

Tahir Ali supplies building materials. His financial year ends on 31 December.

On 1 January 2006 he decided to provide a delivery service for his customers. On that date he purchased **three** motor vehicles, costing \$20 000 each, on credit from Ansari Road Motors.

Tahir Ali decided that depreciation should be calculated on motor vehicles owned at 31 December each year at the rate of 20% per annum, using the reducing (diminishing) balance method. A full year's depreciation should be provided in the year of purchase, but no depreciation should be provided in the year of disposal.

On 30 June 2007 Tahir Ali decided that only two motor vehicles were required and he sold the other motor vehicle on credit to Apollo Traders for \$17 000.

## REQUIRED

- (a) Explain how Tahir Ali is applying the matching principle when he depreciates his motor vehicles.

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..... [2]

- (b) Write up the following accounts in Tahir Ali's ledger for **each** of the years ended 31 December 2006 and 31 December 2007.

- (i) Motor vehicles account.
- (ii) Provision for depreciation of motor vehicles account.
- (iii) Disposal of motor vehicles account.

Where traditional "T" accounts are used they should be balanced at the end of each year and, where appropriate, the balance brought down on the first day of the following financial year. Where three column running balance accounts are used the balance column should be updated after each entry.

David Parnell is a trader. His financial year ends on 30 September. He purchased the following motor vehicles on credit from Peter Drury on 1 October 2004.

Motor vehicle KUA 468 costing \$20 000  
 Motor vehicle VWU 503 costing \$16 000

David Parnell decided that depreciation should be calculated on motor vehicles owned at 30 September each year at the rate of 25 % per annum, using the straight line method. A full year's depreciation should be provided in the year of purchase, but no depreciation should be provided in the year of disposal.

On 1 April 2006 David Parnell decided that only one motor vehicle was required and he sold motor vehicle VWU 503 on credit to Remuera Traders for \$12 500.

## REQUIRED

- (a) (i) Name **one** accounting principle which is applied when fixed assets are depreciated.
- (ii) Explain why the accounting principle named in (i) is applied when providing for depreciation of fixed assets.
- (b) Write up the following accounts in David Parnell's ledger for **each** of the years ended 30 September 2005 and 30 September 2006:
- (i) Motor vehicles account
- (ii) Provision for depreciation of motor vehicles account
- (iii) Disposal of motor vehicles account

Where traditional "T" accounts are used they should be balanced at the end of each year and, where appropriate, the balance brought down on the first day of the following financial year. Where three column running balance accounts are used the balance column should be up-dated after each entry.

## Question 4

- (a) (i) Matching **OR** Prudence
- (ii) Matching  
 To ensure that the loss in value of fixed assets is spread over the period in which they are earning revenue.

**OR**

Prudence

To ensure that the profit is not overstated and the value of the fixed assets is not overstated.

- (c) Using your answer to (b), state the entries in relation to motor vehicles which will appear in David Parnell's Profit and Loss Account for the year ended 30 September 2006. State whether the Profit and Loss Account would be debited or credited for each entry.

The following information refers to the T and T Merchandising Company:

YEAR	SUNDRY DEBTORS	PROVISION FOR DOUBTFUL DEBTS
2000	\$10 000	3%
2001	12 500	3%
2002	12 000	3%

**YOU ARE REQUIRED TO:**

- A.
- (i) Show Journal entries necessary to record the Provision for Doubtful Debts for each year. [9]
  - (ii) Show the Provision for Doubtful Debts Account for each year. [2]
  - (iii) Show the Profit & Loss Account extracts for each year. [3]
  - (iv) Show the Balance Sheet extract for each year. [3]
- B.
- (i) Why is a Provision for Doubtful Debts account needed?
  - (ii) The creation of a provision for doubtful debts is an example of which Accounting Principle (Convention)?

S. Butler keeps his books on the financial year January to December. The figures below show his Debtors at the end of the years noted.

		\$
January to December	2000	16 000
	2001	12 000
	2002	18 000
	2003	18 000

He decided to create a 5% Provision for Doubtful Debts in 2000, and to maintain that percentage.

