, and an accumulated depreciation of $20 000 on 1 January 2003. Depreciation for the year was $7 240.

On 31 December 2003 the asset was revalued to $105 000. What is the profit on revaluation?

A $5 000
B $12 240
C $25 000
D $32 240

21 Ndoro and Mhako are in partnership sharing profits and losses equally. They each contributed capital of $56 000 and have agreed to admit Sadza to the partnership. Profits are to be shared in the ratio 2:2:1 respectively.

Goodwill is valued at $30 000 but it is not to be retained in the books.

What will be the balance on Ndoro's capital account after the admission of Sadza?

A $56 000
B $59 000
C $65 000
D $71 000

22 A sole trader can **best** improve his working capital in the short term by

A paying back loans.
B decreasing the rate of stock turnover.
C disposing of some surplus fixed assets.
D reducing the debtor collection period by offering discounts.

23 The table shows current assets and current liabilities of Tomtom Ltd.

	$
stock	50 000
debtors	250 000
dividends payable	20 000
trade creditors	180 000
short-term investments	50 000
prepayments	10 000
taxation	30 000
bank overdraft	40 000

What is the current ratio?

A 1.15
B 1.3
C 1.5
D 2

24 Which of the following violates the prudence concept?

A writing off development cost against profits
B increase in provision for bad and doubtful debts
C understating depreciation of plant and machinery
D valuing stock at the lower of cost and net realizable value

25 Which of the following statements is **not** true?

A A share must have a face value.
B There are only two classes of share capital.
C Shares can be issued at a discount or premium.
D Authorised share capital is higher or the same as issued share capital.

26 The table shows extracts from a company's Profit and Loss Accounts for 2002 and 2003.

	2002	2003
	$	$
sales	25 000	50 000
cost of sales	7 500	17 000

What might explain the change in the profit margin?

A cheaper suppliers
B a cut in sales price
C an increase in sales price
D the loss of a major customer

27 The net assets of a business are valued at $180 000. The business is sold to a limited company for $250 000. The purchase price is to be settled by the issue of 200 000 ordinary shares of $1 each fully paid.

Each of the shares is issued at

A par value.
B a premium of 10c.
C a premium of 25c.
D a premium of 35c.

28 Which is a source of cash?

A bonus issue
B rights issue
C increase in debtors
D profit on disposal of motor vehicle

29 A limited company intends to purchase a sole trader's business for $290 000.

The following information is extracted from the books of the sole trader prepared for the purpose of the acquisition.

	$
Fixed assets at cost	340 000
Provision for depreciation to date	120 000
Net current assets	100 000

What is the value of goodwill?

A $30 000 negative
B $30 000 positive
C $150 000 negative
D $150 000 positive

30 The information below relates to Jong Jong Ltd.

Ordinary shares of $0.50 each, fully paid $150 000
10% preference shares of $1 each, fully paid $60 000

On 31 December 2003 Jong Jong Ltd. had a dividend yield of 1.25% and market price per share of $4.00.

What was the dividend percentage declared on ordinary shares?

A 10%
B 20%
C 32%
D 40%

31 A company has the following share capital structure:

Ordinary shares $0.50 each, fully paid $200 000
8% Preference Shares $1.00 each, fully paid $100 000

An extract from its profit and loss appropriation account is shown below:

		$	$
Net profit for the year			68 000
less	Preference dividend	8 000	
	Ordinary dividend	30 000	
			38 000
Retained profits			30 000

What is the earnings per share?

A 7.5c
B 15c
C 17c
D 21.5c

32 Muyamba Social club had the following assets and liabilities as at 31 May 2003.

	$
Buildings	40 000
Pool tables	3 000
10% debentures (investment)	4 500
Bar supplies unpaid	6 400
Subscriptions in advance	400
Bank overdraft	2 500

What was the club's accumulated fund?

A $32 200
B $38 200
C $39 200
D $43 200

33 Bindo Ltd manufactures and sells a single product whose price and cost structure are shown below.

Selling price per unit	$20
Variable costs per unit	$15

Budgeted fixed costs are $100 000 for a standard production of 40 000 units.

How much profit or loss can be generated if 50 000 units are produced and sold?

A $125 000 loss
B $125 000 profit
C $150 000 loss
D $150 000 profit

34 Pumula Ltd would want to invest in a project. The following information is made available.

Cost of Capital	Net Present Value
10%	+$2 341
15%	–$ 846

What is the internal rate of return

A 6.4%
B 11.3%
C 13.6%
D 16.3%

35 Which of the following is **not** an advantage of the payback method?

A Calculation of net cash flows is objective.
B It takes into account the time value of money.
C Short payback period benefits a firm's liquidity.
D It indicates the project which is at risk for the least time before the initial outlay has been recouped.

38 Simba Ltd uses the standard costing system. During the month of May 2003 the following information was provided.

	Standard cost per unit based on a budgeted output of 12 000 units	Actual cost of 12 500 units produced
Direct material	6.1 metres @ $5.50 per metre	73 750 metres costing $427 750
Direct labour	2.75 hours @ $15 per hour	31 250 hours @ $16.20 per hour

What is the difference between the standard and actual direct labour costs of producing 12 500 units?

A $3 125 adverse
B $9 375 favourable
C $10 250 favourable
D $11 250 adverse

39 What may cause an adverse sales volume variance?

A a change in customer taste
B a decrease in inflationary rate
C an increase in customers' disposable income
D an increase in the price of a substitute product

40 What is a principal budget factor?

A A factor which prevents changes in selling price.
B A factor which influences changes in the fixed costs.
C A factor which influences changes in the variable costs.
D A factor which constrains a business from achieving set objectives.

36 Zed Ltd manufactures three products **X, Y** and **Z**. The labour hours are limited to 250. The table shows information about the three products.

Product	**X**	**Y**	**Z**
Labour hours per unit	3	2	7
Contribution per unit	$8	$8	$16
Maximum demand (units)	500	500	500

To maximize profits, which order of priority should the company adopt?

A X Y Z
B Z X Y
C X Z Y
D Y X Z

37 Damba Ltd provided the following information for March 2004:

Budgeted overhead expenditure	$32 000
Budgeted output	8 000 units
Overhead absorption rate	$4 per unit
Actual output	7 940 units

Actual expenditure equalled the budgeted expenditure.

What is the under or over recovery of overheads for March 2004?

A 240 under recovery
B 240 over recovery
C 242 under recovery
D zero over and under recovery

ACCOUNTING

SUBJECT 9197

Paper 1 **June 2004**

1.	B		
2.	C		
3.	B	→	found by drawing up a plant and machinery account.
4.	D		
5.	A	→	Subscriptions account
6.	B	→	Balance owed by Y, $1 800 will remain due in the Sales Ledger Control account
7.	A		
8.	A	→	Profit is of a none revenue nature
9.	D		
10.	D	→	Both errors resulted in C.O.S being overstated by $7 380, GP and NP understated by same amount.
11.	B		
12.	B	→	Stock excluded in calculating quick ratio. Other 2 options have opposite effect.
13.	C		
14.	D		
15.	D	→	Operating profit is profit before interest charges.
16.	C	→	Interest on partners' loans to the firm is a normal trading expense and not an appropriation of profits.
17.	A		
18.	D	→	IAS 38

19. D

20. D → NBV at date of valuation was $72 760

21. B

22. C

23. B → Consider all current assets and all current liabilities as shown by the table.

24. C

25. B

26. B

27. C → $\$\dfrac{250\ 000}{200\ 000} = \$1{,}25$. Then find the share premium.

28. B

29. A → Total net assets = $320 000, which is higher than purchase price.

30. A → Let x be the declared %

$x\left(\dfrac{0.5}{4}\right) = 1{,}25\%$ and then find x.

31. B → Divide earnings by number of ordinary shares.

32. B → 10% debentures is an asset to the club.

33. D → B/E value = $\dfrac{\$100\ 000}{5}$

= 20 000 units

Excess 30 000 x $5 = $150 000

[Based on marginal costing approach]

34. C → Capital investment appraisal techniques.

35. B

36. B → Determine the contribution per limiting factor and rank

37. A → OAR (Budgeted output – actual output)

38. B → Standard labour costs of producing 12 500 units is 12 500x2,75hrs x$15 =$515 625.

39. A → The other 3 options cause a favourable sales volume variance.

40. D

c:9197-01J04/es

Candidate Name	Centre Number	Candidate Number

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL
General Certificate of Education Advanced Level

ACCOUNTING
PAPER 2 Structured Questions

9197/2

Tuesday **15 JUNE 2004** Morning 1 hour 30 minutes

Candidates answer on the question paper
Additional materials:
Supplementary answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper. If you require extra paper, ask the supervisor for supplementary answer paper.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

You may use a calculator.

FOR EXAMINER'S USE	
1	
2	
3	
4	
TOTAL	

This question paper consists of 19 printed pages and 1 ruled page.

Answer **all** questions

For Examiner's Use

1 **(a)** State any **three** reasons for keeping control accounts.

[3]

(b) Name **two** books of prime entry used in posting figures to the Purchases Ledger Control Account.

[2]

For Examiner's Use

(c) The following balances were extracted from the books of Isheanesu Trading for the year ended 31 October 2003:

			$
November 1	Sales ledger balances b/f	Dr.	44 000
		Cr.	1 800
	Purchases ledger balances b/f	Dr.	800
		Cr.	12 400
October 31	Average monthly totals of:		
	Cash purchases		60 000
	Cash sales		124 000
	Sales day book		53 000
	Payment to creditors		80 000
	Sales returns book		6 400
	Cash receipts from debtors		45 200
	Cash payments to suppliers		77 000
	Discounts – debit		6 200
	– credit		1 400
	Dishonoured cheques		6 600
	Interest charged by the business on overdue debts		2 000

Total bad debts written off amounted to	28 800
Sales ledger balances offset against purchases ledger balances were	4 400
Credit balances on purchases ledger accounts at 31 October 2003 were	10 000
Debit balances on sales ledger accounts at 31 October 2003 were	56 600

Use the above information to prepare the Sales Ledger Control Account for the year ended 31 October 2003.

