

Coursebook answers

Chapter 1

Answers to test yourself questions

Test yourself 1.1

- 1 Book-keeping is the detailed recording of all the financial transactions of a business.
- 2 Accounting is preparing the financial statements of a business from the book-keeping records.
- 3 Two from:
 - to calculate the profit or loss earned by the business during a period of time
 - to know the financial position of the business at regular intervals
 - to be able to measure the progress of the business over several periods
 - to assist in decision-making and future planning.
- 4 Financial statements consist of an income statement and a statement of financial position (other statements may be added: these are explained in later chapters of the Coursebook).

Test yourself 1.2

- a Assets are anything which is owned by or owed to a business.
- b Liabilities are amounts owed by the business.
- c Capital is the amount owed by the business to the owner of that business.

Test yourself 1.3

- a Capital \$22 500 b Assets \$63 700 c Liabilities \$12 300

Test yourself 1.4

- 1
 - a Any two assets not mentioned in Walkthrough 1.1 and 1.2, e.g. machinery, fixtures and fittings, motor vehicles, cash, expenses paid in advance.
 - b Any two liabilities not mentioned in Walkthrough 1.1 and 1.2, e.g. short term loans, long term loans, expenses owing.
- 2
 - a A trade payable is an amount owed to a person or business to whom the trader owes an amount of money for goods purchased on credit.
 - b A trade receivable is an amount receivable from a person or business who owes the trader an amount of money of goods sold to them on credit.

Answers to exam-style questions

- 1 B
- 2
 - a $\text{Assets} = (180\,000 + 23\,420 + 21\,710 + 32\,600 + 15\,900 + 2\,550) = \$276\,180$
 - b $\text{Liabilities} = (26\,180 + 80\,000) = \$106\,180$
 - c $\text{Capital} = 276\,180 - 106\,180 = \$170\,000$
- 3 B
- 4 B

Coursebook answers

Chapter 2

Answers to test yourself questions

Test yourself 2.1

- It is necessary to make a double entry for each transaction in order to record the two effects of each transaction – a giving and a receiving.
- The folio column in a ledger account is used for reference purposes and shows the page of the ledger on which the account named in the details column appears.

Test yourself 2.2

- | | | | |
|---|---|-------------------------|--------------------------------------|
| 1 | a | debit rates account | credit bank account |
| | b | debit machinery account | credit bank account |
| | c | debit bank account | credit commission receivable account |
| | d | debit XYZ Loan Co | credit bank account |

Test yourself 2.3

- | | | | |
|---|---|----------------------------|-------------------------------|
| 1 | a | debit cash or bank account | credit capital account |
| | b | debit drawings account | credit motor vehicles account |
| | c | debit drawings account | credit purchases account |

Test yourself 2.4

- Find the difference between the two sides of the account. Enter this figure on the next available line on the side which is the smaller in money. Write the date and the word 'Balance' and enter 'c/d' in the folio column. Enter a matching total on each side of the account (on the same level). Make the double-entry for the balance by entering the amount of the balance on the opposite side to that where it was entered as a balance carried down. Write the date and the word 'Balance' in the details column and 'b/d' in the folio column.
- Credit purchases are goods purchased for resale which are paid for at a later date rather than at the time of purchase.
- Two from:
 - goods were faulty
 - goods were damaged
 - goods were not what was ordered.
- Sales returns may be called returns inwards.
- Carriage inwards is the cost of transporting goods purchased by the business to its premises. This is part of the cost of purchasing the goods. Carriage outwards is the cost of delivering goods to a customer's premises. This is a selling expense.

Answers to exam-style questions

- B
- A
- D

4

Bank account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6				20-6			
July 1	Capital		50 000	July 2	Premises		25 000
9	Sales		200	4	Equipment		4 000
				7	Advertising expenses		60
				14	Mayur Vihar Traders		1 000
					Balance	c/d	20 140
			<u>50 200</u>				<u>50 200</u>
20-6							
July 15	Balance	b/d	20 140				

Capital account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-6			
				July 1	Bank		50 000

Premises account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6							
July 2	Bank		25 000				

Equipment account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6							
July 4	Bank		4 000				

Purchases account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6							
July 6	Mayur Vihar Traders		1 500				

Mahur Vihar Traders account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6				20-6			
July 14	Bank		1 000	July 2	Purchases		1 500
	Balance	c/d	<u>500</u>				<u>1 500</u>
			<u>1 500</u>				
				20-6			
				July 15	Balance	b/d	500

Advertising expenses account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6							
July 7	Bank		60				

Sales account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6							
				July 9	Bank		200
				12	Ridhima		310

Ridhima account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6				20-6			
July 12	Sales		310	July 13	Sales returns		20
				14	Balance	c/d	<u>290</u>
			<u>310</u>				<u>310</u>
July 15	Balance	b/d	290				

Sales returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6							
July 13	Ridhima		20				

5

Katie Capital account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4							
				Oct 1	Balance	b/d	15 000

Inventory account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4							
Oct 1	Balance	b/d	3 400				

Fixtures and fittings account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4							
Oct 1	Balance	b/d	10 100				

Daisy account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-4			
Oct 1	Balance	b/d	<u>1110</u>	Oct 30	Bank		<u>1110</u>
			<u>1110</u>				<u>1110</u>

Zara account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-4			
Oct 7	Purchases returns		80	Oct 1	Balance	b/d	1760
14	Bank		1760	2	Purchases		1500
31	Balance	c/d	<u>1420</u>				
			<u>3260</u>				<u>3260</u>
				20-4			
				Nov 1	Balance	b/d	1420

AB Finance loan account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-4			
Oct 10	Bank		<u>2000</u>	Oct 1	Balance	b/d	<u>2000</u>
			<u>2000</u>				<u>2000</u>

Bank account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-4			
Oct 1	Balance	b/d	4150	Oct 4	AB Finance Loan		2000
21	Sales		940	14	Zara		1760
30	Daisy		<u>1110</u>	31	Balance	c/d	<u>2440</u>
			<u>6200</u>				<u>6200</u>
20-4							
Nov 1	Balance	b/d	2440				

Purchases account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-4			
Oct 2	Zara		1500	Oct 28	Drawings		140

Purchases returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-4			
				Oct 7	Zara		80

Sales account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20–4			
				Oct 21	Bank		940

Drawings account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–4							
Oct 28	Purchases		140				

- 6** May 1 Amount owed by Marine Drive Stores to Central Wholesalers
Double entry: debit Central Wholesalers account for April
- 10 Marine Stores purchased goods on credit from Central Wholesalers
Double entry: debit purchases account
- 17 Marine Drive Stores returned goods to Central Wholesalers
Double entry: credit purchases returns account
- 20 Marine Drive Stores paid a cheque to Central Wholesalers
Double entry: credit bank account
- 31 Amount owed by Marine Drive Stores to Central Wholesalers
Double entry: credit Central Wholesalers account for June

Coursebook answers

Chapter 3

Answers to test yourself questions

Test yourself 3.1

- 1 A trial balance is a list of the balances on the accounts in the ledger at a certain date.
- 2 Two from:
 - it is prepared to check the arithmetical accuracy of the double entry book-keeping
 - it can help in locating arithmetical errors
 - it is useful when preparing financial statements.
- 3 The column in the trial balance in which the balance of a ledger account is entered is determined by the side of the account which is the largest in money. For example, if the amount on the credit side of a ledger account is more than the amount on the debit side, the difference between the two sides will be entered in the credit column of the trial balance.
- 4 If the totals of a trial balance agree it indicates that the double entry book-keeping is arithmetically correct.

Test yourself 3.2

- a Credit because a loan is a liability and liabilities always have credit balances.
- b Debit because it is an expense and expense accounts always have debit balances.
- c Debit because it is an asset and assets always have debit balances.
- d Credit because it is a liability and liabilities always have credit balances.
- e Debit because expenses always have a debit balance (or cost of purchases).
- f Credit because it is an income and items of income always have credit balances.