**YOU ARE REQUIRED TO:**

- (a) Show the journal entries required to record the provision for each year. [7]
- (b) Write up the Profit & Loss Account extract for each year. [3]
- (c) Show Balance Sheet extracts for each year. [10]

Total marks [20]

On 31 December 2008 E. Bain had debts totalling \$24 000. He decided to write off the following debts as "*bad*":

T. Gardiner	\$120
R. Sands	\$160

Bain also decided to create a 5% provision for bad debts on the remaining debtors.

- I. Prepare the Journal Entry necessary to write off the above debts as "*bad*".
- II. Prepare the Journal Entry to record the creation of a Provision for Bad Debts account.
- III. Show the Profit & Loss Account extract for the year ended 31 December 2008.
- IV. What is the difference between a ***BAD DEBT*** and the ***PROVISION FOR BAD DEBTS?***
- V. Show the Balance Sheet extract to record these items.

On 30 June, 2002 a business' Balance Sheet showed the following:

ITEMS OUTSTANDING		ITEMS IN ADVANCE	
	\$		\$
Stationery	60	Insurance	40
Salaries	1 400		
Rent	600		

During the year ended 30 June, 2003, the following payments were made by cheque:

	\$
Insurance	480
Stationery	140
Salaries	20 000
Rent	5 400

The Balance Sheet showed the following on 30 June, 2003:

ITEMS OUTSTANDING		ITEMS IN ADVANCE	
	\$		\$
Stationery	20	Insurance	80
Salaries	1 600	Rent	1 200

**YOU ARE REQUIRED TO:**

- (i) Prepare ledger accounts for each of the above items for the year ended 30 June, 2003. [16]
- (ii) Prepare a Profit & Loss Account **extract** to show the amounts charged. [2]
- (iii) Write the **section** of the Balance Sheet to which you would transfer the balance for each account. [2]

Total marks [20]

R. Shepherd had the following balances in her account as at 30 June 2003:

	\$
Salaries	2 200
Telephone	1 320
Returns Inwards	80
Bad Debts	53
Discount Allowed	200
Premises	2 500
Discount Received	421
Delivery Charges	268
Delivery Expense	470
Rent	350
Insurance	120
Miscellaneous Expense	64
Electricity	432
Returns Outwards	364
Gross Profit	3 719
Debtors	2 500

**NOTES:**

- (a) A provision of 5% Debtors is to be created.
- (b) Insurance due but not paid \$87.
- (c) Rent prepaid \$50.
- (d) Depreciation: Machinery \$50  
Fixtures \$100

**YOU ARE REQUIRED TO:**

Prepare the Profit & Loss Account for the year ended 30 June 2003. Show working.

Total marks [16]

Below is a Trial Balance from the books of Mr. Edward White, a sole trader.

You are required to:

Prepare the final accounts for the year ended 31 August, 1999 while taking into account the relevant adjustments.

### Trial Balance

	\$		\$
Land & Building	130,000	Capital	251,620
Purchases	95,000	Creditors	18,000
Returns Inward	6,000	Returns Outwards	3,000
Motor Vehicles at cost	50,000	Provision for depreciation:	
Debtors	24,000	Motor Vehicles	10,000
Wages & Salaries	40,000	Equipment	1,200
Delivery Charges	3,000	Commission Received	4,000
Opening Stock	30,000	Provision for Bad Debt	1,500
Bank	25,000	Sales	164,680
Insurance	6,000		
Equipment at cost	18,000		
Cash on hand	3,000		
Discount Allowed	4,000		
Repairs	12,000		
Drawings	8,000		
	<u>454,000</u>		<u>454,000</u>

Hey, My name is often misunderstood as fruity.

### Adjustments:

1. Closing Stock                    20,000
2. Accrued Wages                 5,000
3. Prepaid Insurance            1,000
4. Bad Debt provision to be increased by \$500.00
5. Depreciate Motor Vehicles by 5% on the straight-line method and equipment by 10% on the reducing balance method.

Total marks [23]