**CHAPTER 7 – STRUCTURED QUESTIONS**

1.

These balances were taken from Jerry and Lyn Beauty Spa and Facial Clinic on December 31st

Stock on January 1 2 000

Stock on hand December 31 5 000

Sales 40 000

Purchases 20 000

Returns outwards 3 000

Returns inwards 2 000

Calculate the following:

(a) Net purchases

(b)Goods available for sale

(c)Cost of goods sold

(d)Net sales

2. The Trial balance below was prepared for Evelyn’s Sports Centre for the month of   
 May.

Evelyn’s Sports Centre  
Trial balance  
As at May

|  |  |  |
| --- | --- | --- |
| DETAILS | DR | CR |
| Membership fees |  | 60 000 |
|  |  |  |
| Sports equipment | 18 000 |  |
|  |  |  |
| Sport supplies for resale | 30 000 |  |
|  |  |  |
| Capital |  | 100 000 |
|  |  |  |
| Accounts receivable | 60 000 |  |
|  |  |  |
| Salaries | 7 000 |  |
|  |  |  |
| Cash | 3 000 |  |
|  |  |  |
| Bank | 40 000 |  |
|  |  |  |
| Telephone | 2 000 |  |
|  |  |  |
|  | 160 000 | 160 000 |
|  |  |  |
| Closing stock | 3 000 |  |

You are required to prepare an income statement for Evelyn’s Sports Centre for the period ended May 31st

3.

The following is a list of balances for Savitri’s Jewelry Store.

Stock $5 000

Debtors 3 000

Creditors 7 000

Bank overdraft 2 000

Bank 4 000

Cash 1 000

You are required to answer the questions below.

(a) Prepare a (partial) Balance Sheet to show the calculation of working capital

(b) What is the importance of calculating working capital?

4.

Say Sumptuous Restaurant is a family business owned by Carl and Ingrid. The following balances were extracted from their books on November 30th. Prepare a Profit and Loss account for the year ending November 30th and a classified Balance Sheet as at that date.

|  |  |
| --- | --- |
| Capital | $224 000 |
|  |  |
| Gross profit for the year | 40 000 |
|  |  |
| Furniture | 6 000 |
|  |  |
| Building | 200 000 |
|  |  |
| Closing stock | 3 000 |
|  |  |
| Debtors | 8 000 |
|  |  |
| Creditors | 5 000 |
|  |  |
| Discount received | 1 000 |
|  |  |
| Bank | 40 000 |
|  |  |
| Stationery | 3 000 |
|  |  |
| Salaries | 10 000 |
|  |  |

**CHAPTER 7 – ANSWERS**

1.

(a)Purchases – Returns outwards =$ 20 000 –$ 3 000=$17 000

(b)Opening Stock + Net profit = $2 000 + $17 000=$19 000

(c)Goods available for sale – Closing stock = $19 000 - $5 000=$14 000

(d)Sales – Returns inwards = $40 000 - $2 000=$38 000

2.

Evelyn’s Sports Centre

Income Statement

For the month of May 31st

Membership fees $60 000

Sports supplies 30 000

Salaries 7 000

Telephone 2 000

39 000

NET INCOME $21 000

3.

(a)

Savitri’s Jewelry

Partial Balance Sheet

As at

Current assets

Stock 5 000

Debtors 3 000

Bank 4 000

Cash 1 000

13 000

Current liabilities

Creditors 7 000

Bank overdraft 2 000

9 000

WORKING CAPITAL 4 000

4.

Say Sumptuous Restaurant

Profit and Loss account

For the year ending November 30th

Gross profit $40 000

Add discount received 1 000

41 000

Less

Stationery 3 000

Salaries 10 000

13 000

NET INCOME $28 000

Say Sumptuous Restaurant

Balance Sheet

As at November 30th

Fixed assets

Buildings 200 000

Furniture 6 000

206 000

Current assets

Stock 3 000

Debtors 8 000

Bank 40 000

51 000

Less

Current Liabilities

Creditors (5 000)

Working capital 46 000

252 000

Capital 224 000

Add net income 28 000

252 000

**CHAPTER 8 – STRUCTURED QUESTIONS**

1.