For Examiner's Use

[6]

(d) Explain the meaning of each of the following phrases as used in Accounting:

(i) Accounting policy

[2]

(ii) Ordinary activities

[2]

For Examiner's Use

(iii) Extraordinary items

[2]

(iv) Fundamental errors

[2]

For Examiner's Use

(e) State any **two** circumstances under which an enterprise can change an accounting policy.

[4]

2 (a) State **two** differences between direct costs and factory overheads giving an example of each.

[3]

(b) The following information was extracted from the books of Siyatotoba Ltd, a candle manufacturer, for the year ended 31 December 2003:

	$ 000
Purchase of raw materials	250
Fuel and light	14
Salaries administration	11
Carriage inwards	6
Rent and rates	16
Sales	492
Returns inwards	4
General administration expenses	15
Repairs to plant and machinery	3
Stocks at 1 January 2003:	
Raw materials	10
Work-in-progress	8
Finished goods	7
Sundry creditors	31
Capital	450
Salesmen's salaries	9
Freehold premises	400
Plant and machinery	78
Debtors	20
Cash	13
Wages	30

Additional information

(i) Stocks at 31 December 2003:

Raw materials	$20 000
Work-in-progress	$12 000
Finished goods	$18 000

(ii)

Fuel and light in arrears	$6 000
Rent and rates prepaid	$2 000
Market value of finished goods	$300 000

(iii) Plant and Machinery is depreciated at the rate of 10% per annum using the straight-line method.

For Examiner's Use

(iv) Manufacturing consumes 60% of fuel and light.

(v) Rent and rates for trading operations amount to 30%.

(vi) Of the total wages, productive wages are $16 000.

(i) Draw up the Manufacturing Account for Siyatotoba Ltd for the year ended 31 December 2003.

For Examiner's Use

[13]

(ii) Prepare the Trading and Profit and Loss Account for the year ended 31 December 2003.

For Examiner's Use

[9]

(c) Identify any **three** possible reasons why a manufacturing division may end up with a manufacturing loss.

[3]

For Examiner's Use

3 Mwenda Ltd manufactures plastic containers in two consecutive processes, **A** and **B**. The costs for May 2003 were as follows:

Cost element	Total $	Process **A** $	Process **B** $
Direct materials	15 000	10 000	5 000
Conversion cost	11 200	8 000	3 200

Both processes have direct materials' input.

Process **A**

The input for process **A** is 850 kg of material zeno. All units are 100% complete.

Process **B**

The input for process **B** is 700 litres of material pino. Output is 1 000 plastic containers and 500 units of work-in-progress, which are 80% complete as regards labour and overheads.

No losses arise in both processes.

(a) Explain the phrase *equivalent production units.*

____

____

____

____

____

____

____ [2]

For Examiner's Use

(b) Calculate the total cost per unit.

[7]

For Examiner's Use

(c) (i) Calculate the cost of work-in-progress.

[2]

(ii) Calculate the cost of completed units.

[1]

For Examiner's Use

(d) Prepare the process account for

Process **A**

[3]

Process **B**

[5]

For Examiner's Use

(e) Distinguish a by-product from a waste product.

[1]

[Turn over

For Examiner's Use

4 (a) Explain Single Entry Accounting.

____

____

____

____ [1]

(b) After a fire destroyed some of the original records for Mhlanga Ltd, the following information relating to the year ended 31 March 2004 was available:

Sales	\$750 000
Stock (31 March 2004)	\$ 53 600
Fixed assets	\$100 000
Debtors	\$ 42 000
Mark-up	25%
Operating costs/Sales	15%
Net profit/Sales	5%
Stock turnover rate	15
Acid test ratio	1.5:1
Closing bank balance	\$54 000

The company is financed mainly by ordinary shares of \$1 each.

During the year, the company issued 7% convertible loan stock for \$14 000 cash. The loan is repayable on 31 December 2009.

(i) What is convertible loan stock?

____

____

____

____

____

____ [2]

(ii) Draw up Mhlanga Ltd's Trading and Profit and Loss Account for the year ended 31 March 2004.

For Examiner's Use

[8]

For Examiner's Use

(iii) Draw up the Balance Sheet as at 31 March 2004.

[10]

For Examiner's Use

(c) Explain the matching concept.

[2]

(d) How has the matching concept been applied in the above financial statements (i.e. **4(b) (ii) and (iii)**)?

[2]

(e) State **three** advantages of double entry over single entry accounting.

[3]

For Examiner's Use

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL
General Certificate of Education Advanced Level

POSSIBLE ANSWERS

ACCOUNTING **9197/2**

JUNE 2004

1. (a) Locating errors, detecting fraud, provision of total debtors and creditors' balances. [3]

(b) Returns outwards journal, cashbook, purchases journal, general journal. [2]

(c) (i) **Sales Ledger Control Account**

Balance b/d	44 000	Balance b/d	1 800
Sales	636 000	Ret. Inwards	76 800
Bank	79 200	Cash	542 400
Interest on debts	24 000	Disc. Allowed	74 400
Balance c/d	98 000	Set off	4 400
		Bad debts	28 800
		Balance	56 600
	785 200		785 200

[6]

(d) (i) **Accounting policy**
The specific principle, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

(ii) **Ordinary activities**
Activities undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to or arising from these activities.

(iii) **Extraordinary items**
Income or expense items arising from events/transactions that are clearly distinct from the ordinary activities of the enterprise and are not expected to recur frequently.

(iv) **Fundamental errors**
Errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been *reliable at the date of their issue.*

[8]

(e) Policy changes can be made

(i) if required by statue (law)
(ii) if required by an accounting standard setting body

(iii) if the change will result in a more relevant/reliable presentation of events.

2\. (a) Direct costs can be traced to the item being manufactured, e.g. direct materials whereas factory overheads cannot be traced to the item being manufactured, e.g. factory power.

Direct costs vary with production levels whereas fixed overheads may be fixed over a given production range.

[3]

(b) (i) Manufacturing Account for year ended 31 December 2003

	$	$
Raw materials		
- 1 January 2003		10 000
Purchases		250 000
Carriage inwards		6 000
		266 000
Final stock		(20 000)
Cost of raw materials used		246 000
Direct labour		16 000
Prime cost		262 000
Factory overheads		
- rent and rates	9 800	
- fuel and light	12 000	
- repairs – plant	3 000	
- wages	14 000	
- depreciation: plant	7 800	46 600
		308 600
Add: w.i.p. (1/1/03	8 000	
Less: w.i.p. (31/12/03)	(12 000)	(4 000)
Production cost of complete goods		304 600
Market value of completed goods		300 000
Gross loss on manufacture		4 600

[13]

(ii) Trading, profit/loss Account for year ended 31 December 2003

	$	$
Sales		492 000
Less sales returns		(4 000)
		488 000
Initial stock	7 000	
Market value of goods	300 000	

	307 000	
Final stock	(18 000)	(289 000)
Gross profit		199 000
Less expenses		
- fuel and light	8 000	
- administration salaries	11 000	
- rent and rates	4 200	
- general admin expenses	15 000	
- salesman's salary	9 000	(47 200)
Net profit		151 800
Less manufacturing loss		(4 600)
Overall net profit		147 200

[9]

(c) - Wastage of raw materials
- Expensive factory labour
- Use of faulty/ageing machinery

[3]

3 (a) This is the quality of produced units arrived at by converting work-in-progress into finished equivalents to enable the units cost to be obtained, e.g. 9 000 units which are 60% complete = 5 4000 equivalent units.

[2]

(b) Calculating total cost per unit.

Cost Element	Total Cost	Completed Units	w.i.p.	Total Equiv. Units	Unit Cost
D/Mat	15 000	1 000	500	1 500	10,00
Conversion costs	11 200	1 000	400	1 400	8,00
			(500 x 0,8)		
					18,00

[7]

(c) (i) Calculation of cost of w.i.p.

D/mat (500 x 10)	$5 000
Conversion costs (400 x 8)	$3 200
	$8 200

[2]

(ii) Cost of complete units.
1 000 x $18 = $18 000

[1]

Process A

D/mat (zero)	10 000	Process B	18 000
Conversion costs	8 000		
	18 000		18 000

[3]

Process B

Process A	18 000	Completed units	18 000
D/mat (Pino)	5 000	w.i.p.	8 200
Conversion costs	3 200		
	26 200		26 200

(d) By-products have a minor sales value whereas waste product can actually yield a negative value it has to be disposed of at some cost. [5]

4\. (a) single entry [1]

- any system of accounting falling short of double entry accounting.
- any system of accounting which ignores the two fold aspect for each transaction.

(b) Convertible loan stock [1]

(i) - funding obtained or secured by an entity earning a fixed rate of return for the lender, entitling the lender to exercise an option to convert the loan into some other form of security on or after a specified date.

[2]

(ii) **Trading, P/L Accounts for year ended 31 March 2004**

	$	$
Sales		750 000
Less: cost or sales		
Initial stock	26 400	
Purchases	627 200	
	653 600	
Final stock	(53 600)	(600 000)
Gross profit		150 000
Less operational costs		(112 500)
Net profit		37 500

[8]

(iii) **Balance sheet as at 31 March 2004**

Fixed Assets		100 000
Current Assets		
Stock	53 600	
Debtors	42 000	
Bank	54 000	
	149 600	
Less: Creditors	(64 000)	85 600
		185 600
Financed by:		
Ordinary share capital		134 100
Retained profits		37 500
		171 600
Loan		14 000
		185 600

[10]

(c) Matching concept – revenues and costs for a given accounting period must be set against each other in order to ascertain the related surplus or deficit. match

[2]

(d) Application of matching concept

- Sales given arose through relevant costs, i.e. cost of sales - hence the elimination of final stock in determining related profit.
- Comparing gross profit against operating costs.

[2]

(e) Advantages of double entry over sing entry

(i) a complete view of the financial transaction is captured
(ii) double entry lends itself to easy checking of errors via the trial balance
(iii) internal checks are possible.

[3]

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL
General Certificate of Education Advanced Level

ACCOUNTING

PAPER 3 Case Study

9197/3

Friday 18 JUNE 2004 Morning 2 hours 30 minutes

Additional materials:
Answer paper

TIME 2 hours 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer **all** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper fasten the sheets together.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

All accounting statements are to be presented in good style. Workings should be shown.

Questions **3** and **4(b)** must be answered in sentence form, not in note form, with supporting figures.

