



SUGGESTED SOLUTIONS FOR GCE O' LEVEL PRINCIPLES OF ACCOUNTS 2010

1a) Bookkeeping is the recording aspect of the accounting process while accounting records, analyse, summarises and interprets business activities to access their financial effects on the business.

1b) Assets = Liabilities + Owner's Equity

1c) i) As documented evidence of the sale of goods or the provision of services

ii) A counter piece of a cheque which remains attached to the cheque book and contains details of the cheque issued.

1d) A cash transaction uses currency (dollars and cents) to pay for products or services. A credit transaction means that the transaction is posted to a credit card or loan. In this case, the business gets paid later for products or services.

2a)

<u>Yasmine</u>			
Trading Account for the year ended 31 October 2010			
	\$		\$
Opening Stock	8,000	Sales	120,000
Purchases	84,000		
Closing Stock	12,000		
Cost of Goods Sold	80,000		
Gross Profit c/d	40,000		
	120,000		120,000

* Working: Gross Profit Margin = $\frac{\text{Gross Profit}}{\text{Turnover(Sales)}}$

$$33.3\% = \frac{\text{Gross Profit}}{\$120,000}$$

$$\text{Gross Profit} = \$40,000$$



2b) Average Stock = (Opening Stock + Closing Stock) / 2
= (8,000 + 12,000)/2 = 10,000

Rate of Stockturn = Cost of Goods Sold / Average Stock
= 80,000/10,000
= 8 times

2c) Reasons for decline of the rate of stockturn from 8.9 times (in 2009) to 8 times (in 2010):

- Cost of purchases has gone down (i.e goods have become cheaper).
- Purchase of goods were in excess than the estimated demand, resulting in a larger amount in closing stock.
- Decrease in marketing activity, resulting in decrease in sales.

3a) Capital Expenditure is expenses on the purchase of fixed assets and the benefits of the expenses last more than one accounting period while revenue expenditure is expenses on day to day business activities and the benefits last within one accounting period.

3b) Depreciation = Historical Cost of Fixed Asset – Residual (Scrap) Value
No. of years of Useful Life
= \$(12,000-\$1,500)
5
= \$2,100 per annum

1 April 2006 to 31 March 2010 = 4 years

Total depreciation = 4 x \$2,100 = \$8,400

3c) Accounting period concept



4a)

		Creditors Control Account			
2010			2010		
31-Oct	Returns Outwards	10,050	1-Oct	Balance b/d	18,200
31-Oct	Bank	194,760	31-Oct	Purchases	204,000
31-Oct	Contra	680			
31-Oct	Discount Received	1,100			
31-Oct	Balance c/d	15,610			
		222,200			222,200
			1-Nov	Balance b/d	15,610

4b) Advantages of preparing a creditors control account (any two):

- To check accuracy of work done in journals and ledgers
- To obtain information rapidly
- To locate errors
- To act as an independent check on the accuracy of the creditor ledger