

Question 15

Direct traders

1

Workings

Depreciation of Office Equipment

$$(\$4,000 - \$1,000) \times 20\% = \$600$$

Allowance for Doubtful Debts			
Bad Debts	600	Balance	900
Balance c/d	1,000	Doubtful Debts	700
	<u>1,600</u>		<u>1,600</u>
		Balance b/d	1,000

Question 15 continued
Direct Traders

Direct Traders
Income Statement
for the year ended 30 June 2027

Sales		183,400	
Less Sales Returns		3,000	
Less Discount Allowed		1,400	
Net Sales			179,000
Less Cost of Sales	55,000		
Less Discount Received	500	54,500	
Gross Profit			124,500
Add Other Income			
Rent Income (\$6,800 – \$800)	6,000		
Interest	200	6,200	
			130,700
<i>Less Other Expenses</i>			
Selling and Distribution Expenses			
Doubtful Debts	700		
Advertising	4,000		
Sales Salaries	35,100		
Loss on Sale of Delivery Vehicle	2,600	42,400	
General and Administration Expenses			
Insurance (\$800 – \$300)	500		
Electricity (\$2,900 + \$500)	3,400		
Office Salaries	59,500		
Depreciation of Office Equipment	600	64,000	
Financial Expenses			
Interest Expense	8,300	114,700	
Net Profit			\$16,000

Question 15 continued
Direct Traders

2

Direct Traders
Balance Sheet
as at 30 June 2027

Current Assets		
Cash at Bank		9,600
Accounts Receivable	41,400	
Less Allowance for Doubtful Debts	1,000	40,400
GST Credits		2,000
Inventory		29,000
Prepaid Insurance		300
Total Current Assets		81,300
Non-Current Assets		
Office Equipment	4,000	
Less Accumulated Depreciation	1,600	2,400
Total Non-Current Assets		2,400
Total Assets		83,700
Current Liabilities		
Accounts Payable		16,900
GST Payable		3,700
Unearned Rent Income		800
Accrued Electricity		500
Total Current Liabilities		21,900
Non-Current Liabilities		
Loan from Bank		29,000
Total Non-Current Liabilities		29,000
Total Liabilities		50,900
Net Assets		\$32,800
Equity		
Capital		34,000
Add Profit		16,000
		50,000
Less Drawings		17,200
Total Equity		\$32,800

Question 15 continued
Direct Traders

3

Business (Accounting) Entity Principle

The business (accounting) entity concept states that a business is separate from the owner of the business. The assets, liabilities and transactions of a business are kept separate from the personal assets, liabilities and transactions of the owner. In the business called Direct Traders the Income and expenses recorded in the Income statement and the assets and liabilities shown in the balance sheet are the result of transactions of the business, not of the owner. Any private transactions of the owner are kept separate from the business transactions and what the business owes the owner is recorded in the capital account in the balance sheet.

Monetary Principle

The monetary convention states that only transactions that can be expressed in monetary terms can be recorded in accounting records. All the transactions, assets and liabilities recorded in the final accounting reports have been given a monetary value.

Going Concern Principle

The going concern assumption states that a business has an indefinite life. This concept enables the assets of Direct Traders to be valued in the balance sheet at historical cost, except for assets such as land and shares in companies which may be shown at the current market value. If it were not for this concept, it would have to be assumed that Direct Traders would close down in the near future and as a result the assets would have been shown in the balance sheet at their liquidation values.

Historical Cost Principle

Transactions are entered in accounting records at their cost price. This convention assumes that assets will continue to be recorded at cost price no matter how long ago they were purchased. For Direct Traders most of the assets entered in the balance sheet have been recorded at cost price. The reason for doing this is that the cost price is a factual price. The historical cost convention is not always followed as assets such as land or shares in companies will probably substantially increase or decrease in value over time. These assets are usually valued at their current market value. Even though this current market value is only an estimate of the amount that would be received if the asset was sold, it is a more accurate guide to the true value of the asset than is the historical cost. For example, the land owned by Direct Traders was purchased in 1960 for \$6,000 but now has a current market value of \$100,000. To continue to show the land in the balance sheet at its historical cost price would be very misleading.

Question 15 continued
Direct Traders

3

Period Principle

The accounting period assumption requires that the life of a business be divided into periods of time so that the profit or loss for each time period can be calculated and reported to the business owner. In this question the life of Direct Traders has been divided into 12 month time segments so that the profit or loss made by the business over that time segment can be reported to the business owner.