You should read the Instructions at the top of page 2 before answering the questions.

You may use a calculator.

The businesses in this question paper are intended to be fictitious.

This question paper consists of 7 printed pages and 1 blank page.

1 Each Scenario in this case study describes an event in the life of a business and is followed by a question. Answer **all** questions. The questions should be answered in the order in which they are set.

Scenario 1: Muswe and Chinyanga admit a new partner.

Muswe and Chinyanga were in partnership in the retail sector for many years. They prepared their financial statements up to 30 September every year. On 1 April 2001 they agreed to admit Dehwe as a partner.

Table 1(a) shows the partnership's list of balances extracted on 30 September, 2001. Further information given in **Table 1(b)** and the additional information will enable you to prepare the financial statements.

Table 1(a)

		Dr	Cr
		$	$
Capital accounts:	Muswe		113 400
	Chinyanga		79 800
	Dehwe (Cash introduced)		48 900
Current accounts:	Muswe		12 200
	Chinyanga		10 300
Drawings:	Muswe	12 600	
	Chinyanga	8 400	
	Dehwe	6 300	
Gross profit			357 000
Freehold premises at cost		280 000	
Fixtures and fittings at cost		84 000	
Motor vehicles at cost		105 000	
Discounts		7 350	4 200
Provision for depreciation	01/10/2000:		
Fixtures and fittings			25 200
Motor vehicles			52 500
Cash at bank		10 050	
Stock at 30/09/2001		31 100	
Rates		21 000	
Wages and salaries		75 600	
Motor vehicle expenses		37 800	
Postage and stationery		10 500	
Debtors and creditors		28 400	14 600
		718 100	718 100

Table 1 (b)

1 The partnership agreement for Muswe and Chinyanga provided that

(i) interest is to be allowed on partners' capital accounts at the rate of 15% per annum while interest on each partner's **total** drawings is charged at 10%.

(ii) the residue of profits is to be shared: Muswe $\frac{2}{3}$; Chinyanga $\frac{1}{3}$.

2 Dehwe was admitted on the following terms:

(i) Goodwill is to be valued at $63 000. No goodwill account is to be maintained in the partnership books.

(ii) Dehwe is to maintain capital in the sum of $39 900 after the adjustment for goodwill has been effected.

(iii) Interest rates on capital and drawings are to be maintained.

(iv) Profits and losses are to be shared: Muswe $\frac{4}{7}$; Chinyanga $\frac{2}{7}$ and Dehwe $\frac{1}{7}$.

Additional information:

1 The gross profit is to be apportioned on the basis of sales. Sales for the half year ended 30 September 2001 were $612 000 out of total sales of $1 020 000.

2 All other revenues and expenses accrue on an even basis throughout the year.

3 Depreciation should be provided for as follows:

Fixtures and fittings 10% per annum on cost
Motor vehicles 25% per annum on cost.

Question 1

(a) Prepare profit and loss and appropriation accounts for the two partnerships. [27]

(b) Write up the partners' capital and current accounts in the ledger. [10]

(c) Prepare the balance sheet as at 30 September, 2001. [8]

Scenario 2: The partners decide to form a company.

Muswe, Chinyanga and Dehwe decided to transform the partnership into a limited company, Gotora (Pvt) Ltd. The company was formed on 1 October 2002, on the basis of the balance sheet of the partnership at 30 September 2002 shown in **Table 2** below.

Table 2

		$	$
Fixed assets			
Freehold premises at cost			280 000
Fixtures and fittings at cost		112 000	
less: Accumulated depreciation		44 800	67 200
Motor vehicles at cost		145 000	
less: Accumulated depreciation		115 000	30 000
			377 200
Current assets			
Stock		25 890	
Debtors		21 840	
Bank balance		14 270	
		62 000	
less: **Current liabilities**			
Creditors		39 200	
Working capital			22 800
			400 000
Financed by:			
Capital accounts:	Muswe	100 800	
	Chinyanga	93 100	
	Dehwe	39 200	233 100
Current accounts:	Muswe	37 200	
	Chinyanga	39 300	
	Dehwe	30 400	106 900
			340 000
Loan from Dehwe at 10% per annum			60 000
			400 000

Additional information:

1. The profit and loss sharing ratios had since changed to 2:1:2 respectively.

2. The purchase consideration was satisfied by the issue to the partners of 300 000 ordinary shares of $1 each and sufficient 8% debentures to give Dehwe the same return on his loan as he had received from the partnership.

3. All assets and liabilities were taken over by Gotora (Pvt) Ltd.

Question 2

(a) Prepare the realisation account to record the transfer of the business to Gotora (Pvt) Ltd. [6]

(b) Prepare the opening balance sheet of Gotora (Pvt) Ltd as at 1 October 2002. [3]

(c) State any **three** disadvantages a partnership has compared with a limited company. [3]

Scenario 3: Shareholders intend to form a public company.

The shareholders of Gotora (Pvt) Ltd want to change the company into a public company. They consult an accountant on the issue and he advises them that once it is registered, a public company has to make public certain information about itself and its operations.

Question 3

With reference to a public limited company:

(a) outline the disclosure requirements relating to fixed assets, [10]

(b) what would be the contents of the auditor's report? [8]

Scenario 4: Gotora (Pvt) Ltd wants to purchase a manufacturing plant.

Gotora (Pvt) Ltd wants to expand its operations into the manufacturing sector. The company's financial manager has identified two types of machines, namely A and B from which they must choose one.

The two machines have the same purchase price of $100 000 000. Depreciation on these assets will be provided at 20% per annum on the original cost over a period of **five** years. The following are the expected net profits from each of the two machines over the five year period.

Year	**A**	**B**
	$000	**$000**
1	10 000	16 000
2	15 000	25 000
3	20 000	35 000
4	30 000	10 000
5	5 000	5 000

The opportunity cost of capital is 15%. The following discount rates apply:

Year	**15%**	**30%**
1	0.870	0.769
2	0.756	0.592
3	0.658	0.455
4	0.572	0.350
5	0.497	0.269

Question 4

(a) For **each** of the **two** machines calculate:

(i) the accounting rate of return (ARR),
(ii) the period of payback,
(iii) the net present value (NPV),
(iv) the internal rate of return (IRR). To calculate the IRR use the formula on page 7.

$$IRR = X + \left(d \times \frac{p}{p+n}\right)$$

Where X = the rate yielding a positive NPV
d = the difference between the rate yielding a positive NPV and the rate yielding a negative NPV
p = the positive NPV
n = the negative NPV

[16]

(b) Which of the two manufacturing plants should the firm purchase? Explain fully the reasons for your decision.

[9]

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL

General Certificate of Education Advanced Level

MARKING SCHEME

JUNE 2004

ACCOUNTING **9197/3**

1 (a) Profit and Loss Account for the six months ended

	31/03/2001		30/09/2001	
	$	$	$	$
Gross profit		142 800		214 200
Add: Other revenue				
Discounts received		2 100		2 100
Total revenue		144 900		216 300
Less: Operating expenses:				
Discounts allowed	3 675		3 675	
Depreciation: Fixtures and fittings	4 200		4 200	
Motor vehicles	13 125		13 125	
Rates	10 500		10 500	
Wages and salaries	37 800		37 800	
Motor vehicle expenses	18 900		18 900	
Postage and stationery	5 250	93 450	5 250	93 450
Net profit		51 450		122 850
Add: Interest on drawings:				
	$	$	$	$
Muswe	630		630	
Chinyanga	420		420	
Dehwe	-	1 050	630	1 680
		52 500		124 530
Less: Interest on capital:				
Muswe	8 505		8 955	
Chinyanga	5 985		6 210	
Dehwe	-	14 490	2 993	18 158
Residue of profits shared:		38 010		106 372
Muswe (2/3 + 4/7)	25 340		60 784	
Chinyanga (1/3 + 2/7)	12 670		30 392	
Dehwe(1/7)	-	38 010	15 196	106 372

b)

Capital Accounts

	M	C	D		M	C	D
	$	$	$		$	$	$
Goodwill			9 000	Balances b/d	113 400	79 800	
Balances c/d	119 400	82 800	39 900	Bank			48 900
				Goodwill	6 000	3 000	
	119 400	**82 800**	**48 900**		**119 400**	**82 800**	**48 900**
				Balance b/d	**119 400**	**82 800**	**39 900**

[7]

Current Accounts

	M	C	D		M	C	D
	$	$	$		$	$	$
Drawings	12 600	8 400	6 300	Balances b/d	12 200	10 300	-
Interest on drawings	1 260	840	630	Interest on capital	17 460	12 195	2 993 or 2 992.50
Balances c/d	101 924	56 317	11 259	Shares of profits	86 124	43 062	15 196
	115 784	**65 557**	**18 189**		**115 784**	**65 557**	**18 189**

[3]

				Balances b/d	**101 924**	**56 317**	**11 259**

[3]

Capital Accounts

	M	C	D		M	C	D
	$	$	$		$	$	$
Goodwill	36 000	18 000	9 000	Balances b/d	113 400	79 800	-
Balances c/d	119 400	82 800	39 900	Bank			48 900
				Goodwill	42 000	21 000	
	155 400	**100 800**	**48 900**		**155 400**	**100 800**	**48 900**

Muswe and Chinyanga get their marks for goodwill provided both entries are present. [7]

1 (c) Balance Sheet as at 30-09-2001

Fixed assets		$ Cost $	$ Depreciation $	$ Net $
Freehold premises		280 000	-	280 000
Fixtures and fittings		84 000	33 600	50 400
Motor vehicles		105 000	78 750	26 250
		469 000	**112 350**	**356 650**
Current assets				
Stock		31 100		
Debtors		28 400		
Cash at bank		10 050	69 550	
Less current liabilities				
Creditors			14 600	
Working capital				54 950
				411 600
Financed by:				
Capital accounts:	Muswe		119 400	
	Chinyanga		82 800	
	Dehwe		39 900	242 100
Current accounts:	Muswe		101 924	
	Chinyanga		56 317	
	Dehwe		11 259	169 500
				411 600

[8]

Total 45 marks

2 (a)

Realisation

2002		$	**2002**		$
October 1	Freehold premises	280 000	October 1	Creditors	39 200
	Fixtures and fittings	67 200		Gotora Ltd	375 000
	Motor vehicles	30 000		Capital: Muswe	10 000
	Stock	25 890		Chinyanga	5 000
	Debtors	21 840		Dehwe	10 000
	Bank	14 270			
		439 200			439 200

No aggregation of items since ledger balances are transferred individually to realisation account. [7]

(b) **Balance sheet as at 1 October 2002**

	$	$	$
Fixed assets at valuation:			
Freehold premises		280 000	
Fixtures and fittings		67 200	
Motor vehicles		30 000	377 200
Current assets:			
Stock	25 890		
Debtors	21 840		
Bank	14 270	62 000	
Less current liabilities			
Creditors		39 200	
Working capital			22 800
			400 000
Financed by:			
Ordinary shares of $1 each			300 000
Capital reserve			25 000
Shareholders' equity			325 000
8% Debentures			75 000
			400 000

[2

[8]
ks

(c) The disadvantages stated should include:

- unlimited liability
- difficulty of dissolution
- disagreements between partners
- difficulty of admitting new partners
- cannot raise capital so easily

NOTE: Do not accept
- cannot sell shares to the public
- number of partners limited to 20.