Test yourself 3.3

- a Error of principle b Error of commission c Compensating error(s) d Error of complete reversal

Answers to exam-style questions

1 A

2

Jai		
Trial balance at 31 March 20–8		
	Debit \$	Credit \$
Sales		86 000
Purchases	51 500	
Bank overdraft		1 100
Cash	50	
Trade payables		4 900
Trade receivables	6 900	
Furniture and equipment	26 400	
Wages	21 300	
Sundry expenses	3 100	
Rent payable	3 200	
Purchase returns		350
Inventory	9 200	
Drawings	10 100	
Capital		39 400
	<u>131 750</u>	<u>131 750</u>

3

Sayeeda		
Trial balance at 30 April 20–4		
	Debit \$	Credit \$
Capital		392 000
Drawings	18 000	
Premises	210 000	
Fixtures and fittings	66 100	
Inventory	11 950	
Trade receivables	13 160	
Trade payables		12 280
Loan from FH		20 000
Cash	100	
Sales		157 280
Purchases	143 400	
Rates	6 000	
General expenses	11 540	
Wages	96 750	
Bank	4 560	
	<u>581 560</u>	<u>581 560</u>

4 D

5 B

- 6 **a**
- 1 Error of commission
 - 2 Error of principle
 - 3 Error of original entry
 - 4 Error of complete reversal
- b** Error of omission and compensating error

Coursebook answers

Chapter 4

Answers to test yourself questions

Test yourself 4.1

- 1 One from:
 - makes it more convenient to use as the same types of account are kept together
 - the task of maintaining the ledger can be divided between several people
 - checking procedures can be introduced
 - may reduce the possibility of fraud.
- 2
 - a nominal ledger
 - b nominal ledger
 - c purchases ledger
 - d nominal ledger
 - e nominal ledger
 - f sales ledger

Test yourself 4.2

- 1 A contra entry appears on both sides of the cash book. It appears in the debit column of either the cash or bank and the credit column of the other account.
- 2 Business cash is paid into the bank and cash is withdrawn from the bank for business use.

Test yourself 4.3

- 1 It is impossible to take out more cash than is physically present in the cash box, so there can never be an overdrawn cash balance.
- 2 A bank overdraft occurs when the money taken from the bank is greater than the balance in the bank. This represents the amount owed to the bank.
- 3 Cash discount may be allowed to encourage credit customers to pay their accounts promptly/within a set period of time.
- 4 A dishonoured cheque is a cheque received which the customer's bank refuses to pay. This may be because there is not enough money in the bank account or because there is an error on the cheque.

Answers to exam-style questions

1 B

2 a

Mariam Cash book									
Date	Details	Fo.	Cash \$	Bank \$	Date	Details	Fo.	Cash \$	Bank \$
20-2					20-2				
Mar 1	Balance	b/d	100		Mar 1	Balance	b/d		494
7	Nawaz			110	4	Repairs to office equipment			293
27	Sales		2 150		11	Motor vehicle			5 130
31	Cash	c		1 080	13	Drawings			1 500
	Balance	c/d		6 513	19	Anwar			286
					21	Office expenses		67	
					28	Wages		953	
					31	Bank	c	1 080	
						Balance	c/d	150	
			<u>2 250</u>	<u>7 703</u>				<u>2 250</u>	<u>7 703</u>
20-2					20-2				
Apl 1	Balance	b/d	150		Apl 1	Balance	b/d		6 513

- b** The credit balance represents a bank overdraft when more money was taken from the account than the amount in the bank.
- c** It is not possible to spend more money than there is in the cash box.
- d** A contra entry occurs when business cash is transferred to the bank or when cash is withdrawn from the bank for business use. A contra entry took place on 31 March when all the cash except \$150 was paid into the bank.

3 A

4 B

5 a-d

Samuel Cash book											
Date	Details	Fo.	Discount allowed \$	Cash \$	Bank \$	Date	Details	Fo.	Discount received \$	Cash \$	Bank \$
20-5						20-5					
Oct 1	Balances	b/d		110	5 150	Oct 4	Adele	7			343
12	Sales			50	1 220	9	Motor vehicle				9 500
15	Paul				160	19	Drawings				1 000
26	Jasmine		22		858	24	Office expenses			35	
30	Cash	c			45	29	Paul (dis.chq)				160
31	Balance	c/d			3 570	30	Bank	c		45	
						31	Balance	c/d		80	
			<u>22</u>	<u>160</u>	<u>11 003</u>				<u>7</u>	<u>160</u>	<u>11 003</u>
20-5						220-2					
Nov 1	Balance	b/d		80		Nov 1	Balance	b/d			3 570

Sales ledger							
Paul account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5				20-5			
Oct 1	Balances	b/d	160	Oct 15	Bank		160
29	Bank (dis chq)		<u>160</u>	31	Balance	c/d	<u>160</u>
			<u>320</u>				<u>320</u>
20-5							
Nov 1	Balance	b/d	160				

Jasmine account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5				20-5			
Oct 1	Balances	b/d	880	Oct 26	Bank		858
			<u>880</u>		Discount		<u>22</u>
							<u>880</u>

Purchases ledger							
Adele account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5				20-5			
Oct 4	Balances		343	Oct 1	Balance	b/d	350
	Discount		<u>7</u>				<u>350</u>
			<u>350</u>				

Nominal ledger							
Motor vehicles account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5							
Oct 9	Bank		9 500				

Sales account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-5			
				Oct 12	Cash		50
					Bank		1 220

Drawings account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5							
Oct 19	Bank		1 000				

Office expenses account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5							
Oct 24	Cash		35				

Discount allowed account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5							
Oct 31	Total for month		22				

Discount received account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5							
Oct 31	Total for month						7

6 a-c

Kalpana Cash book											
Date	Details	Fo.	Discount allowed	Cash	Bank	Date	Details	Fo.	Discount received	Cash	Bank
			\$	\$	\$				\$	\$	\$
20-8						20-8					
Feb 1	Balances	b/d		100		Feb 1	Balance	b/d			480
15	Sales			10	600	11	Purchases				390
19	Srivastava		6		194		Carriage inwards				10
25	Rent receivable			400		21	General expenses			75	
28	Cash	c			335	23	Ahmed		8		312
	Balance	c/d			78	27	Repairs to fixtures				15
						28	Bank	c		335	
						28	Balance	c/d		100	
			<u>6</u>	<u>510</u>	<u>1207</u>				<u>8</u>	<u>510</u>	<u>1207</u>
20-8						20-8					
Mar 1	Balance	b/d		100		Mar 1	Balance	b/d			78

Sales ledger Srivastava account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8				20-8			
Feb 1	Balances	b/d	200	Feb 7	Sales returns		50
3	Sales		300	19	Bank		194
					Discount		6
				28	Balance	c/d	<u>250</u>
			<u>500</u>				<u>500</u>
20-8							
Mar 1	Balance	b/d	250				

Purchases ledger Ahmed account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8				20-8			
Feb 23	Bank		312	Feb 1	Balance	b/d	320
	Discount		8				
			<u>320</u>				<u>320</u>

Nominal ledger							
Premises account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–8							
Feb 1	Balance	b/d	60 000				

Fixtures and fittings account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–8							
Feb 1	Balance	b/d	5 500				

Capital account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–8							
				Feb 1	Balance	b/d	65 500

Sales account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–8							
				Feb 3	Srivastava		300
				15	Bank		600
					Cash		10

Sales returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–8							
Feb 7	Srivastava		50				

Purchases account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–8							
Feb 11	Bank		390				

Carriage inwards account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–8							
Feb 11	Bank		10				

General expenses account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–8							
Feb 21	Cash		75				

Rent receivable account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–8							
				Feb 21	Cash		400

Repairs to fixtures account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8							
Feb 27	Bank		15				

Discount allowed account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8							
Feb 28	Total for month		6				

Discount received account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8							
				Feb 28	Total for month		8

d

Kalpana		
Trial Balance at 28 February 20-8		
	Debit	Credit
	\$	\$
Cash	100	
Bank		78
Srivastava	250	
Premises	60 000	
Fixtures and fittings	5 500	
Capital		65 000
Sales		910
Sales returns	50	
Purchases	390	
Carriage inwards	10	
General expenses	75	
Rent receivable		400
Repairs to fixtures	15	
Discount allowed	6	
Discount received		8
	<u>66 396</u>	<u>66 396</u>

Coursebook answers

Chapter 5

Answers to test yourself questions

Test yourself 5.1

- Two from:
 - removes small cash payments from the main cash book
 - reduces the number of entries in the main cash book
 - reduces the number of entries in the ledger
 - allows the chief cashier to delegate some of the work
 - provides training for junior members of staff.
- A member of staff requiring petty cash has to complete a voucher to show the amount required, the purpose for which it is required and the date. This may be countersigned by a head of department. The voucher is given to the petty cashier in exchange for the cash. At regular intervals the petty cashier must check the vouchers against the total cash spent.

