**Question 1**

1. **Prepare** the General Journal entries necessary to close the revenue and expense accounts and to close Drawings to the Capital account. Memo 15 (Narrations are not required)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | GENERAL LEDGER | | SUBSIDIARY LEDGER | |
|  | DEBIT | CREDIT | DEBIT | CREDIT |
| Commission income | 800 |  |  |  |
| Discount revenue | 1200 |  |  |  |
| Rent income | 7200 |  |  |  |
| Sales | 145000 |  |  |  |
| P/L Summary |  | 154200 |  |  |
|  |  |  |  |  |
| P/L Summary | 105520 |  |  |  |
| Advertising expenses |  | 1100 |  |  |
| Bad debts |  | 2300 |  |  |
| Cost of sales |  | 75000 |  |  |
| Customs duty |  | 1800 |  |  |
| Depreciation - mv |  | 2500 |  |  |
| Discount expense |  | 970 |  |  |
| Interest expense |  | 3200 |  |  |
| Motor vehicle expenses |  | 2000 |  |  |
| Stationery expense |  | 2550 |  |  |
| Wages |  | 11300 |  |  |
| Stock write-down |  | 2800 |  |  |
|  |  |  |  |  |
| P/L Summary | 48680 |  |  |  |
| Capital |  | 48680 |  |  |
|  |  |  |  |  |
| Capital | 10,800 |  |  |  |
| Drawings |  | 10,800 |  |  |

1. **Complete** theProfit & Loss Summary & Capital accounts as it would appear at June 30 2017.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| P/L Summary | | | | | |
| Date | Cross Ref | $ | Date | Cross Ref | $ |
| 30.6.17 | Total expenses | 105520 | 30.6.17 | Total revenues | 154200 |
|  | Capital | 48680 |  |  |  |
|  |  | 154200 |  |  | 154200 |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Capital | | | | | |
| Date | Cross Ref | $ | Date | Cross Ref | $ |
| 30.6.17 | Drawings | 10800 | 1.7.16 | Balance | 192320 |
|  | Balance | 230200 | 30.6.17 | P/L Summary | 48680 |
|  |  | 241000 |  |  | 241000 |
|  |  |  | 1.7.17 | Balance | 230200 |
|  |  |  |  |  |  |

1. **Explain** the function of the Profit and Loss Summary account.

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| After closing entries are completed, the temporary accounts would be zeroed off in |
| order to make them ready for next reporting period. The P&L Summary helps to |
| summarise closing entries and to transfer the net profit or loss to Capital. |
|  |

1. **Prepare** an Income Statement for the year ending 30 June 2017

|  |  |  |
| --- | --- | --- |
|  | $ | $ |
| Sales |  | 145000 |
|  |  |  |
| Cost of Goods Sold |  |  |
| Cost of sales | (75000) |  |
| Customs duty | (1800) | (76800) |
| Gross Profit |  | 68200 |
| Stock write-down |  | (2800) |
| Adjusted Gross Profit |  | 65400 |
|  |  |  |
| Other Revenues |  |  |
| Commission income | 800 |  |
| Discount revenue | 1200 |  |
| Rent income | 7200 | 9200 |
|  |  | 74600 |
| Other Expenses |  |  |
| Advertising Expense | (1100) |  |
| Bad debts | (2300) |  |
| Depreciation – Motor Vehicle | (2500) |  |
| Discount expense | (970) |  |
| Interest expense | (3200) |  |
| Motor vehicle expenses | (2000) |  |
| Stationery expense | (2550) |  |
| Wages | (11300) | (25920) |
| Net Profit |  | 48680 |
|  |  |  |

Question 2

1. Record invoice 1017 into the General Journal provided. A narration is not required.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | GENERAL LEDGER | | SUBSIDIARY LEDGER | |
|  | DEBIT | CREDIT | DEBIT | CREDIT |
| Vehicle | 65500 |  |  |  |
| Registration | 1100 |  |  |  |
| Insurance expense | 1200 |  |  |  |
| Sundry Creditor – Tech Automobile |  | 67800 |  |  |
|  |  |  |  |  |

1. Explain the difference between revenue and capital expenditures of a Non-Current Asset.

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| --- |
| Revenue expenditures are all costs related to a Non-Current Asset that are incurred |
| in the revenue earning process. They are annual recurring expenses that provide |
| economic benefits for one accounting period only and therefore cannot be added to |
| the cost of the asset. |
|  |
| Capital expenditures are costs incurred in bringing an asset into a condition ready for |
| use. They are one-off expenses with economic benefits over a number of reporting |
| periods and therefore added to the cost of the asset and depreciated over its useful |
| life. |
|  |

1. Calculate the depreciation expense for vehicles for the 6 months ended 31 December 2017.

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| --- |
| Old asset = 10% x $70,000 x 6/12 = $3,500 |
| New asset = 10% x $65,500 x 5/12 = $2,729 |
| Total depreciation = $6,229 |
|  |

1. Record the depreciation expense calculated above into the General Journal provided. A narration is required.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | GENERAL LEDGER | | SUBSIDIARY LEDGER | |
|  | DEBIT | CREDIT | DEBIT | CREDIT |
| Depreciation expense – vehicle | 6229 |  |  |  |
| Accumulated depreciation - vehicle |  | 6229 |  |  |
| *Depreciation of vehicles at 10% pa* |  |  |  |  |
| *using the straight line method – memo 5* |  |  |  |  |
|  |  |  |  |  |

1. Post the General Journal entry to the relevant ledger accounts.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Depreciation expense - vehicle | | | | | |
| Date | Cross Ref | $ | Date | Cross Ref | $ |
| 31.12.17 | Accumulated depreciation - vehicle | 6229 | 31.12.17 | P/L Summary | 6229 |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Accumulated depreciation | | | | | |
| Date | Cross Ref | $ | Date | Cross Ref | $ |
| 31.12.17 | Balance | 23729 | 1.7.17 | Balance | 17500 |
|  |  |  | 31.12.17 | Depreciation expense - vehicle | 6229 |
|  |  | 23729 |  |  | 23729 |
|  |  |  | 1.1.18 | Balance | 23729 |
|  |  |  |  |  |  |

1. State and explain the Accounting Principle and Qualitative Characteristic supporting Depreciation.

|  |
| --- |
| Accounting Principle: Going Concern  Qualitative Characteristic: Relevance |
| The business life is assumed to be on-going, allowing the asset to contribute benefits over a number |
| of accounting periods. Therefore cost of the asset must be spread evenly and fairly over the periods |
| expected to benefit from its usage. The cost should not be charged in one go as it will not be useful |
| for user’s decision making. |

Question 3

1. Define Stability.

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| Stability refers to the level of business risk by comparing the proportion of assets |
| funded by liabilities. |
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1. Comment on the trend below of Yoyo Enterprise:

|  |  |  |
| --- | --- | --- |
|  | 2016 | 2017 |
| Gearing ratio | 35% | 50% |

|  |
| --- |
| The business had a gearing ratio of 35% last year, which indicates that 35% of the business’ |
| assets had been financed by liabilities. This worsened to 50% this year indicating that the |
| business is now subject to higher business risk. |
|  |

1. Provide two (2) reasons that could have caused the above trend in Gearing Ratio.

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| New loan |
| Increase in drawings / Decrease in contributions |
| Decrease in profits |