[3]
Total [12]

7]

3 (a) The balance sheet shows fixed assets at **net book value.**

The note to the balance sheet relating to fixed assets must show the **aggregate cost or revaluation**, where appropriate, at the beginning of the year. Additions during the year should be shown **at cost**. The **original cost** or revaluations **of assets sold** or **otherwise disposed of during the year must be disclosed**. **Increases/decreases** on revaluation must also be disclosed.

The **aggregate depreciation** must be shown **for each type of asset** at the beginning of the year. In addition the **aggregate depreciation of assets sold or otherwise disposed of** during the year must be revealed. **The depreciation charge for the year** and the **aggregate depreciation at the end of the year** also need to be disclosed.

Finally the **net book value of each class of fixed asset** must be shown at the end of the year.

Maximum [10]

(b) The auditors' report to the **shareholders, not to the directors**. They must satisfy themselves that **proper accounting records** have been maintained and that the **financial statements at the end of the year are based on those records.** They have to state whether **in their opinion** the financial statements have been prepared in accordance **with the law.** They have to state whether **the income statement gives a true and fair view of the profit or loss** and whether **the balance sheet gives a true and fair view of the financial position** of the company at that date.

Maximum [8]
Total 18 marks

4 (a) (i)

C

		A	B
	ARR (Based on initial investment)	16%	18.2%
OR	ARR (Based on average investment)	32%	36.4%

(Accepted either the ARR based on the initial investment or the average investment. The question does not specify)

[4]

			A	B	
(ii)	Payback		2.875 years	2.35 years	
		or	2 years 10½ months	2 years 4 2/15 months	
		or	2 years 319 days	2 years 126 days	[4]
(iii)	N.P.V.		\$19 905 000	\$31 115 000	[4]
(iv)	IRR		23.9%	28.5%	[4]

Maximum 16 marks

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL
General Certificate of Education Advanced Level

ACCOUNTING — 9197/1
PAPER 1 Multiple Choice

Thursday **28 OCTOBER 2004** Afternoon 1 hour 15 minutes

Additional materials:
Multiple Choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

TIME 1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

Do not open this booklet until you are told to do so.

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.

There are **forty** questions in this paper. Answer **all** questions. For each question there are four possible answers, **A, B, C** and **D**. Choose the **one** you consider correct and record your choice in **soft pencil** on the separate answer sheet.

Read very carefully the instructions on the answer sheet.

INFORMATION FOR CANDIDATES

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

Calculators may be used.

This question paper consists of 12 printed pages.

(b) The firm should purchase machine B. Machine B has the higher accounting rate of return, which means the return on firm's investment is better.

Machine B also has a shorter payback period than machine A. This means that the firm recoups its initial investment earlier than if they bought machine A. This quick return may also enhance company growth.

The net present value of machine B is higher than that of machine B some 11 000 000. Hence it is clear that machine B must be the firm's choice. The advantage of this method of capital expenditure appraisal is that it takes into account the time value of money. A return on an asset of $11 000 000 in terms of today's dollars is a significant achievement which is a great return on the asset.

The internal rate of return which is the true interest rate on the investment is higher for machine B than it is for machine A by some 5 percentage points. On the basis of the IRR, therefore, machine B is the obvious choice.

Maximum [9]

Total 25 marks

1 Which of the following items would **not** normally be classified as administration expenses?

A audit fees
B finance director's salary
C computer repairs and maintenance costs
D legal fees for the purchase of a building

2 The entries to record goods withdrawn by a sole trader as a present to his daughter are

	Debit	**Credit**
A	Drawings Account	Purchases Account
B	Gifts Account	Purchases Account
C	Purchases Account	Drawings Account
D	Purchases Account	Gifts Account

3 The following information relates to Chifamba Limited for the year ended 31 December 2003:

		$
Debtors:	1 January 2003	75 000
	31 December 2003	78 000
Cash sales		527 000
Credit sales		715 000
Discounts allowed		31 500
Discounts received		42 800
Bad debts written off		21 000

The provision for bad debts was retained at 5% of total debtors.

How much cash was received from debtors during the year?

A $527 000
B $659 500
C $1 186 500
D $1 192 500

4 What is the correct treatment of bad debts recovered in the final accounts of a business?

A a credit in the profit and loss account
B a debit in the profit and loss account
C a credit in the trading account
D a debit in the trading account

5 During 2003, Dr Kondo collected $142 600 from his patients and paid $55 470 in expenses. The following balances were extracted from his books:

	1 January 2003	31 December 2003
	$	$
Fees receivable	9 250	15 927
Prepaid fees	2 840	1 620
Accrued expenses	3 435	2 108
Prepaid expenses	1 917	1 774

Which of the following statements is **not** correct?

A Accrued expenses of $2 108 appeared as a current liability in the balance sheet at 31 December 2003.
B Fees revenue of $150 497 was credited to the profit and loss account for the year 2003.
C Prepaid fees of $1 620 appeared as a current liability in the balance sheet at 31 December 2003.
D Total expenses for 2003 were $56 654.

6 The following information was extracted from the records for Kushinga enterprises.

		$
Fixed assets, at cost:	1 January	560 000
	31 December	740 000
Provision for depreciation:	1 January	300 000
	31 December	270 000
During the year:		
• Expenditure on new fixed assets		520 000
• Loss on disposal of old assets		100 000
• Depreciation provided		150 000

What were the proceeds from the disposal of fixed assets?

A $60 000
B $210 000
C $260 000
D $480 000

7 The existence of a credit balance in a debtor's account might be explained by the

A failure to post from the sales returns book to the debtor's account.
B granting of a sales discount to the debtor.
C posting of discounts allowed to the Debtors Control Account twice.
D return of goods by a debtor after he had paid for them.

8 The table shows information extracted from a control account at the end of 2003:

	$
Discounts received	5 625
Contra with Debtors Control Account	6 000
Bank	119 250
Credit purchases	124 800
Balance at 31 December 2003	19 380

What was the opening balance at 1 January 2003?

A $13 305
B $13 455
C $25 455
D $36 555

9 A trial balance failed to agree by $4 200. Which of the following could account for this discrepancy?

A A cheque for $4 200 from Chitimbire was posted to Chitemere's account in the sales ledger.
B An amount of $4 200 paid to Chitima was credited to his Purchases Ledger Account.
C A petty cash withdrawal of $2 100 was debited to Miscellaneous Expenses Account.
D An asset purchase of $2 100 was credited to the Purchases Account.

10 The credit balance on the Creditors Control Account is $5 000 less than the total of the individual balances in the purchases ledger.

Which of the following errors could account for this difference?

A A purchases ledger account with a debit balance of $5 000 has been treated as a credit balance.
B A credit note to the value of $2 500 has been omitted from a purchases ledger account.
C The total of contra entries against debtor accounts is overstated by $2 500.
D The purchases journal has been overcast by $5 000.

11 Dube and Mpofu were partners sharing profits in the ratio 3:1. Mpofu decides to leave the partnership. His capital account balance is $20 000 and his current account has a credit balance of $200. Partnership goodwill is estimated to be $4 000 and it is not recorded in the books.

The amount due to Mpofu is

A $19 800.
B $20 200.
C $20 800.
D $21 200.

12 What is the double entry used to record interest due on partners' drawings?

	Debit	Credit
A	Appropriation Account	Current Accounts
B	Current Accounts	Appropriation Account
C	Drawings Accounts	Current Accounts
D	Drawings Accounts	Interest Payable Account

13 Huruyadzo Hardware had the following inventory at 31 December 2003.

Stock	Purchase price	Production costs incurred	Expected selling costs	Sales value
	$	$	$	$
Bolts	1 976	1 680	384	4 640
Nuts	7 488	2 184	120	9 632
Rivets	1 160	680	232	2 048
	10 624	4 544	736	16 320

What was the value of stock shown in the balance sheet at 31 December 2003?

A $10 624
B $14 984
C $15 168
D $15 720

14 Which formula can be used to calculate net profit?

A Closing capital + drawings – capital added – opening capital.
B Closing capital – drawings + capital added – opening capital.
C Opening capital + drawings – capital added – closing capital.
D Opening capital – drawings – capital added – closing capital.

15 Which of the following pairs of items are both on the same side of a Trial Balance?

A Deferred income and deferred expenditure
B Discounts received and discounts allowed
C Carriage inwards and carriage outwards
D Returns inwards and returns outwards

16 When a club recognises subscriptions in arrears, which accounting concept is it following?

A Accruals
B Consistency
C Going concern
D Prudence

17 A listed company's ordinary share capital consists of 10 million shares of 50 cents each, issued at a premium of 20 cents per share. The shares are currently being traded at 90 cents each on the Zimbabwe Stock Exchange. At the end of 2003, the company declared a 12% ordinary dividend.

What was the total dividends paid to ordinary shareholders?

A $600 000
B $840 000
C $1 080 000
D $1 200 000

18 The following can be uses of the share premium account **except** the

A issue of bonus shares.
B payment of ordinary dividends.
C writing off of preliminary expenses.
D writing off of premium on redemption of shares.

19 A company with an existing issued share capital of 400 000 $1 ordinary shares made a one-for-five rights issue at $1.20 per share. This was later followed by a one-for-three bonus issue.