Test yourself 5.2

- Under the imprest system the petty cashier starts each period with a fixed amount of money (the imprest amount). At the end of the period the chief cashier will provide the petty cashier with enough cash to restore the balance to the amount of the imprest, so that the petty cashier starts each period with the same amount of cash.
- If the petty cashier is concerned that the imprest is inadequate he/she needs to report this to the chief cashier. He/she can provide evidence of the amount which is being spent from petty cash each period and how much remains at the end of each period.

Test yourself 5.3

- The analysis columns in a petty cash book are used to divide the payments into different categories. An analysis column is used for each of the main types of payments from petty cash. The totals of these columns show the total paid for each type of expense for each period and these are posted to the ledger at the end of each period.
- Credit main cash book.
 - Debit the account of the credit supplier in the purchases ledger.

Answers to exam-style questions

- C
- D
- C

4 a

Robin Petty cash book											
Date	Details	Fo	Total Received	Date	Details	Vo	Total paid	Postages	Cleaning	Stationery	Refreshments
			\$				\$	\$	\$	\$	\$
May 1	Balance	b/d	100.00	May 1	Milk, tea, sugar	9	5.20				5.20
				6	Stamps	10	10.50	10.50			
				14	Cleaner's wages	11	30.00		30.00		
				17	Envelopes	12	7.40			7.40	
				21	Parcel post	13	2.90	2.90			
				24	Milk and tea	14	3.10				3.10
				28	Cleaner's wages	15	30.00		30.00		
				30	Computer paper	16	4.70			4.70	
							<u>93.80</u>	<u>13.40</u>	<u>60.00</u>	<u>12.10</u>	<u>8.30</u>
				31	Balance	c/d	6.20				
			<u>100.00</u>				<u>100.00</u>				
June 1	Balance	b/d	6.20								

b i One from:

- reduce the number of entries in the ledger
- reduce the number of entries in the cash book
- chief cashier can delegate
- useful for training junior members of staff.

ii One from:

- the petty cashier starts each period with the same amount
- the petty cashier is aware of how much is spent each month
- petty cash expenditure can be controlled
- fraud may be reduced.

5 a At the end of the period the petty cash book is balanced and the chief cashier will provide the petty cashier with enough cash to restore the balance to the amount of the imprest. The petty cashier therefore starts each period with the same amount of cash.

b 139

c Debit sundry expenses account in the nominal ledger.

d Debited to the individual accounts of the credit suppliers in the purchases ledger.

e Current asset 11

f 139

6 a

Shilpa Petty cash book											
Date	Details	Fo.	Total Received	Date	Details	Vo.	Total paid	Refreshments	Cleaning	Motor expenses	Ledger accounts
			\$				\$	\$	\$	\$	\$
20-9				20-9							
Feb 21	Balance	b/d	50	Feb 26	Windows cleaner		7		7		
				27	Petrol		11			11	
					Refreshments		5	5			
					Ghandi Stores		<u>12</u>				<u>12</u>
							35	<u>5</u>	<u>7</u>	<u>11</u>	<u>12</u>
					Balance	c/d	<u>15</u>				
			<u>50</u>				<u>50</u>				
20-9											
Feb 28	Balance	b/d	15								
	Bank		35								

b

Shilpa Cash book									
Date	Details	Fo.	Discount allowed	Bank	Date	Details	Fo.	Discount received	Bank
			\$	\$				\$	\$
20-9					20-9				
Feb 1	Balance	b/d		3 120	Feb 22	South West Traders		29	721
24	Janpath Stores		15	410	26	Speedy Motors			85
	AB Trading			220	28	Petty cash			35
						Balance	c/d		<u>2 909</u>
			<u>15</u>	<u>3 750</u>				<u>29</u>	<u>3 750</u>
20-9									
Mar 1	Balance	b/d		2 909					

Answers to Section 1 practice questions

1 D

2 C

3 D

4 B

5 D

6 a Assets are things owned by or owed to the business.

Liabilities are amounts owed by the business.

Capital is the amount owed by the business to the owner.

b The assets represent how the resources of a business are being used and the liabilities and capital represent where these resources have come from.

c Assets – Increase inventory 500, decrease cash 500

Liabilities – No effect

Assets – Decrease bank 2 100

Liabilities – Decrease
trade payables 2 100

Assets – Increase machinery 4 000, decrease bank 4 000

Liabilities – No effect

Assets – Decrease inventory 190, increase trade receivables 190

Liabilities – No effect

d

Waseem			
Statement of financial position on 2 April 20–6			
Assets	\$	Liabilities	\$
Premises	100 000	Capital	165 000
Machinery (48 000 + 4 000)	52 000	Loan – AB Finance	10 000
Fixtures and fittings	8 800	Trade payables (4 980 – 2 100)	2 880
Inventory (5 140 + 500 – 190)	5 450		
Trade receivables (4 130 + 190)	4 320		
Bank (3 320 + 10 000 – 2 100 – 4 000)	7 220		
Cash (590 – 500)	90		
	177 880		177 880

- 7 a To Check the arithmetical accuracy of the double entries.
Useful for preparing financial statements.

b

Fabrice		
Trial balance at 30 June 20–7		
	Debit	Credit
	\$	\$
Machinery and equipment	108 000	
Motor vehicles	31 000	
Trade payables		7 800
Balance at bank	3 830	
Trade receivables	11 500	
Carriage inwards	380	
Carriage outwards	440	
Sales		131 000
Purchases	101 900	
Rent receivable		3 600
Rent payable	8 400	
Inventory	13 200	
Commission receivable		1 950
Administration expenses	9 600	
Capital		143 900
	<u>288 250</u>	<u>288 250</u>

c Three from –

Error of commission	A transaction is entered using the correct amount and on the correct side but in the wrong account of the same class
Error of complete reversal	The correct amount is entered in the correct accounts but the entry has been made on the wrong side of each account
Error of omission	A transaction is completely omitted from the accounting records
Error of original entry	An incorrect figure is used when the transaction is first entered in the accounting records so the double entry used the incorrect figure
Error of principle	A transaction is entered using the correct amount and on the correct side but in the wrong class of account
Compensating errors	These occur when two or more errors cancel each other out

8 a

Mahendra Cash book									
Date	Details	Fo.	Cash \$	Bank \$	Date	Details	Fo.	Cash \$	Bank \$
20-7					20-7				
Nov 1	Capital		1 500	158 500	Nov 2	Premises			95 000
	30 Rent receivable			260	14	General expenses		275	
					19	Rates		395	
					21	Carriage outwards		95	
					24	Duleep			1 000
					30	Balance	c/d	735	62 760
			<u>1500</u>	<u>158 760</u>				<u>1500</u>	<u>158 760</u>
20-7									
Dec 1	Balance	b/d	735	62 760					

Mahendra Sales Ledger Anila account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7							
Nov 21	Sales		124				

Purchases Ledger Duleep account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Nov 10	Purchases returns		150	Nov 5	Purchases		2 600
	24 Bank		1 000				
	30 Balance	c/d	<u>1 450</u>				
			<u>2 600</u>				<u>2 600</u>
				20-7			
				Dec 1	Balance	b/d	1 450