(a)

You are required to use the information to calculate the amount to be transferred to the income statement.

Cash collected for the year $55 000

Subscriptions prepaid at the end of the period 6 000

Subscriptions owing at the end of the period 4 000

(b)

Using the amount calculated in (a) above, make the adjustments in the appropriate ledger account for the transfer to the Income Statement. (Hint: you are to include all the other related transactions in the ledger account).

(c)

Make the journal entry to record of the transfer to the income statement in (b) above

2.

(a) You are required to show the transactions below in the relevant ledger account

Commission expense owing at the beginning of the period $5 000

Cash paid for the year 10 000

Commission expense owing at the end of the period 6 000

(b) Compute and post the total amount of commission expense from (a) above to be transferred to the income statement

3.

Joy purchased a Honda Civic motor car costing $500 000 on January 1st 20--. She estimates that after 5 years, she will be able to sell the motor car for $100 000

(a) You are required to calculate the depreciation expense for the period (show all workings)

(b)Open the appropriate ledger accounts to record depreciation expenses and the provision for depreciation for the motor car at the end of the first year.

4.

Winston received a cheque for the sum of $5 000 for a debt of $15 000 from one of his customers Debtor Selfish on November 30, 20--. One year later Debtor Selfish stopped all payments to Winston. Two years later, Winston discovered that this customer would be unable to pay the debt and he must write off the debt.

You are required to open the appropriate ledger accounts in Winston’s books to record the bad debts written off.

5.

Match the statements made in List A with the correct terms used in List B

|  |  |
| --- | --- |
| **LIST A** | **LIST B** |
| 1. A non-cash expense | a) Net book value |
|  |  |
| 2. Occurs anytime a business is unable to collect any amount from a debtor | b) Adjustments |
|  |  |
| 3. Represents an estimation of the value of debtors who may not pay | c)Depreciation |
|  |  |
| 4. Cost less total accumulated depreciation | d)Reducing balance method |
|  |  |
| 5. The annual depreciation expense is higher in the earlier years | e)Provision for bad or doubtful debts |
|  |  |
| 6. Transactions or events not recorded at the time of preparation of the Trial Balance | f)Bad debt expense |
|  |  |

**CHAPTER 8 – ANSWERS**

1.

(a) Cash collected $55 000

Subscriptions prepaid at close (6 000)

Subscriptions owing at close 4 000

Amount to be transferred to the Income statement $53 000

(b)

Subscriptions a/c

|  |  |
| --- | --- |
| Balance c/d to Income statement $53 000 | Cash $55 000 |
| Balance c/d 6 000 | Balance c/d 4 000 |
|  |  |
| 59 000 | 59 000 |
|  |  |

(c)

GENERAL JOURNAL

|  |  |  |  |
| --- | --- | --- | --- |
| DATE | DETAILS | DR | CR |
|  | Subscriptions | $53 000 |  |
|  |  |  |  |
|  | Income statement |  | $53 000 |

2.

(a)

Commission expense a/c

|  |  |
| --- | --- |
| Cash $10 000 | Balance b/d $5 000 |
|  |  |
| Balance c/d 6 000 | Balance c/d to Income statement 11 000 |
|  |  |
| 16 000 | 16 000 |

3.

(a)

Depreciation=Cost of asset – Residual value/ Life span

500 000 – 100 000/5

=$80 000

(b)

Depreciation expense-Motor vehicle a/c

|  |  |
| --- | --- |
| Dec 31 Provision for Depreciation $80 000 |  |
|  |  |

Provision for Depreciation – Motor vehicle a/c

|  |  |
| --- | --- |
|  | Dec 31 Profit and Loss $80 000 |
|  |  |

4.

Debtor- Selfish a/c

|  |  |
| --- | --- |
| Balance b/d $10 000 | Bad debts $10 000 |
|  |  |
|  |  |

Bad debt expense a/c

|  |  |
| --- | --- |
| Debtor – Selfish $10 000 |  |
|  |  |

5.

|  |  |
| --- | --- |
| **LIST A** | **LIST B** |
| 1. | C |
|  |  |
| 2. | F |
|  |  |
| 3. | E |
|  |  |
| 4. | A |
|  |  |
| 5. | D |
|  |  |
| 6. | B |