What will be the balance on the Share Capital Account after these transactions?

A $480 000
B $496 000
C $640 000
D $768 000

20 A sole trader's business is acquired by a limited company for $150 000 although its net assets are valued at $175 000. The company will pay $60 000 in cash and issue 72 000 ordinary shares of $1 each.

What is the premium per share?

- **A** $0.25
- **B** $0.60
- **C** $1.08
- **D** $1.43

21 Posso Ltd is being sued by Brian Mutare, a former managing director, who was dismissed on 1 January 2004. Banda, the company's lawyer, thinks Mutare will win damages of about $15 million.

In preparing financial statements for the year ended 31 December 2003, the company should deal with the case as

- **A** a contingent liability which should be disclosed in a note.
- **B** a contingent loss which should be accrued.
- **C** a non-adjusting post balance sheet event.
- **D** an adjusting post balance sheet event.

22 The goodwill of a business can be estimated by finding the difference between the value of the business as a whole and the aggregate value of its separable net assets.

How should such goodwill be treated in a company's financial statements?

- **A** It should be amortised through the profit and loss account over its useful life.
- **B** It should be carried down in the balance sheet as a permanent item.
- **C** It should be eliminated from the accounts immediately on acquisition against reserves.
- **D** It should never be recorded.

23 Which of the following is **not** part of shareholders' equity?

- **A** preference share capital
- **B** ordinary share capital
- **C** revaluation reserve
- **D** share premium

24 Makombe, a sole trader, maintains a constant gross profit margin of 20%.

During 2004 she expects that purchases of $90 000 will be required in order to increase stock levels by $10 000.

What sales revenue is she expecting?

A $96 000
B $100 000
C $108 000
D $112 500

25 A company's net profit in 2003 was $192 000. Depreciation for the year was $33 600. Other data were:

	At 31 December 2002	At 31 December 2003
	$	$
Stock	128 000	176 000
Debtors	68 000	50 400
Bank	26 400	169 600
Creditors	57 600	69 600

What was the net cash flow generated by operating activities?

A $143 200
B $173 600
C $207 200
D $210 400

26 A company's profit after tax was $10.02 million. Its issued share capital comprises 500 000 $1 ordinary shares and 200 000 10% preference shares of $1 each.

If the price/earnings ratio is 12, what is the market value of each ordinary share?

A $171.77
B $240.00
C $240.48
D $240.96

27 Which item **must** be shown separately on the face of the balance sheet?

- **A** Intangible assets
- **B** Work in progress
- **C** Trade debtors
- **D** Taxation

28 During the year ended 31 December 2003, Meys, sold goods worth $416 000. Sales were made at an even rate throughout the year, **except** for March and October when monthly sales were 50% more than other months.

What were the sales in March?

- **A** $32 000
- **B** $34 667
- **C** $48 000
- **D** $52 000

29 Which transaction will result in an increase in capital employed?

- **A** disposal of a fixed asset at book value
- **B** increasing the provision for bad debts
- **C** receipt of cash from a debtor
- **D** receipt of a long-term loan

30 A company may improve its gearing by

- **A** retaining profit.
- **B** issuing debentures.
- **C** issuing preference shares.
- **D** incurring a bank overdraft.

31 Under marginal costing, the cost of factory rent is

	prime cost	**product cost**
A	No	No
B	No	Yes
C	Yes	No
D	Yes	Yes

32 The following information is available from the records of Shingai Manufacturing Ltd, which absorbs overheads on the basis of direct labour hours.

Budgeted overhead cost	\$500 000
Actual overhead cost	\$515 000
Budgeted direct labour hours	200 000
Actual direct labour hours	210 000

Based on this information, overheads would be

A over-absorbed by \$10 000.
B over-absorbed by \$15 000.
C under-absorbed by \$10 000.
D under-absorbed by \$15 000.

33 The total budgeted expenditure for 17 000 units was \$58 500, and \$59 875 for 17 500 units.

Fixed costs are estimated to be

A \$11 750.
B \$24 000.
C \$57 125.
D \$58 845.

34 How can the break-even point of a business be lowered?

A by increasing its fixed costs
B by increasing its budgeted sales
C by decreasing its unit selling prices
D by decreasing its unit variable costs

35 A standard cost is

A always greater than actual cost.
B a target cost for the period ahead.
C a cost that will produce maximum profit.
D the average cost of production in the last period.

36 The standard material content of product **X** is 19 kg at $6.00 per kg. During September, 500 units of product **X** were manufactured using 10 000 kg of materials which had a cost value of $59 295.

What were the material price and usage variances?

	Material price variance	Material usage variance
A	$705 adverse	$3 000 adverse
B	$705 favourable	$3 000 adverse
C	$1 005 adverse	$300 favourable
D	$1 005 favourable	$300 adverse

37 Sigogo Limited manufactures a single product with a marginal cost of $3 and a selling price of $5. Fixed costs are $25 000.

What level of sales will produce a profit of $15 000?

A $20 000
B $40 000
C $100 000
D $120 000

38 Marginal costing gives a different profit to absorption costing when

A all production costs are fixed.
B all production costs are variable.
C opening and closing stocks are different.
D there are not opening or closing stocks.

39 A project has an IRR of 18% and the firm's cost of capital is 10%. Using a discount rate of 18%, the NPV will be

A zero.
B negative.
C positive.
D equal to the IRR.

40 Choto Limited uses 6kg of raw materials to manufacture a single product. The following information was taken from its records.

	Budget 2003	Actual 2002
Sales	10 000 units	8 000 units
Closing stocks:		
Raw materials	4 500 kg	500 kg
Finished goods	1 000 units	3 000 units

What are the budgeted purchases of raw materials for 2003?

- **A** 44 000 kg
- **B** 52 000 kg
- **C** 60 000 kg
- **D** 68 000 kg

ACCOUNTING

SUBJECT 9197

Paper 1 **November 2004**

1. D
2. A
3. B → Debtors Control Account
4. A
5. D → total expenses for 2003 were $54 286
6. A → Cost of fixed assets disposed was $340 000 whilst accumulated depreciation at date of disposal was $180 000.
7. D
8. C
9. D
10. A
11. D
12. B
13. B → Take the lower figure between the cost and NRV of each stock item. (IAS2).
14. A
15. C → Carriage inwards is a purchasing expense whilst carriage outwards is a selling expense hence both have a debit balance.

16. A

17. A → $12\% \times (10\,000\,000 \times 0{,}5)$

18. B → As per Companies Act

19. C

20. A → 72 000 ordinary shares of $1 each should yield $90 000.

21. B → SSAP18, IAS

22. D → IAS 38

23. A

24. B → Let opening stock be x
Closing Stock = $x + 10\,000$
$\therefore C.O.S = x + 90\,000 - (x + 10\,000)$
Then solve x and calculate $C.O.S$; mark up and gross profit.

25. C → FRSI, IAS7

26. B → Calculate EPS.

$$\frac{\text{Then Market Value}}{\text{EPS}} = \text{PE ratio}$$

27. A

28. C → Let x be the sales for the other 10 months except March and October.

$$\therefore 10x + 2\left(\tfrac{150}{100}x\right) = \text{Total Sales}$$

Then solve for x.

$$\therefore \frac{150}{100} \times x \text{ above} = \text{March sales}.$$

29. D → First two options will decrease C/E. Third option has no effect.

30. A

31. A → Fixed costs are period costs under marginal costing.

32. A → Calculate predetermined OAR.

Apply this rate on Actual hours.

Deduct Actual cost from the above result.

33. A → Change in units = 500

Resultant change in expenditure $1 375. Calculate the variable cost per unit.

∴ Total costs – Variable costs = Fixed costs.

34. D

35. B

36. B → Material price $= 10\,000\left(\overset{SP}{6} - \overset{AP}{5{,}9295}\right)$

= $ 705 Favorable.

Material usage $= 6\left(\overset{SQ}{9500} - \overset{AQ}{10\,000}\right)$

= $3 000 Adverse

37. C → $\text{Sales level} = \dfrac{\text{Fixed costs} + \text{profit}}{\text{Contribution}}$

38. C → stock figures will have different values under both methods.

39. A

40. B → Purchases = Quantity by production + quantity required by closing stock – quantity already available.

Candidate Name | Centre Number | Candidate Number

Candidate Name	Centre Number	Candidate Number

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL

General Certificate of Education Advanced Level

ACCOUNTING **9197/2**

PAPER 2 Structured Questions

Monday **8 NOVEMBER 2004** Afternoon 1 hour 30 minutes

Candidates answer on the question paper
Additional materials:
Supplementary answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper. If you require extra paper, ask the supervisor for supplementary answer paper.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

You may use a calculator.

FOR EXAMINER'S USE	
1	
2	
3	
4	
TOTAL	

This question paper consists of 16 printed pages.

For Examiner's Use

1 **(a)** State **three** types of errors which affect trial balance agreement and give **one** example in each case.

____

____

____

____

____

____ [6]

(b) Mangena Ltd took out a trial balance on 31 March 2001 which failed to agree, the total credits exceeding the total debits by $990. A Suspense Account was opened for this difference.

Subsequent investigations uncovered the following errors:

(i) Discounts allowed of $430 had been entered in the Discounts Received Account.

(ii) A creditor for $350 had been omitted from the schedule of creditors, the total of which had been included in the trial balance as trade creditors.

(iii) A bill for insurance amounting to $670 was discovered in a filing tray.

(iv) A prepayment of $240 for rates had been brought down on the wrong side of the Rates Account.

(v) The purchase of furniture for $10 000 had been entered in the Purchases Account. Depreciation on furniture is calculated at 10% on the year end balance.

For Examiner's Use

(i) Draft the journal entries required to correct the above errors. Narratives are **not** required.

[7]

(ii) Write up the Suspense Account.

For Examiner's Use

[5]

(iii) State **two** alternative methods of accounting for an unexplained balance on the Suspense Account if final accounts are to be prepared?

[2]

2 (a) Distinguish between the straight line and reducing balance methods of calculating depreciation of fixed assets. [6]

For Examiner's Use

(b) The following is the draft balance sheet of Chidembo Ltd as at 30 September 2002.