Nominal Ledger Capital account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-7			
				Nov 1	Cash		1 500
					Bank		158 500

Premises account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7							
Nov 2	Bank		95 500				

Purchases account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Nov 5	Duleep		2 600	Nov 28	Drawings		250

Purchases returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-7			
				Nov 10	Duleep		150

General expenses account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7							
Nov 14	Cash		275				

Rates account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7							
Nov 19	Cash		395				

Sales account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-7			
				Nov 21	Anila		124

Carriage outwards account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7							
Nov 21	Cash		95				

Drawings account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7							
Nov 28	Purchases		250				

Rent receivable account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-7			
				Nov 30	Bank		260

b

Mahendra		
Trial balance at 30 November 20-7		
	Debit	Credit
	\$	\$
Cash	735	
Bank	62 760	
Anila	124	
Duleep		1 450
Capital		160 000
Premises	95 000	
Purchases (2 600 – 250)	2 350	
Purchases returns		150
General expenses	275	
Rates	395	
Sales		124
Carriage outwards	95	
Drawings	250	
Rent receivable		260
	<u>161 984</u>	<u>161 984</u>

- c May receive cash quicker than if no cash discount, but will receive less than if no discount was allowed.
- d When the customer pays, the discount allowed is noted in the discount allowed column in the cash book and a credit entry is made in the account of the customer in the sales ledger. At the end of the month the discount allowed column is totalled and debited to the discount allowed account in the nominal ledger.
- 9 March 1 Capital introduced by Rachel of which 200 was placed in the cash box and the remainder deposited in the business bank account
Double entry: credit capital account
- 4 Paid rent by cheque
Double entry: debit rent payable account
- 6 Bought office furniture and paid by cheque
Double entry: debit office furniture account
- 10 Bought goods for resale and paid by cheque
Double entry: debit purchases account
- 19 Paid office expenses by cheque
Double entry: debit office expenses account

- 21 Received a loan which was paid into the bank
Double entry: credit loan account
- 30 Sold goods for cash
Double entry: credit sales account
- 31 Paid wages in cash
Double entry: debit wages account
- 31 Paid cash into the business bank account which is a contra entry
Double entry: appears on both sides of cash book (debit bank and credit cash)
- 31 Balances remaining in the cash box and the bank at the end of the month
Double entry: debit side of cash book at start of next month

10

Habib										
Petty Cash Book										
Date	Details	Fo.	Total Received	Date	Details	Vo	Total paid	Travel	Stationery	Ledger accounts
			\$				\$	\$		
20-9				20-9						
Feb 1	Balance	b/d	44	Feb 4	Taxi fares		18	18		
	Bank		36	19	Copy paper		12		12	
				26	Bashir		25			25
							55	18	12	25
				28	Balance	c/d	25	5	7	11
			80				80			
20-9										
Mar 1	Balance	b/d	25							

Cash Book											
Date	Details	Fo.	Discount allowed	Cash	Bank	Date	Details	Fo.	Discount received	Cash	Bank
			\$	\$					\$	\$	\$
20-9						20-9					
Feb 1	Balance	b/d		200		Feb 1	Balance	b/d			2968
14	Nadira		11		429		Petty cash				36
27	Sales			1962		24	Uzma		7		343
28	Cash	c			2012	28	Bank	c		2012	
	Balance	c/d			906		Balance	c/d		150	
			11	2162	3347				7	2162	3347
20-8						20-8					
Mar 1	Balance	b/d		150		Mar 1	Balance	b/d			906

Test yourself 6.5

- 1 One from:
- to notify the customer of the balance owing at the end of the month
 - to remind the customer of the amount due or the date that payment is due
 - to provide the customer with a summary of the transactions for the month
 - to allow the customer to check his/her records to ensure no errors have been made.

Answers to exam-style questions

- 1 B
- 2 a i 529 ii trade iii 105.80 iv 423.20
- b AB Jones
- c One from: faulty goods, damaged goods, goods not as ordered, overcharge.
- d Debit note
- e Account to be debited: Tom Brown Account to be credited: Sales returns
- 3 C
- 4 B
- 5 a Statement of account
- b One from:
- summary of transactions for the month
 - reminds Dinesh of the amount due at the end of the month
 - enables Dinesh to check his records against those of Trade Supplies.
- c \$1010
- d 4th October: Invoice 11th October: Credit note
- e 2%
- f Prompt payment

6	Document	Person issuing document	Entries in Bill's books		Entries in Rick's books	
			Debit	Credit	Debit	Credit
	Invoice	Rick	Purchases	Rick	Bill	Sales
	Debit note	Bill	No entry	No entry	No entry	No entry
	Credit note	Rick	Rick	Purchases returns	Sales returns	Bill
	Statement of account	Rick	No entry	No entry	No entry	No entry

f

Ava Charles account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-1				20-1			
June 1	Balance	b/d	450	June 13	Sales returns		240
5	Sales		464	28	Bank		441
23	Sales		200		Discount		9
				30	Balance	c/d	424
			<u>1114</u>				<u>1114</u>
20-1							
July 1	Balance	b/d	424				

2 D

3 a

Ravi Sales journal			
Date	Details	Folio	Amount \$
20-4			
Feb 1	Kumar		6 280
14	Dimuth		520
28	Transfer to sales account		<u>6 800</u>

Purchases journal			
Date	Details	Folio	Amount \$
20-4			
Feb 4	Mahela		720
19	Mahela		600
28	Transfer to purchases account		<u>1 320</u>

Sales returns journal			
Date	Details	Folio	Amount \$
20-4			
Feb 20	Dimuth		110
28	Transfer to sales returns account		<u>110</u>

Purchases returns journal			
Date	Details	Folio	Amount \$
20-4			
Feb 10	Mahela		360
21	Mahela		120
28	Transfer to purchases account		<u>480</u>

b

Ravi Nominal ledger							
Sales account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-4			
				Feb 28	Credit sales for month	6 800	

Purchases account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-4			
				Feb 28	Credit purchases for month	1 320	

Sales returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-4			
				Feb 28	Returns for month	110	

Purchases returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-4			
				Feb 28	Returns for month	480	

Sales ledger							
Kumar account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-4			
				Feb 2	Sales	6 280	

Dimuth account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-4			
				Feb 14	Sales	520	
				Feb 20	Sales returns	110	

Purchases ledger							
Mahela account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-4			
				Feb 10	Purchases returns	360	
				21	Purchases returns	120	
				Feb 4	Purchases	720	
				19	Purchases	600	

4 D

5 B

6 a-e

Thembi Sales journal			
Date	Name	Folio	Amount \$
20-1			
Mar 4	Musa		640
31	Transfer to sales account		<u>640</u>

Purchases journal			
Date	Name	Folio	Amount \$
20-1			
Mar 17	Siwela		765
31	Transfer to purchases account		<u>765</u>

Sales returns journal			
Date	Name	Folio	Amount \$
20-1			
Mar 11	Musa		320
31	Transfer to sales returns account		<u>320</u>

Purchases returns journal			
Date	Name	Folio	Amount \$
20-1			
Mar 20	Siwela		255
31	Transfer to purchases returns account		<u>255</u>

Nominal ledger Sales account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-1			
				Mar 1	Balance	b/d	149 200
				31	Credit sales for month		640

Purchases account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-1				20-1			
Mar 1	Balance	b/d	99 520	Mar 31	Credit purchases for month		765

Sales returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-1							
Mar 1	Balance	b/d	1940				
31	Returns for month		320				

Purchases returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-1			
				Mar 1	Balance	b/d	2090
				31	Returns for month		255

Sales ledger							
Musa account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5				20-1			
Mar 1	Balance	b/d	1110	Mar 11	Sales returns		320
4	Sales		640	30	Bank		1000
				31	Balance	c/d	430
			<u>1750</u>				<u>1750</u>
20-1							
Apl 1	Balance	b/d	430				

