# IGCSE Accounting Sole Trader

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**1** Rani is a sole trader. On 31 December 2013 her statement of financial position was as follows.

Rani
Statement of Financial Position at 31 December 2013

|  | $ | $ |
|---|---|---|
| Non-current assets |  |  |
| Fixtures and fittings (at book value) |  | 12 000 |
|  |  |  |
| Current assets |  |  |
| Inventory |  | 6 380 |
| Trade receivables | 1 200 |  |
| Provision for doubtful debts | (36) |  |
|  |  | 1 164 |
| Bank |  | 110 |
|  |  | 7 654 |
| Total assets |  | 19 654 |
|  |  |  |
| Capital |  | 18 454 |
| Current liabilities |  |  |
| Trade payables |  | 910 |
| Other payables |  | 290 |
|  |  | 1 200 |
| Total liabilities |  | 19 654 |

At the end of December 2014 the book-keeper ran away and it was found that no detailed records had been kept. The following information, however, was available for the year ended 31 December 2014.

1 Fixtures and fittings are depreciated at 20% per annum on the net book value. No fixtures or fittings had been bought during the year.

2 A delivery van costing $15 000 had been bought during the year. It was to be depreciated at the rate of 40% a year on the reducing (diminishing) balance basis. A full year's depreciation is to be provided in the year of purchase.

3 The provision for doubtful debts is to stay at the same percentage.

4 Other assets and liabilities at 31 December 2014 were as follows.

|  | $ |
|---|---|
| Inventory | 8340 |
| Trade receivables (before provision) | 1600 |
| Bank | 90 debit |
| Trade payables | 1100 |
| Accrued electricity | 190 |
| Accrued wages | 230 |

5 Drawings amounted to $11 600.

REQUIRED

**(a)** Calculate the net assets of the business at 31 December 2014.

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**(b) (i)** Calculate the change in net assets between 31 December 2013 and 31 December 2014.

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**(ii)** State why the change in net assets was not equal to the profit for the year.

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Rani wants to know more about the performance of her business.

REQUIRED

**(c)** State two ratios Rani could calculate from a detailed income statement to help her achieve this.

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2 ..............................................................................................................

Rani is concerned about the increase in the level of inventory and is considering a different basis of valuation.

REQUIRED

(d) Explain how the following accounting principles are applied to the valuation of inventory.

1 Prudence .............................................................................................................

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2 Realisation .........................................................................................................

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2   Nzita is a sole trader. His statement of financial position at 31 January 2014 included the following balances.

|                                          | $          |
| ---------------------------------------- | ---------- |
| Trade receivables                        | 700        |
| Trade payables                           | 400        |
| Inventory                                | 1 100      |
| Equipment at cost                        | 15 700     |
| Provision for depreciation of equipment  | 4 100      |
| Prepaid rent                             | 250        |
| Bank                                     | 2 100  debit |

REQUIRED

(a) Calculate Nzita's capital at 31 January 2014.

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A summary of Nzita's bank statements showed the following for the year ended 31 January 2015.

|  | $ |
|---|---|
| Receipts from customers | 28 900 |
| Payments to suppliers | 12 600 |
| Wages | 5 200 |
| Rent | 3 100 |
| Purchase of new equipment | 1 100 |
| Sundry expenses | 2 650 |
| Drawings | 6 600 |

Further information is as follows.

1    Nzita depreciates his non-current assets at the rate of 10% per annum on the straight line basis. A full year's depreciation is provided in the year of purchase.

2    No non-current assets were disposed of during the year.

3    Proper books of account were not kept during the year but Nzita provided the following information at 31 January 2015.

|  | $ |
|---|---|
| Trade receivables | 900 |
| Trade payables | 650 |
| Inventory | 1400 |
| Prepaid rent | 150 |

4    All sales and purchases were made on credit.

REQUIRED

(b)  Prepare the following accounts for the year ended 31 January 2015 to determine the sales and purchases for the year.

Nzita
Total trade receivables account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| ......... | ....................................... | ............ | ............ | ............................... | ............ |
| ......... | ............................... | ............ | ............ | ............................... | ............ |
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| ......... | ............................... | ............ | ............ | ............................... | ............ |

## Nzita
### Total trade payables account

| Date | Details | $ | Date | Details | $ |
|------|---------|---|------|---------|---|
| ........ | ...................................... | .......... | ......... | .................................... | ........... |
| ........ | .............................. | .......... | ......... | .................................... | ........... |
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**(c)** Prepare Nzita's income statement for the year ended 31 January 2015.

## Nzita
### Income Statement for the year ended 31 January 2015

| | $ | $ |
|---|---|---|
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**(d)** Prepare an extract from Nzita's statement of financial position at 31 January 2015 showing the capital section.

Nzita
Statement of Financial Position (extract) at 31 January 2015

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**(e)** Calculate, to two decimal places, Nzita's gross profit margin for the year.

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**(f)** Suggest two reasons why Nzita's gross profit margin was lower than in the previous year.

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**4** A trader provided the following information about a non-current asset.

|  | $ |
|---|---|
| cost | 12 000 |
| accumulated depreciation at start of year | 1 800 |
| method of depreciation | reducing (diminishing) balance at 15% per annum |

What was the accumulated depreciation at the end of the year?

A    $1530

B    $3330

C    $3600

D   $8670

5     The non-current assets of a sole trader increased.

What might have caused this to happen?

A    a decrease in the bank overdraft

B    an increase in trade receivables

C    the charging of depreciation

D    the introduction of capital by the owner

6    Siegfried is a sole trader who does not maintain a complete set of double entry records. He has provided the following information.

|  | 1 January 2017 $ | 31 December 2017 $ |
|---|---|---|
| Equipment at cost | 18 000 | 18 000 |
| Inventory | 2 415 | 2 934 |
| Trade receivables | 1 930 | 2 042 |
| Trade payables | 1 210 | 1 455 |
| Bank | – | 209 |
| Bank overdraft | 835 | – |
| Accrued expenses | – | 98 |
| Prepaid rent | – | 120 |
| Capital | 20 300 | ? |

On 31 December 2017, Siegfried brought his own motor vehicle into the business, valued at $5500. He decided to write off trade receivables, $100, and to start depreciating equipment by 20% per annum.

REQUIRED

See next page.

**(a)** Calculate Siegfried's capital at 31 December 2017 after making the necessary adjustments.

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During the year ended 31 December 2017, Siegfried's cash drawings were $2700.

REQUIRED

**(b)** Calculate the profit made by Siegfried for the year ended 31 December 2017.

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**(c)** State what is measured by the return on capital employed (ROCE).

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**(d)** State the formula for the calculation of the ROCE.

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**(e)** Calculate Siegfried's return on capital employed for the year ended 31 December 2017. Use the opening capital in your calculation which should be correct to two decimal places.

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Siegfried knows that he sold the same number of units and had applied the same mark-up in the year ended 31 December 2017 as he did in the previous year, but made a lower profit for the year.

REQUIRED

**(f)** Suggest one reason why Siegfried made a lower profit for the year for the year ended 31 December 2017 than the previous year.

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**(g)** State three benefits to Siegfried of maintaining a full set of double entry records.

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