	$000	$000	$000
Fixed Assets	Cost	Depreciation	N.B.V
Freehold land and buildings	200	10	190
Plant and equipment	300	120	180
Motor vehicles	180	90	90
	680	220	460
Current Assets			
Stock	420		
Trade debtors	230		
Prepayments	10		
Cash at bank	60	720	
Less Current liabilities			
Trade creditors	190		
Accruals	30	220	
Net current assets			500
			960
Financed by			
Ordinary Shares of $ 1 each			450
Reserves			
Share Premium Account		100	
Capital Redemption Reserve		300	
Profit and Loss Account.		140	510
			960

For Examiner's Use

After the above draft balance sheet had been completed, the following discoveries were made:

(i) The revaluation of freehold land and buildings at $250 000 on 28 September 2002 had not been recorded.

(ii) Plant and equipment had been depreciated at 10% on the reducing balance basis when the straight line method should have been used.

(iii) Goods with a selling price of $15 000 had been sent on a sale or return basis to P. Shoko. These were recorded as a sale in the accounts. Shoko had not indicated an intention to keep the goods.

Note: The normal mark–up on cost is 25%.

(iv) A bonus issue of **one** ordinary share for every **three** ordinary shares currently held had not been recorded. After the bonus issue the company should maintain maximum flexibility in the use of their resources.

(v) No entries had been made to record a dividend of 10% declared on the revised shareholding at the end of the year. There has been no interim dividend.

Prepare the balance sheet of Chidembo Ltd as at 30 September 2002 after the above matters have been taken into account.

For Examiner's Use

[20]

For Examiner's Use

(c) Distinguish between capital reserves and revenue reserves.

[6]

3 (a) State **five** provisions that are normally found in a Partnership Agreement.

[5]

For Examiner's Use

(b) Rudo, Chipo and Tsitsi were in partnership as beauty consultants, sharing profits and losses in the ratio 2 : 2 : 1 respectively. The following balances, among others, were extracted from their books on 31 December 2002.

	Capital Account $	**Current Account** $
Rudo	40 000	2 400 Cr
Chipo	30 000	600 Dr
Tsitsi	20 000	1 800 Cr

On 1 January 2003 Chipo retired from the partnership and Ngoni was admitted as a partner.

Goodwill was valued at $30 000. The following were the agreed valuations of some of their assets on the retirement of Chipo:

	Book Value	**Agreed Value**
Freehold premises	$100 000	$118 000
Stock	$12 000	$10 000
Plant and equipment	$140 000	$141 000

A provision for bad and doubtful debts of 5% of debtors, who stood at $40 000 on that day, was to be created.

Chipo was paid the whole amount due to her on retirement.

Additional information:

1. Ngoni was to contribute $28 000 in capital, including her share of goodwill

2. Profits and losses are to be shared equally.

3. Interest is to be allowed on fixed capital account balances at 10% per annum

4. Interest is to be charged on drawings at 5% per annum. The drawings for the year were: Rudo $16 000, Tsitsi $12 000 and Ngoni $8 000.

5. Rudo is to be credited with a salary of $3 000 per annum.

6. The net profit for the new partnership for the year ended 31 December 2003 was $72 700

For Examiner's Use

(i) Prepare the partners' capital accounts in **columnar** form, on 1 January 2003, bringing down the new balances where appropriate.

[8]

(ii) Prepare the Profit and Loss Appropriation Account of the new partnership for the year ended 31 December 2003.

For Examiner's Use

[4]

(iii) Prepare the partners' current accounts, in **columnar form** for the same year.

[6]

For Examiner's Use

(a) State **three** differences between absorption costing and marginal (variable) costing.

[6]

(b) Bindu Limited is a manufacturing company. The company provided the following information for the two years ended 30 June 2002 and 2003.

		2002	2003
		Units	**Units**
Sales		4 200	4 400
Production		4 500	4 800
		$	**$**
Selling price per unit		47	51
Direct materials per unit		10	12
Direct labour per unit		15	18
Variable production overhead per unit		7	9
Fixed costs:	Manufacturing	36 000	43 200
	Administrative and marketing	11 400	13 680

There were no opening stocks of finished goods in the year ended 30 June 2002. Stocks are valued on a first in, first out basis.

For Examiner's Use

(i) Calculate the closing stock for **each** year using both the absorption costing method and the marginal costing method.

[9]

For Examiner's Use

(ii) Prepare comparative profit statements for the two years using absorption costing.

[5]

For Examiner's Use

(iii) Prepare comparative profit statements for the two years using marginal costing.

[5]

For Examiner's Use

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL

General Certificate of Education Advanced Level

POSSIBLE ANSWERS

ACCOUNTING **9197/2**

NOVEMBER 2004

(a) -failure to complete double entry
-using two different figures to complete double entry
-making two entries on one side of the ledger
-transferring wrong balances from the ledger to the trial balance
-transferring correct ledger balance to the wrong side of the trial balance

[6]

(b) The journal

1.	Discount allowed	430	
	Discount Received	430	
	Suspense		860
2.	Suspense	350	
3.	Insurance	670	
	Insurance Company		670
4.	Rates	480	
	Suspense		480
5.	Furniture	10 000	
	Purchases		10 000
	Profit and Loss	1 000	
	Prov for depreciation - furniture		1 000

(ii) [7]

Suspense Account

Balance b/d	990	Disc. Allowed	430
Creditors balance	350	Disc. Received	430
		Rates	480
	1 350		1 350

(iii) Write it off in the Profit an Loss Account or transfer it to the Balance Sheet as a current asset (Debit balance) or a current Liability (credit balance). [5]

[2]

[20]

2. (a)

STRAIGHT LINE METHOD

- charges the same amount of depreciation every year
- simpler to use
- seems to assume the asset earns the same amount of revenue every year

REDUCING BALANCE METHOD

- the amount of depreciation decreases every year
- not as simple use
- attempts to match the cost of depreciation to the amount of revenue earned by the asset.

(continued)

- the total cost of using the asset, i.e. depreciation, repairs and maintenance, increases every year as the asset grows.	- tries to even out the total cost of using the asset, i.e. depreciation, repairs and maintenance over its useful Life.

[6]

(b) Workings

(i)	Land and buildings	50 000	
	Prov for deprec – land and buildings	10 000	
	Asset Revaluation Reserve		60 000
(ii)	P/L	10 000	
	Prov for deprec – plant and equip		10 000
(iii)	Stock	12 000	
	P/L	3 000	
	P. Shoko – debtors		15 000
(iv)	Capital redemption reserve	150 000	
	Bonus Issue		150 000
	Bonus Issue	150 000	
	Ordinary Share Capital		150 000
(v)	P/L	60 000	
	Proposed dividends		60 000

Balance Sheet as at 30 September 2002

		$	$
Ordinary share capital			600 000
Reserves:			
Share premium		100 000	
Asset revaluation reserve		60 000	
Capital redemption reserve		150 000	
Profit and loss		37 000	347 000
			947 000
Represented by:			
Fixed Assets			
Land and buildings		250 000	
Plant and equipment	300 000		
Less. Acc. Depreciation	(130 000)	170 000	
Motor vehicles	180 000		
Less. Acc. Depreciation	(90 000)	90 000	510 000

(continued)

Current assets			
Stock	432 000		
Debtors	215 000		
Prepayments	10 000		
Bank	60 000	717 000	
Less: Current Liabilities			
Creditors	190 000		
Accruals	30 000		
Proposed dividends	60 000	(280 000)	437 000
			947 000

[20]

(c)

Revenue Reserves	**Capital Reserves**
- created voluntarily out of trading profit by debiting P/L Appropriation A/C and crediting reserve accounts	- created under the provisions of the Companies Act and by case law
- can be distributed as cash dividends	- cannot be distributed as cash dividends
used for purposes for which they were created or at the discretion of the directors	- uses specified by law

[6]

3. (a) The amount of capital to be provided by each partner.
The profit/loss sharing ratio
The interest rate if any on capital, drawings. Salaries, if any, payable to partners
The interest rate on partners' loans to thefirm
Arrangements on the retirement/admission of a partner/settlement of disputes.

[5]

(b) Capital Accounts

	Rudo	Chipo	Tsitsi	Ngoni		Rudo	Chipo	Tsitsi	Ngoni
		600			Balance b/d	40 000	30 000	20 000	-
Current		47 400			Bank				28 000
Bank			4 000	10 000	Goodwill adj.	2 000	12 000		
Goodwill adj.	48 000		19 000	18 000	Revaluation	6 000	6 000	3 000	
Balance									
	48 000	48 000	23 000	28 000		48 000	48 000	23 000	28 000
					Balance b/d	48 000		19 000	18 000

[8]

Alternatives

Capital Accounts

	Rudo	Chipo	Tsitsi	Ngoni		Rudo	Chipo	Tsitsi	Ngoni
Current		600			Balance b/d	40 000	30 000	20 000	-
Bank		47 400			Bank				28 000
Goodwill adj.	10 000		10 000	10 000	Goodwill adj.	12 000	12 000	6 000	
Balance	48 000		19 000	18 000	Revaluation	6 000	6 000	3 000	
	58 000	48 000	29 000	28 000		58 000	48 000	29 000	28 000
					Balance b/d	48 000		19 000	18 000

OR if goodwill is not written off

Capital Accounts

	Rudo	Chipo	Tsitsi	Ngoni		Rudo	Chipo	Tsitsi	Ngoni
Current		600			Balance b/d	40 000	30 000	20 000	
Bank		47 400			Bank				28 000
Balance c/d	58 000		29 000	28 000	Goodwill	12 000	12 000	6 000	
					Revaluation	6 000	6 000	3 000	
	58 000	48 000	29 000	28 000		58 000	48 000	29 000	28 000

(ii) **Profit and Loss Approp. A/C for the year ended 31 December 2003**

Net profit				72 700
Add int. on Drawings	Rudo		800	
	Tsitsi		600	
	Ngoni		400	1 800
Less int. on Capital	Rudo	4 800		
	Tsitsi	1 900		
	Ngoni	1 800		
Salary	Rudo	3 000		(11 500)
				63 000
Share of profits	Rudo (1/3)	21 000		
	Tsitsi (1/3)	21 000		
	Ngoni (1/3)	21 000		(63 000)

[4]