Purchases ledger							
Siwela account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-1				20-1			
Mar 20	Purchases returns		255	Mar 1	Balance	b/d	800
27	Bank		784	17	Purchases		765
	Discount		16				
31	Balance	c/d	510				
			<u>1565</u>				<u>1565</u>
				20-1			
				Apl 1	Balance	b/d	510

Answers to Section 2 practice questions

1 A

2 B

3 B

4 A

5 D

6 a

Purchase journal	invoice received / purchases invoice
Sales journal	invoice issued / sales invoice
Purchases returns journal	credit note received
Sales returns journal	credit note issued
Petty cash book	petty cash voucher / receipt
Cash book	cheque counterfoil / bank statement / paying-in book / till receipt

b

Invoice – Phayo	to show full details of the goods supplied on credit and the prices
Debit note – Phupho	to request a reduction in the invoice received for goods bought, to request a credit note or to notify seller of unacceptable goods or an overcharge in an invoice
Credit note – Phayo	to notify of a reduction in an invoice, to accept a request for a reduction in an invoice or to accept a debit note
Statement of account – Phayo	to summarise the transactions for the month, to notify of the amount owing or to remind the customer of the amount to be paid
Cheque – Phupho	to pay the supplier the amount owing at the start of the month

c

Phayho Sales ledger Phupho account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–7				20–7			
May 1	Balance	b/d	1 350	May 31	Sales returns		100
31	Sales		1 500		Bank		1 350
					Balance	c/d	1 400
			<u>2 850</u>				<u>2 850</u>
20–7							
Jun 1	Balance	b/d	1 400				

d Sales ledger

- 7 a**
- | | |
|----------------------|---------|
| Invoice | Mikhail |
| Debit note | Aryan |
| Credit note | Mikhail |
| Statement of account | Mikhail |
| Cheque | Aryan |
| Receipt | Mikhail |
- b**
- | | |
|----------------------|---|
| Invoice | document issued by the supplier of goods on credit showing details, quantities and prices of goods supplied |
| Debit note | document issued by a purchaser of goods on credit to request a reduction in the invoice received |
| Credit note | document issued by a seller of goods on credit to notify of a reduction in an invoice previously issued |
| Statement of account | document issued by the seller of goods on credit to summarise the transactions for the month |
| Cheque | written order to a bank to pay a stated sum of money to the person or business named on the order |
| Receipt | written acknowledgement of money received and acts as proof of payment |

c

	Aryan	Mikhail
Invoice	purchases journal	sales journal
Debit note	no entry	no entry
Credit note	purchases returns journal	sales returns journal
Statement of account	no entry	no entry
Cheque	cash book	cash book
Receipt	no entry*	no entry*

* Possibly the receipt could be used to make an entry in the cash book instead of the cheque. A debit note is simply a request to the supplier to reduce the total of the original invoice: no entry can be made in the accounting records until the supplier agrees to this and issues a credit note. A statement of account is simply a summary of the transactions which have taken place in the month and which have already been recorded.

8 a

Nelson							
Nominal ledger							
Sales account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-4			
				Oct 31	Credit sales for month		794

Sales returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-4			
				Oct 31	Returns for month		253

Sales ledger Jamil account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-4			
Oct 1	Balance	b/d	600	Oct 7	Bank		582
4	Sales		392		Discount		18
24	Sales		248	15	Sales returns		160
				28	Bank		400
				31	Balance	c/d	80
			<u>1240</u>				<u>1240</u>
20-4							
Nov 1	Balance	b/d	80				

Nawaz account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-4			
Oct 1	Balance	b/d	140	Oct 15	Sales returns		93
13	Sales		154	21	Cash		90
				31	Balance	c/d	111
			<u>294</u>				<u>294</u>
20-4							
Nov 1	Balance	b/d	111				

- b** Cash discount is a means of encouraging customers to pay their accounts in a given period of time. The supplier receives less than the total of the invoice, but it is possibly received more quickly so reducing the possibility of irrecoverable debts. It does not appear as a deduction on an invoice, but is entered in the accounting records.

Trade discount is a reduction in the price of goods and is shown as a deduction on an invoice. It often increases according to quantity purchased and so encourages bulk purchasing. It is not entered in the accounting records (apart from possibly a note in sales, purchases or returns journals).

c $98/490 \times 100 = 20\%$

d $18/600 \times 100 = 3\%$

9 a

Annie Purchases journal			
Date	Name	Folio	Amount
20-6			\$
Aug 6	Sue (1960 – 490)		1470
15	Amos		290
21	Jane (2950 – 590)		<u>2360</u>
31	Transfer to purchases account		<u>4120</u>

Sales journal			
Date	Name	Folio	Amount
20-6			\$
Aug 7	Andrew		2 100
18	Ben (3 150 – 630)		2 520
27	Andrew		<u>1 820</u>
31	Transfer to sales account		<u>6 440</u>

Purchases returns journal			
Date	Name	Folio	Amount
20-6			\$
Aug 10	Sue (120 – 30)		90
26	Jane (2 950 – 590)		<u>2 360</u>
31	Transfer to purchases returns account		<u>2 450</u>

Sales returns journal			
Date	Name	Folio	Amount
20-6			\$
Aug 29	Andrew		<u>910</u>
31	Transfer to sales returns account		<u>910</u>

b

Annie Purchases ledger Sue account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6				20-6			
Aug 10	Purchases returns		90	Aug 6	Purchases		1 470

Amos account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6				20-6			
				Aug 15	Purchases		290

Jane account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6				20-6			
Aug 26	Purchases returns		2 360	Aug 21	Purchases		2 360

Sales ledger Andrew account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6				20-6			
Aug 7	Sales		2 100	Mar 29	Sales returns		910
27	Sales		1 820				

Ben account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6							
Aug 18	Sales		2 520				

Nominal ledger Purchases account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6							
Aug 31	Credit purchases for month		4 120				

Sales account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6				20-6			
				Aug 31	Credit sales for month		6 440

Purchases returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
				20-6			
				Aug 31	Returns for month		2 450

Sales returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-6							
Aug 31	Returns for month		910				

c Two from:

- because of purchasing in bulk
- because he is in the same trade
- to allow him to make a profit when selling the goods.

d Debit note

e It summarises transactions for the month and acts as a reminder of the balance due. It also enables the purchaser to check this against his records.

f Balance owing 1 380 – 3% cash discount = 1 380 – 41.40 = 1 338.60

Coursebook answers

Chapter 8

Answers to test yourself questions

Test yourself 8.1

- gross profit
 - profit for the year
- Gross profit = Selling price of goods – Cost of sales
- Cost of sales = Opening inventory + Purchases – Purchases returns + Carriage inwards – Closing inventory

Test yourself 8.2

- Any six expenses (excluding discount allowed, wages, general expenses and property tax) such as insurance, rent, repairs, carriage outwards, motor expenses, postages, stationery, lighting and heating, etc.
- Profit for the year = Gross profit + Other income – Expenses

Test yourself 8.3

- The inventory account has a debit balance which represents the inventory at the start of the year. This has to be transferred to the income statement. The inventory at the end of the year must be entered in the books by debiting the inventory account (and deducting from the debit entries in the income statement – which equals a credit entry).
- A loss reduces the capital of the owner so it must be debited to the capital account.