Accrual Accounting

Direct Traders could have used either cash or accrual accounting to calculate its profit or loss. If it had used cash accounting, it would have included the sales Income in its Income statement when the cash from the sales had been received and the expenses when they had been paid. As cash accounting does not give the most accurate measure of the performance of a business, it has chosen to use accrual accounting. Therefore, both the cash and credit sales were included as Income in the Income statement and the expenses were included when they were consumed or used, not when they were paid. For example, it was necessary to deduct \$300 of insurance from the amount shown as having been paid in the trial balance to arrive at the insurance expense for the last 12 month period.

Question 16
VIP Business College

1

Depreciation of Classroom Equipment

$$(\$52,000 - \$10,000) \times 20\% = \$8,400$$

VIP Business College Income Statement for the year ended 30 June 2029			
Fees (\$239,000 – \$4,000)			235,000
<i>Less Expenses</i>			
Promotional Expenses			
Advertising (\$50,800 – \$500)		50,300	
Direct Teaching Expenses			
Teachers' Salaries	63,900		
Teaching Materials (\$18,300 – \$1,600)	16,700		
Depreciation of Classroom Equipment	8,400	89,000	
Office Expenses			
Office Salaries (\$79,400 + \$200)	79,600		
Loss on Sale of Office Equipment	1,800	81,400	
Financial Expenses			
Interest on Loan		5,300	226,000
Net Profit			\$9,000

Question 16 continued
VIP Business College

2

VIP Business College
Balance Sheet
as at 30 June 2029

Current Assets

Cash at Bank		14,300
Accounts Receivable		6,700
GST Credits		2,700
Teaching Materials Supplies		1,600
Prepaid Advertising		500
Total Current Assets		<u>25,800</u>

Non-Current Assets

Classroom Equipment	52,000	
Less Accumulated Depreciation	<u>18,400</u>	33,600
Total Non-Current Assets		<u>33,600</u>
Total Assets		<u>59,400</u>

Current Liabilities

Accounts Payable		7,000
GST Payable		3,400
Accrued Expenses		200
Unearned Income		4,000
Total Current Liabilities		<u>14,600</u>

Non-Current Liabilities

Loan from Industry Bank		<u>8,000</u>
Total Non-Current Liabilities		<u>8,000</u>
Total Liabilities		<u>22,600</u>
Net Assets		<u>\$36,800</u>

Equity

Capital		33,800
Add Profit		9,000
		<u>42,800</u>
Less Drawings		6,000
Total Equity		<u>\$36,800</u>

Question 17
Learn Computing College

Learn Computing College
Income Statement
for the year ended 30 June 2022

Fees (\$884 – \$55)		829
<i>Less Expenses</i>		
General and Administration		
Rent (\$141 – \$15)	126	
Stationery	89	
Office wages (\$340 – \$13)	353	
Advertising	140	
Electricity	66	774
Net Profit		\$55

Question 18

Bejoording Traders

Workings

Depreciation of Delivery Vehicles

$$(\$180 - \$40) \times 25\% = \$35$$

Allowance for Doubtful Debts			
Bad Debts	17	Balance	10
Balance c/d	34	Doubtful Debts	41
	<u>51</u>		<u>51</u>
		Balance b/d	34

Bejoording Traders Income Statement (extract) for the year ended 30 June 2029

Gross Profit		582
<i>Less Other Expenses</i>		
Selling and Distribution		
Sales wages (\$288 + \$33)	321	
Depreciation of delivery vehicles	35	
Doubtful debts	41	397
Net Profit		\$185

Question 19

Management Consultants

Workings

Depreciation of Office Furniture

$$\$1,800 \times 10\% = \$180$$

Management Consultants Balance Sheet (extract) as at 30 June 2029

Current Assets		
Accrued Interest Revenue (\$690 – \$510)		180
Prepaid Insurance (\$1,980 x 10/12)		1,650
Non-Current Assets		
Office Furniture	1,600	
Less Accumulated depreciation	880	720
Current Liabilities		
Unearned Revenue (64,000 – \$61,600)		1,700

Question 20
Nyabing Traders

Workings

Depreciation of Motor Vehicle

$$(\$820 - \$90) \times 30\% = \$219$$

Nyabing Traders
Income Statement (extract)
for the year ended 30 June 2025

Gross Profit		713
<i>Add Other Revenue</i>		
Interest (\$210 + \$110)		320
		1,033
<i>Less Other Expenses</i>		
General and Administration		
Office wages (\$770 + \$21)	791	
Rent (\$260 – \$43)	217	
Depreciation of motor vehicle	219	1,227
Net Loss		\$194