OR

Net profit				72 700
Add int. on Drawings	Rudo		800	
	Tsitsi		600	
	Ngoni		400	1 800
				74 500
Less int. on Capital	Rudo	5 800		

(continued)

	Tsitsi	2 900	
	Ngoni	2 800	
Salary	Rudo	3 000	(14 500)
			60 000
share of profits	Rudo (1/3)	20 000	
	Tsitsi (1/3)	20 000	
	Ngoni (1/3)	20 000	(60 000)

Current Accounts

	Rudo	Tsitsi	Ngoni		Rudo	Tsitsi	Ngoni
Drawings	16 000	12 000	8 000	Balance b/d	2 400	1 800	
Int. on drawings	800	600	400	Int. on capital	4 800	1 900	1 800
				salary	3 000		
Balance c/d	14 400	12 100	14 400	share of profits	21 000	21 000	21 000
	31 200	24 700	22 800		31 200	24 700	22 800
				Balance b/d	14 400	12 100	14 400

OR

[6]

Current Accounts

	Rudo	Tsitsi	Ngoni		Rudo	Tsitsi	Ngoni
Drawings	16 000	12 000	8 000	Balance b/d	2 400	1 800	-
Int. on drawings	800	600	400	Int on capital	5 800	2 900	2 800
Balance c/d	14 400	12 100	14 400	salary	3 000		
				Share of profits	20 000	20 000	20 000
	31 200	24 700	22 800		31 200	24 700	22 800
				Balance b/d	14 400	12 100	14 400

4 (a)

Absorption costing

- Fixed production overheads are included in finished goods stock
- Determines gross margin by subtracting cost from sales
- Calculates net profit by excluding all administrative and marketing overheads regardless of their behavior
- Is good for strategic decision making
- Good for product pricing

Marginal Costing

- Excludes fixed manufacturing overheads from stock valuation
- Determines contribution by deducting all variable costs from sales
- Calculates net profit by subtracting all fixed costs from contribution regardless of their nature
- Is good for tactical decision making
- Not so good for product pricing

[6]

(b) **Absorption costing per unit**

	2002	2003
	$	$
Direct material	10	12
Direct labour	15	18
Variable production overhead	7	9
Fixed production overhead	8	9
	40	48
	X 300 ?	X700 ?
	12 000	**33 600**
	[3]	[4]

Marginal Costing per unit

	2002	2003
	$	$
Direct material	10	12
Direct labour	15	18
Variable production overhead	7	9
	32x300	39x700
	9 600	27 300
	[1]	[1]

(c) (i) **Absorption Costing**

Profit Statement for year ended

	30June2002		30June2003	
	$	$	$	$
Sales		197 400		224 400
Less cost of sales				
Opening stock	---		12 000	
D/material	45 000		57 600	
D/labour	67 500		86 400	
Var. o/heads	31 500		43 200	
Fixed o/heads	36 000		43 200	
	180 000		242 400	
LessFin.Stock	(12 000)	(168 000)	(33 600)	(208 800)
Gross margin		29 400		15 600
Less admin & marketing		(11 400)		(13 680)
Net profit		18 000		1 920

[5]

(ii) **Marginal costing**

	$	$	$	$
Sales		197 400		224 400
Less var costs				
Opening stock	---		9 600	
D/materials	45 000		57 600	
D/labour	67 500		86 400	
Var. o/heads	31 500		43 200	
Var. cost of goods available	144 000		196 800	
Less closing stock	(9 600)	(134 400)	(27 300)	(169 500)
Contribution		63 000		54 900
Less fixed stock:				
Manufacturing	36 000		43 200	
Admin & marketing	11 400	(47 400)	13 680	56 880
Net profit/loss		15 600		(1 980)

[5]

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL
General Certificate of Education Advanced Level

ACCOUNTING

9197/3

PAPER 3 Case Study

Monday **15 NOVEMBER 2004** Morning 2 hours 30 minutes

Additional materials:
Answer paper

TIME 2 hours 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer **all** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper fasten the sheets together.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

All accounting statements are to be presented in good style. Workings should be shown.

Questions **2**, **3(b)** and **3(c)** must be answered in sentence form, not in note form, with supporting figures.

You should read the Instructions at the top of page 2 before answering the questions.

You may use a calculator.

The businesses in this question paper are intended to be fictitious.

This question paper consists of 6 printed pages and 2 blank pages.

Instructions

The case study on pages 2 to 6 describes a series of events in the life of a business. The questions should be answered in the order in which they are set.

1 Scenario 1

The partnership of Chipo and Nyasha has been in the business of manufacturing reading desks for many years. On 30 September 2001 the following trial balance was extracted from the partnership books.

		DR $	CR $
Capital accounts, 1 October 2000:	Chipo		250 000
	Nyasha		200 000
Current accounts, 1 October 2000:	Chipo		20 000
	Nyasha	8 000	
Drawings:	Chipo	18 000	
	Nyasha	16 000	
Premises at cost		200 000	
Provision for depreciation			12 000
Plant and equipment at cost		360 000	
Provision for depreciation			108 000
Motor vehicles at cost		240 000	
Provision for depreciation			101 760
Debtors and creditors		45 600	70 000
Raw material purchases		560 000	
Sales of finished goods			1 405 600
Direct labour		320 000	
Stocks at 1 October 2000:			
Raw materials		60 000	
Work in progress		48 000	
Finished goods (100 units)		66 000	
Production overheads:	Fixed	64 000	
	Variable	52 000	
Indirect materials		21 600	
Selling and administrative expenses		38 400	
Balance at bank		32 760	
Provision for doubtful debts			1 000
Provision for unrealised profit			6 000
Rates		16 000	
Insurances		9 000	
		2 175 360	2 175 360

The following matters are to be taken into account when preparing the financial statements:

(i) The provision for doubtful debts is to be adjusted to $2\frac{1}{2}$% of the debtors at 30 September, 2001.

(ii) All stocks are valued on a FIFO basis. Raw material stocks at 30 September 2001 were $44 000 while work in progress was valued at $36 000. Output is transferred from the factory to the warehouse at manufacturing cost plus 10%. During the year 1 600 desks were manufactured and 1 550 desks were sold.

(iii) There was a prepayment of $1 000 and an accrual of $3 000 on rates and insurances accounts respectively at 30 September 2001. These costs are shared 80% to the factory and 20% to general administration.

(iv) Depreciation is to be provided on fixed assets at the following annual rates:

Premises	-	2% on cost
Plant and equipment	-	10% on cost
Motor vehicles	-	20% on the reducing balance basis

Depreciation on premises is to be shared 60%, to the factory; 40% to general administration

Motor vehicles are used exclusively by the sales department

(v) The partnership agreement provided for the following:

(1) interest on capital and current accounts is to be credited or charged at 10% per annum

(2) partnership salaries: Chipo $20 000; Nyasha $18 000.

(3) the residue of profits is to be shared equally.

Question 1

Prepare

(a) the partnership manufacturing, trading and profit and loss and appropriation accounts for the year ended 30 September 2001. [20]

(b) the partners' current accounts in the ledger for the same year. [5]

(c) a balance sheet as at 30 September 2001. [7]

Scenario 2

At a recently held business seminar the partners heard of IAS 1 which deals with fundamental accounting principles. Among them are going concern, consistency, accruals and materiality.

Question 2

(a) Explain clearly the meaning of **each** of these **four** accounting concepts or principles. [12]

(b) Explain how **each** of these **four** principles has been applied in the preparation of the financial statements of Chipo and Nyasha. [8]

Scenario 3

At the end of 2002 Chipo and Nyasha decide to find out how they are performing relative to the general performance of the whole industry. The following are summaries of the income statement for 2002 and the balance sheet at the end of 2002.

Income statement for the year ended 30 September 2002.

	$
Sales (all on credit)	1 500 000
Less cost of sales	900 000
Gross profit	600 000
Less expenses	450 000
Net profit	150 000

Balance Sheet as at 30 September 2002

		$	$	$
Fixed assets at net book value				500 000
Current assets				
Stocks:	Raw materials	65 000		
	Work in progress	70 000		
	Finished goods	75 000		
Debtors		100 000		
Bank balance		20 000	330 000	
Less Current liabilities				
Creditors		72 000		
Accrued expenses		4 000	76 000	
Working capital				254 000
				754 000
Financed by				
Capital accounts:	Chipo		250 000	
	Nyasha		200 000	450 000
Current accounts:	Chipo		160 000	
	Nyasha		144 000	304 000
				754 000

Average ratios for the whole industry have been calculated as follows:

(i)	gross profit percentage	50%
(ii)	net profit percentage	15%
(iii)	return on capital employed (ROCE) using fixed assets plus working capital	25%
(iv)	debtors' collection period	20 days
(v)	current ratio	2:1
(vi)	acid test ratio	0.9:1
(vii)	utilisation of fixed assets	4 times

Question 3

(a) Calculate the same ratios for the partnership. [7]

(b) Comment on the performance of the partnership, in as far as profitability and liquidity are concerned, relative to average industry ratios. [10]

(c) State and explain three limitations of accounting ratios as a basis for assessing the performance of individual firms. [6]

Scenario 4

The partners are concerned at the cost of manufacture. Consequently at the beginning of 2003 they decide to introduce a standard costing system.

The standard cost card for a reading desk included the following:

Direct materials	-	$2m^3$ of timber at $\$150/m^3$	=	\$300
Direct labour	-	$4\frac{1}{2}$ hours at \$80 per hour	=	\$360

During the year ended 30 September 2003, 2 500 reading desks were manufactured.
Actual expenditure was as follows:

5 $750m^3$ timber at \$851 000

10 500 direct labour hours at \$892 500

Question 4

Calculate:

(a) (i) the total direct material cost variance

(ii) the direct material price variance

(iii) the direct material usage variance [6]

(b) (i) the total direct labour cost variance

(ii) the direct labour rate variance

(iii) the direct labour efficiency variance [6]

(c) (i) State **two** factors which would contribute to each of the following:

A favourable material price variance,
An adverse material usage variance,
An adverse labour rate variance,
A favourable labour efficiency variance. [8]

(ii) State **five** benefits of using a standard cost system. [5]

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL

General Certificate of Education Advanced Level

MARKING SCHEME

NOVEMBER 2004

ACCOUNTING 9197/3

1 (a) Manufacturing Trading and Profit and Loss Account for the year ended 30 September 2001.