Answers to exam-style questions

- C
- C
- B

4

Leo		
Corrected Income statement for the year ended 30 April 20–1		
	\$	\$
Revenue		82 300
Less Sales returns		<u>1 190</u>
		81 110
Less Cost of sales		
Opening inventory		4 910
Purchases	49 520	
Carriage inwards	<u>100</u>	<u>49 620</u>
		54 530
Less Closing inventory		<u>5 080</u>
Gross profit		31 660
Add Discount received		110
Rent receivable		<u>6 000</u>
		37 770
Less Discount allowed		220
Rent payable		8 100
Wages		12 100
Sundry expenses		<u>960</u>
Profit for the year		<u>16 390</u>

- 5 a i** Gross profit is the difference between the selling price and the cost of those goods. It is calculated in the trading section of the income statement.
- Profit for the year is the gross profit plus any other income less the expenses. It is calculated in the profit and loss section of the income statement.
- ii** Carriage inwards is the cost of having the goods which the business purchased delivered to its premises. It is added to the purchases in the trading section of the income statement.
- Carriage outwards is the amount paid by the business for delivering goods sold to the premises of the customer. This is shown as an expense in the profit and loss section of the income statement.
- iii** Discount allowed is an allowance given to a customer when an account is settled within a time limit set by the supplier. It is shown as an expense in the profit and loss section of the income statement.
- Discount received is the discount a business receives from its suppliers when it pays their accounts within a set time. It is shown as income in the profit and loss section of the income statement.
- iv** Purchases returns are goods purchased by the business which were later returned to the supplier. They are deducted from the purchases in the trading account section of the income statement.
- Sales returns are goods which were sold to customers but which are later returned to the business by those customers. They are deducted from the revenue in the trading account section of the income statement.

b

Oliver Rates account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–5				20–5			
Dec 31	Total to date		<u>3 140</u>	Dec 31	Income statement		<u>3 140</u>
			<u>3 140</u>				<u>3 140</u>

Office expenses account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–5				20–5			
Dec 31	Total to date		<u>1 170</u>	Dec 31	Income statement		<u>1 170</u>
			<u>1 170</u>				<u>1 170</u>

Commission receivable account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–5				20–5			
Dec 31	Income statement		<u>5 830</u>	Dec 31	Total to date		<u>5 830</u>
			<u>5 830</u>				<u>5 830</u>

Sales returns account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–5				20–5			
Dec 31	Total to date		<u>1 480</u>	Dec 31	Income statement		<u>1 480</u>
			<u>1 480</u>				<u>1 480</u>

6 a Service business as there are fees but no sales (or purchases) of goods or inventories.

b

Candy Income statement for the year ended 30 September 20–3			
	\$	\$	\$
Fees received			82 300
Add Commission receivable			<u>4 810</u>
			87 110
Less Staff wages		49 600	
Rent and rates		7 420	
Insurance		3 830	
Light and heat		2 180	
Office expenses		<u>1 730</u>	
Profit for the year			<u>22 350</u>

c

Candy Capital account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-3				20-2			
Sep 30	Drawings		18 750	Oct 1	Balance	b/d	198 000
	Balance	c/d	201 600	20-3			
			<u>220 350</u>	Sep 30	Profit		<u>22 350</u>
							<u>220 350</u>
				20-3			
				Oct 1	Balance	b/d	201 600

Coursebook answers

Chapter 9

Answers to test yourself questions

Test yourself 9.1

- 1 A statement of financial position is a statement of the assets and liabilities of a business on a certain date.
- 2 **a** An asset is something which is owned by or owed to a business.
b A liability is an amount owed by a business.

Test yourself 9.2

- 1 Non-current assets are assets which are obtained for use and not for resale, which help the business to earn revenue.
Any two suitable examples could be provided, such as premises, machinery fixtures and motor vehicles.
- 2 Current assets are arranged in increasing order of liquidity (the ones furthest away from cash being shown first).
- 3 A non-current liability is an amount owed by a business which is not due for repayment within the next 12 months. A current liability is a short term liability which is due for repayment within the next 12 months.

Answers to exam-style questions

1

Lydia		
Corrected statement of financial position at 31 July 20–5		
	\$	\$
Assets		
Non-current assets		
Premises		82 500
Fixtures and fittings		11 980
Motor vehicle		16 500
		<u>110 980</u>
Current assets		
Inventory		2 480
Trade receivables		2 140
Cash at bank		4 360
Cash		250
		<u>9 230</u>
Total assets		<u>120 210</u>
Capital and liabilities		
Capital		
Opening balance		100 000
Plus Profit for the year		14 350
		<u>114 350</u>
Less Drawings		16 120
		<u>98 230</u>
Non-current liabilities		
Loan		<u>20 000</u>
Current liabilities		
Trade payables		<u>1 980</u>
Total capital and liabilities		<u>120 210</u>

2 C

3 B

4 B

5

Ayesha		
Income statement for the year ended 30 September 20–3		
	\$	\$
Fees received		65 950
Add Rent receivable		<u>6 000</u>
		71 950
Less Insurance	3 110	
Printing and stationery	2 480	
Wages	59 650	
Office expenses	<u>3 120</u>	<u>68 360</u>
Profit for the year		<u>3 590</u>

Ayesha		
Statement of financial position at 30 September 20–3		
	\$	\$
Assets		
Non-current assets		
Premises		95 000
Office equipment		21 600
		<u>116 600</u>
Current assets		
Trade receivables		6 150
Cash		<u>150</u>
		<u>6 300</u>
Total assets		<u>122 900</u>
Capital and liabilities		
Capital		
Opening balance		125 000
Plus Profit for the year		<u>3 590</u>
		128 590
Less Drawings		15 200
		<u>113 390</u>
Current liabilities		
Bank overdraft		<u>9 510</u>
Total capital and liabilities		<u>122 900</u>

6 a

Abhinav		
Trial Balance at 30 June 20–8		
	Debit	Credit
	\$	\$
Capital		54 400
Drawings	1 300	
Premises	30 000	
Fixtures	4 000	
Revenue		82 000
Purchases	70 100	
Inventory 1 July 20–7	18 600	
Carriage inwards	400	
Carriage outwards	1 500	
Trade receivables	14 000	
Trade payables		8 000
Discount received		210
Insurance	390	
Sundry expenses	340	
Wages	10 300	
Rates	1 200	
Long-term loan from ABC Loans		10 000
Loan interest	500	
Cash at bank	1 980	
	<u>154 610</u>	<u>154 610</u>

b

Abhinav		
Income statement for the year ended 30 June 20–8		
	\$	\$
Revenue		82 000
Less Cost of sales		
Opening inventory		18 600
Purchases	70 100	
Carriage inwards	<u>400</u>	
		<u>70 500</u>
		89 100
Less Closing inventory		<u>20 100</u>
Gross profit		<u>13 000</u>
Add Discount received		<u>210</u>
		13 210
Less Carriage outwards	1 500	
Insurance	390	
Sundry expenses	340	
Wages	10 300	
Rates	<u>1 200</u>	
Loss from operations		<u>520</u>
Less Loan interest		<u>500</u>
Loss for the year		<u>1 020</u>

c

Abhinav		
Statement of financial position at 30 June 20–8		
	\$	\$
Assets		
Non-current assets		
Premises		30 000
Fixtures		4 000
		<u>34 000</u>
Current assets		
Inventory		20 100
Trade receivables		14 000
Bank		1 980
		<u>36 080</u>
Total assets		<u>70 080</u>
Capital and liabilities		
Capital		
Opening balance		54 400
Less Loss for the year		1 020
		<u>53 380</u>
Less Drawings		1 300
		<u>52 080</u>
Non-current liabilities		
Loan		10 000
Current liabilities		
Trade payables		8 000
Total capital and liabilities		<u>70 080</u>

Coursebook answers

Chapter 10

Answers to test yourself questions

Test yourself 10.1

- 1 One from:
 - to ensure that the accounting statements can be understood by interested parties
 - to allow comparison between the financial results of two or more businesses.

Test yourself 10.2

- 1 Business entity means that the business is treated as being completely separate from the owner of the business. The accounting records relate only to the business.
- 2 If the principle of consistency is not applied, a comparison of the financial results from year to year is impossible and the profit of a particular year can be distorted.

Test yourself 10.3

- 1 The principle of duality is carried out in recording day-to-day transactions by using the double entry system of book-keeping to record the two aspects of every transaction.
- 2 One from:
 - if there is an intention to close down the business
 - if there is an intention to reduce the size of the business by a significant amount.
- 3 The matching principle means that the revenue of the accounting period is matched against the costs of the same period.
- 4 The purchase of an office stapler is technically a non-current asset but the cost of calculating and recording the depreciation each year would amount to more than the cost of the asset. The stapler would, therefore, be regarded as an office expense in the year of purchase rather than being recorded as a non-current asset.