		$	$	$
Stock of raw materials 01/10/2000				60 000
Add: Purchases				560 000
				620 000
Less stock of raw materials 30/09/2001				44 000
Cost of raw materials consumed				576 000
Direct labour				320 000
Prime cost				896 000
Factory overhead expenses				
Indirect materials			21 600	
Depreciation:	Premises		2 400	
	Plant and equipment		36 000	
Production overheads:	Fixed		64 000	
	Variable		52 000	
Rates			12 000	
Insurance			9 600	197 600
Current manufacturing costs				1 093 600
Add: Work in progress 01/10/2000				48,000
				1 141 600
Less: Work in progress 30/09/2001				36 000
Production cost of goods completed				1 105 600
Manufacturing profit c/d				110 560
Market value of goods manufactured c/d				1 216 160
Sales				1 406 600
Less: cost of sales				
Stock of finished goods 01/10/2000			66 000	
Add Market value of goods manufactured b/d			1 216 160	
Cost of goods available for sale			1 282 160	
Less Stock of finished goods 30/09/2001			114 015	1 168 145
Gross profit				238 455
Depreciation:	Premises		1 600	
	Motor vehicles		27 648	
Rates			3 000	
Insurances			2 400	
Increase in provision for doubtful debts			140	
Selling and administrative expenses			38 400	73 188
Net profit on trading				165 267
Add manufacturing profit b/d			110 560	
Less: Increase in provision for unrealised profit			4 365	106 195
Total net profit				271 462

Continued

		$	$	$
Add Interest on current account:	Nyasha			800
				272 262
Less Interest on current account:	Chipo	2 000		
Interest on capital:	Chipo	25 000		
	Nyasha	20 000	47 000	
Salaries:	Chipo	20 000		
	Nyasha	18 000	38 000	85 000
Residue of profits shared:				187 262
	Chipo		93 631	
	Nyasha		93 631	187 262

Maximum 20 marks

(b) **CURRENT ACCOUNTS**

	Chipo	**Nyasha**		**Chipo**	**Nyasha**
	$	$		$	$
Balance b/d		8 000	Balance b/d	20 000	
Interest on current a/c		8 00	Interest on current a/c	2 000	
Drawings	18 000	16 000	Salaries	20 000	18 000
			Interest on capital	25 000	20 000
Balances c/d	142 631	106 831	Shares of profits	93 631	93 631
	160 631	131 631		160 631	131 631
			Balances b/d	142 631	106 831

Maximum 5 marks

(c) **Balance Sheet as at 30 September 2001**

		$ Cost	$ Depreciation	$ Net
Fixed assets				
Premises		200 000	16 000	184 000
Plant and equipment		360 000	144 000	216 000
Motor vehicles		240 000	129 408	110 592
		800 000	**289 408**	**510 592**
Current assets				
Stocks: Raw materials			44 000	
Finished goods		114 015		
Less provision for unrealised profit		10 365	103 650	
Work in progress			36 000	
Debtors		45 600		
Less provision for doubtful debts		1 140	44 460	
Prepayments			1 000	
Balance at bank			32 760	
			261 870	
Less current liabilities				
Creditors		70 000		
Accruals		3 000	73 000	
Working capital				188 870
				699 462
Financed by				
Capital accounts:	Chipo		250 000	
	Nyasha		200 000	450 000
Current accounts:	Chipo		142 631	
	Nyasha		106 831	249 462
				699 462

Maximum 7 marks
TOTAL 32 marks

2 (a) **Going concern** - Also known as continuity of activity concept. A business is assumed to have an indefinite life unless clear evidence shows otherwise. Accordingly fixed assets are shown in the accounts at cost less aggregate depreciation, stock at cost or net realisable value, whichever is the lower etc. If evidence exists that the operations of the business are coming to an end then each asset has to be shown at its disposal value/exit value/NRV/recoverable amount.

[3]

Consistency – This simply means that accounting policies followed in one accounting period must be applied in subsequent accounting periods. A change can only be made for compelling reasons, i.e. if it gives a truer and fairer view of profitability and financial position. This facilitates comparison of the results of the business from one period to the next.

[3]

Accruals or matching concept means that in the calculation of profits and losses we match the revenues earned with the expenses incurred for the same period, not cash receipts or payments. It is possible that payments for expenses are made in a period different from that in which they are incurred.

[3]

Materiality – there are items which are not bought for resale but for use and would therefore qualify for treatment as fixed assets, e.g. paper clips and ashtrays. But the cost of such items is insignificant and would normally be expensed in the period of purchase. Material items would be maintained as fixed assets and their use accounted for as depreciation.

[3]

Insignificant losses should not have resources used to investigate them, as this would be uneconomic. Figures can be rounded off to the nearest 1000 dollars in big firms without material misstatement of profitability and financial position.

[3]

Sub total 12 marks

(b) **Going concern:** Fixed assets have been shown in the balance sheet at cost less aggregate depreciation. All stocks have been shown at cost in the financial statements.

[2]

Consistency: Premises have been depreciated on cost as has been plant and equipment. The firm continues to depreciate motor vehicles on the reducing balance basis. Factory output continues to be transferred to the warehouse at cost plus 10% for factory profit. Stocks have been valued on a FIFO basis.

[2]

Accruals: An accrual was brought into the relevant period, as was the prepayment. The cost of using fixed assets in the form of depreciation has been matched against the income generated by those assets. Even the calculation of cost of sales, which included opening stock and excludes closing stock, is observing this principle.

[2]

Materiality – Fixed assets have been maintained as such and their use written of as depreciation. All consumables were written off in the financial statements and were not capitalised.

[2]

Subtotal 8 marks

Total 20 marks

3 (a) (i) $\frac{\text{gross profit}}{\text{sales}} \times 100$

$\frac{600\,000}{1\,500\,000} \times 100$

40%

(ii) $\frac{\text{net profit}}{\text{sales}} \times 100$

$\frac{150\,000}{1\,500\,000} \times 100$

10%

(iii) $\frac{\text{net profit}}{\text{capital employed}} \times 100$

$\frac{150\,000}{754\,000} \times 100$

19.9%, 19.89 or 20%

(iv) $\frac{\text{Debtors}}{\text{Credit Sales}} \times 100$

$\frac{100\,000}{1\,500\,000} \times 100$

24.3 days or 24.33 days

(v)

Current assets:		current liabilities
330 000	:	76 000
4.3	:	1 or
4	:	1 or
4.34	:	1

The current ratio can be expressed as 434%, 4 times, 4.34 times, or 4 or 4.34 since 4 divided by 1 is 4.

(vi) Current assets excluding stock : current liabilities

	120 000	:	76 000
	1.6	:	1
	1.58	:	1
But not	2	:	1

The acid test can also be expressed as 158%, 1.58 times or 1.58 or 1,6.

(vii) Utilization of fixed assets $= \dfrac{\text{sales}}{\text{fixed assets}}$

$$\frac{1\ 500\ 000}{500\ 000}$$

$=$ **3 times**

1 mark for each correct ratio = 7 marks

(b) The partnership appears to fare worse relative to the industry as a whole as far as profitability and liquidity are concerned. While the gross and net profit percentages of the whole industry are 50% and 15% respectively the partnership could only manage 40% and 10%. There appears to be insufficiency in the control system of the partnership. The partnership has a return on capital employed, which is lower by 5.1% compared to the industry average. This also suggests less efficiency in utilising resources. The current ratio of the whole industry is within acceptable limits as is the acid test ratio. In contrast the ratios of the partnership are too high at 4.3:1 and 1.6:1 respectively. This suggests mismanagement of resources by the firm. In summary, the partnership has a lot of work to do before it can catch up with the rest of the industry in terms of profitability and liquidity.

Maximum 10 marks.

(b) The accuracy of accounting ratios depends on the quality of the information from which they are calculated.

The effect of window dressing.

Ratios can only be used to compare like with like.

Ratios tend to ignore the time factor in businesses whose levels of operations fluctuate with the seasons.

Based on historical figures, with no adjustment for inflation.

Ratios only show the results of carrying on business. They do not indicate the causes of poor performance.

or

Further investigation is required.

Ratios do not show qualitative aspects of business, e.g. quality of management, labour relations, etc.

Any 3 well explained limitations will score full marks = 6 marks.

Total 23 marks.

(a) (i) Total direct material cost variance
= Standard – Actual
= 2 500 x 2 x 150 – 851 000
= 750 000 – 851 000
= **$101 000A** 2

(ii) Direct material price variance
= (SP – AP) AQ
= (150 – 148) 5750
= **$11 500 F** 2

(iii) Direct material usage variance
= (SQ – AQ) SP
= (5 000 – 5750) 150
= **$112 500 A** 2

(b) (i) Total direct labour cost variance
= Standard – Actual
= 2 500 x 4.5 x 80 – 892 500
= **7500 F** 2

(ii) Direct labour rate variance
= (SR – AR) AH
= (80 – 85) 10 500
= **$52 500 A** 2

(iii) Direct labour efficiency variance
= (SH – AH) SR
= (11 250 – 10 500) 80
= $60 000 F 2

(c) (i) <u>Favourable material price variance</u>

Purchasing in large quantities and getting quantity discounts
Purchasing inferior materials 2
Glut of materials on the market, etc

<u>An adverse material usage variance</u>
Inferior quality leading to greater wastage
Use of unsuitable equipment leading to greater wastage
Theft of material that goes unnoticed
Deliberate waste of materials, etc 2

<u>An adverse labour rate variance</u>
Overtime premiums
Employing a higher grade of labour than required
Compromises with labour unions as the firm cannot set its own rates unilaterally, etc 2

<u>A favourable labour efficiency variance</u>
Using high quality materials
High grade or quality of labour
High morale among workers, etc
Accept reasonable answers 2

(2 x 4 = 8 marks)

(ii) There is a yardstick against which costs can be measured
Setting standards entails determining the best materials and production methods leading to savings of money
A target of efficiency is set for employees – motivation
Cost consciousness is stimulated
Control is simplified.
It is easier to trace costs to products/cost centres
Budgets are easier to prepare
It enables management by exception
It is an essential aspect of responsibility accounting
(Accept other valid points.)

1 mark each up to a maximum of 5 points = 5 marks

Total 25 marks