Test yourself 10.4

- 1 A price reduction by a competitor cannot be recorded in the accounting records as the effect cannot be measured in money terms.
- 2 The principle of prudence.
- 3 The revenue is regarded as realised on 16 February. This is the date that the legal title to the goods passes to the customer who then has an obligation to pay for those goods.

Test yourself 10.5

- 1 Two from:
 - the information must be provided in time for decisions to be made
 - the information must be capable of being used to confirm, or correct, prior expectations about past events
 - the information must help in forming, revising or confirming expectations about the future.

- 2 Three from:
- it must be capable of being depended upon by users as being a true representation of the underlying transactions and events which it is representing
 - it must be capable of being independently verified
 - it must be free from bias
 - it must be free from significant errors
 - it must be prepared with suitable caution being applied to any judgements and estimates.
- 3 It is necessary to be aware of any changes to accounting policies and the effect of those changes. If these changes are not taken into consideration then any comparison will not provide meaningful information.
- 4 Understandability means that the financial statements of a business must be capable of being understood by the users of those statements, assuming that those users have a reasonable knowledge of business and economic activities and accounting.

Test yourself 10.6

- 1 If capital and revenue expenditure are not correctly classified the profit for the year in the income statement will be incorrect. The non-current assets and the capital in the statement of financial position will also be incorrect.
- 2 **a** One from: capital introduced, receipt of a loan, proceeds of sale of a non-current asset, or other suitable example.
- b** One from: revenue from sale of goods, fees from clients, rent received, commission received, discount received or other suitable example.

Test yourself 10.7

- 1 Inventory should be valued at the lower of cost and net realisable value.
- 2 Net realisable value is the estimated receipts from the sale of the inventory less any costs of completing the goods or costs of selling the goods.

Answers to exam-style questions

- 1 A
- 2 matching realisation money measurement duality
- 3 A
- 4 **a i** Capital expenditure is money spent on purchasing non-current assets and improving or extending non-current assets. A capital receipt occurs when money is received other than from normal trading activities.
- ii** Revenue expenditure is money spent on running a business on a day-to-day basis. A revenue receipt is money received by a business from normal trading activities.
- b** If capital receipts are recorded as revenue receipts the profit for the year will be overstated. The statement of financial position will also be incorrect. The capital will be overstated if the profit for the year is overstated. Depending on the source of the receipt, the non-current assets may be overstated, the non-current liabilities may be understated or the capital may be understated.
- 5 A
- 6 **a** Cost is the actual purchase price plus any additional costs incurred in bringing the inventory to its present position and condition. Net realisable value is the estimated receipts from the sale of the inventory less any costs of completing the goods or costs of selling.
- b** Inventory should be valued at the lower of cost and net realisable value.
- c** Profit for the year ended 30 June 20–6: understated
Gross profit for the year ended 30 June 20–7: overstated
Current assets on 30 June 20–7: no effect

Coursebook answers

Chapter 11

Answers to test yourself questions

Test yourself 11.1

- 1 An accrued expense is an expense relating to a particular accounting period which is unpaid at the end of that period.
- 2 An accrued expense is shown as a current liability in a statement of financial position.
- 3 If an accrued expense is not included in the income statement the profit will be overstated. Expenses relating to that particular financial year must be included (the timing of the actual payment is irrelevant). This is an application of the matching principle.

Test yourself 11.2

- 1 A prepaid expense is an expense paid during the financial year which relates to a future accounting period.
- 2 A prepaid expense is shown as a current asset in a statement of financial position.
- 3 Only expenses relating to the year covered by the income statement are included. This is an application of the matching principle as it ensures that the revenue of the year is matched against the costs of the same period.

Test yourself 11.3

- 1 **a** The amount charged for property tax in the income statement for the year ended 31 March 20–2 was \$800
for the year ended 31 March 20–3 was \$880
b The amount shown in the statement of financial position at 31 March 20–2 was \$200 as a current liability
at 31 March 20–3 was \$220 as a current liability

Test yourself 11.4

- 1 Income received in advance is shown as a current liability in a statement of financial position because the business has a liability to provide some service or benefit for which the business has already been paid.
- 2 Accrued income is shown as a current asset in a statement of financial position because it represents an amount owing to the business due to be received in the near future.

Test yourself 11.5

- 1 **a** The amount shown for commission receivable in the income statement for the year ended 31 December 20–6 was \$1 332
for the year ended 31 December 20–7 was \$1 404
b The amount shown in the statement of financial position at 31 December 20–6 was \$76 as a current asset
at 31 December 20–7 there would be no entry for commission receivable

Answers to exam-style questions

1 C

2 A

3 A

4 a i

William Rent payable account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-1				20-1			
Jan 1	Bank		8 100	Dec 31	Income statement		16 380
Jul 1	Bank		8 280		Balance	c/d	8 280
Dec 31	Bank		8 280				
			<u>24 660</u>				<u>24 660</u>
20-2							
Jan 1	Balance	b/d	8 280				

ii

William Extract from Statement of financial position at 31 December 20-1	
Current assets	\$
Other receivables	8 280

b i Nominal ledger

ii Jan 1 The tenant owed two months' rent from the previous financial year.

10 The tenant paid 8 months' rent by cheque/bank transfer (the two months brought forward from last year and six months for this year).

June 1 The tenant paid 9 months' rent by cheque/bank transfer (six months for the current year and three months in advance for the following year).

Dec 31 The rent receivable for the financial year is transferred to the income statement.

The balance of rent prepaid by the tenant at the end of the financial year is carried down to become a credit balance at the start of the following year.

iii The balance would appear as a current liability.

c

William Stationery account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-1				20-1			
Jan 1	Balance	b/d	80	Dec 31	Income statement		87
Feb 1	Cash		64		Balance	c/d	75
Aug 31	Petty cash		18				
			<u>162</u>				<u>162</u>
20-2							
Jan 1	Balance	b/d	75				

5

Miriam			
Income statement for the year ended 30 September 20–4			
	\$	\$	\$
Fees received			40 900
Add Commission receivable (5600 + 250)			<u>5 850</u>
			46 750
Less Office expenses (7250 – 250 + 45)		7 045	
Wages (27 500 + 115)		27 615	
Insurance (1800 – 360)		1 440	
Rates (800 + 160)		960	
Motor vehicle expenses (1840 – 920)		<u>920</u>	<u>37 980</u>
Profit for the year			<u>8 770</u>

6

Luc			
Income statement for the year ended 30 June 20–1			
	\$	\$	\$
Revenue			112 650
Less Cost of sales			
Opening inventory		7 010	
Purchases	86 270		
Less Purchases returns	<u>410</u>		
	85 860		
Less Goods for own use	<u>930</u>	<u>84 930</u>	
		91 940	
Less Closing inventory		<u>6 840</u>	<u>85 100</u>
Gross profit			27 550
Add Rent receivable (840 – 60)			780
Discount received			<u>170</u>
			28 500
Less Insurance (728 – 104)		624	
Rates (600 + 120)		720	
Wages		25 600	
Office expenses		<u>256</u>	<u>27 200</u>
Profit from operations			1 300
Less Loan interest			<u>300</u>
Profit for the year			<u>1 000</u>

Luc		
Statement of financial position at 30 June 20–1		
	\$	\$
Assets		
Non-current assets		
Premises		80 000
Fixtures and fittings		19 700
		<u>99 700</u>
Current assets		
Inventory		6 840
Trade receivables		9 175
Other receivables		104
Bank		867
		<u>16 986</u>
Total assets		<u>116 686</u>
Capital and liabilities		
Capital		
Opening balance		101 000
Plus Profit for the year		1 000
		<u>102 000</u>
Less Drawings (2000 + 930)		2 930
		<u>99 070</u>
Non-current liabilities		
Loan AB Finance		<u>10 000</u>
Current liabilities		
Trade payables		7 136
Other payables (120 + 300)		420
Income prepaid		60
		<u>7 616</u>
Total capital and liabilities		<u>116 686</u>

Coursebook answers

Chapter 12

Answers to test yourself questions

Test yourself 12.1

- 1 Depreciation is an estimate of the loss in value of a non-current asset over its expected working life.
- 2 Depreciation ensures that the cost of the non-current asset is spread over the years which benefit from the use of that asset. This annual charge for depreciation means that the cost of the asset is matched against the revenue of the business it helped to earn each year.
- 3 The four main causes of depreciation are physical deterioration, economic reasons, passage of time and depletion.

Test yourself 12.2

- 1 The straight line method of depreciation charges the same amount of depreciation each year.
- 2 The reducing balance method of depreciation uses the same percentage rate each year, but it is calculated on the net book value (the cost less the depreciation previously written off), so the amount of depreciation each year reduces.
- 3 The revaluation method of depreciation is used where it is not practical, or it is difficult, to keep detailed records of certain types of non-current assets.

Test yourself 12.3

- 1 **a** The total amount of depreciation up to 30 June 20–6 was 19 600.
b The net book value of the fixtures on 30 June 20–7 was 3 240.
- 2 The asset account shows the cost of the asset and the provision for depreciation account shows the total depreciation written off. These must be considered together in order to see the net book value of the asset.

Test yourself 12.4

- 1 Depreciation is a non-monetary expense because no money is paid or received. It is a loss in value of a non-current asset not a reduction in the amount of money a business has.
- 2 The provision for depreciation of 16 000 represents the total depreciation written off up to the end of 30 June 20–5. This will not appear in the income statement as it is not an expense for the year ended 30 June 20–6. It will not appear as a figure in its own right in the statement of financial position at 30 June 20–6: it is included in the accumulated depreciation to the date of the statement which is the 16 000 at the start of the year plus the depreciation for the year of 3 600.

Answers to exam-style questions

- 1 A
- 2 A
- 3 B

4 a

Elsa							
Office equipment account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-5			
Apl 1	Balance	b/d	2 500	Mar 31	Balance	c/d	4 600
Aug 31	Bank/cash		1 200				
Dec 1	Bank/cash		900				
			<u>4 600</u>				<u>4 600</u>
20-5							
Apl 1	Balance	b/d	4 600				

Provision for depreciation of office equipment account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5				20-4			
Mar 31	Balance	c/d	1 450	Apl 1	Balance	b/d	750
				20-5			
				Mar 31	Income statement		
					(500 + 140 + 60)		700
			<u>1 450</u>				<u>1 450</u>
				20-5			
				Apl 1	Balance	b/d	1 450

b

Elsa	
Extract from Income statement for the year ended 31 March 20-5	
Expenses	\$
Depreciation – office equipment	700

c

Elsa			
Extract from Statement of financial position at 31 March 20-5			
Non-current assets	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Office equipment	4 600	1 450	3 150

5 a **Capital expenditure:** premises, legal costs, motor vehicle, delivery costs

Revenue expenditure: fuel, insurance

b $10\,000 \times 20\% \times 2 \text{ years} = 4\,000$

c i Debit disposal of motor vehicle account 10 000, credit motor vehicle account 10 000

ii Debit provision for depreciation of motor vehicle account 4 000, credit disposal of motor vehicle account 4 000

iii Debit cash 5 600, credit disposal of motor vehicle account 5 600

6 a

Tebogo			
Income statement for the year ended 31 May 20–1			
	\$	\$	\$
Fees received (37 130 + 1030)			38 160
Add Rent receivable (2 300 – 200 – 300)			1 800
Profit on disposal of office equipment (2 200 + 1 560) – 3 650			110
			<u>40 070</u>
Less Office expenses		9 435	
Rates		2 125	
Wages (19 500 – 180 + 210)		19 530	
Depreciation office equipment (4 200 × 20% × 9/12)		630	
Profit for the year			<u>8 350</u>

b

Tebogo							
Capital account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–1				20–0			
Mar 31	Drawings		9 000	Jun 1	Balance	b/d	82 000
	Balance	c/d	81 350	20–1			
			<u>90 350</u>	May 31	Profit		8 350
							<u>90 350</u>
				20–1			
				Jun 1	Balance	b/d	81 350

b

K Dhoni			
Statement of financial position at 30 September 20–1			
	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Assets			
Non-current assets			
Premises	82 000		82 000
Office equipment	19 000	3 800	15 200
	<u>101 000</u>	<u>3 800</u>	<u>97 200</u>
Current assets			
Trade receivables		5 000	
Less Provision for doubtful debts		<u>200</u>	4 800
Other receivables			600
Bank			12 700
Cash			200
			<u>18 300</u>
Total assets			<u>115 500</u>
Capital and liabilities			
Capital			
Opening balance			94 000
Plus Profit for the year			<u>21 300</u>
			115 300
Less Drawings			<u>12 250</u>
			<u>103 050</u>
Non-current liabilities			
Loan			<u>10 000</u>
Current liabilities			
Other payables (150 + 500)			650
Income prepaid			<u>1 800</u>
			<u>2 450</u>
Total capital and liabilities			<u>115 500</u>

5

Harry							
Sales ledger				Jane account			
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–3				20–3			
Jan 1	Balance	b/d	900	Jan 4	Bank		882
Mar 5	Sales		160		Discount		18
				Dec 30	Irrecoverable debts		160
			<u>1 060</u>				<u>1 060</u>

Nominal ledger							
Irrecoverable debts account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-3				20-3			
Dec 30	Jane		<u>160</u>	Dec 31	Income statement		<u>160</u>
			<u>160</u>				<u>160</u>

Debts recovered account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-3				20-3			
Dec 31	Income statement		<u>100</u>	May 18	Cash		<u>100</u>
			<u>100</u>				<u>100</u>

Provision for doubtful debts account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-3				20-3			
Dec 31	Balance	c/d	350	Jan 1	Balance	b/d	300
			<u>350</u>	Dec 31	Income statement		<u>50</u>
							<u>350</u>
				20-4			
				Jan 1	Balance	b/d	<u>350</u>

6 a

Lakshmi			
Income statement for the year ended 31 January 20-1			
	\$	\$	\$
Fees			21 820
Add Commission receivable (490 + 30)			520
Reduction in provision for doubtful debts (172 – (2% × 7 800))			<u>16</u>
			22 356
Less Wages (10 200 + 320)	10 520		
Insurance (2 250 – 450)	1 800		
Rates (3 200 – 800)	2 400		
Office expenses	2 450		
Depreciation office equipment (20% × 10 500)	2 100		
Depreciation motor vehicles (20% × (16 900 – 6 480))	<u>2 084</u>		<u>21 354</u>
Profit from operations			1 002
Less Loan interest			<u>750</u>
Profit for the year			<u>252</u>

b

Lakshmi			
Statement of financial position at 31 January 20–1			
	\$ Cost	\$ Accumulated depreciation	\$ Net book value
Assets			
Non-current assets			
Premises	90 000		90 000
Office equipment	10 500	6 300	4 200
Motor vehicles	16 900	8 564	8 336
	<u>117 400</u>	<u>14 864</u>	<u>102 536</u>
Current assets			
Trade receivables		7 800	
Less Provision for doubtful debts		<u>156</u>	7 644
Other receivables			450
Income accrued			<u>30</u>
			<u>8 124</u>
Total assets			<u>110 660</u>
Capital and liabilities			
Capital			
Opening balance			98 000
Plus Profit for the year			<u>252</u>
			98 252
Less Drawings (5 000 + 800)			<u>5 800</u>
			<u>92 452</u>
Non-current liabilities			
Loan – AB Loans			<u>15 000</u>
Current liabilities			
Other payables			320
Bank			<u>2 888</u>
			<u>3 208</u>
Total capital and liabilities			<u>110 660</u>

Answers to Section 3 practice questions

1 D

2 C

3 D

4 B

5 D

6 a	Loan from AB Limited	capital receipt
	Purchase of additional premises	capital expenditure
	Legal fees for purchase of additional premises	capital expenditure
	Insurance of additional premises	revenue expenditure
	Cash sales	revenue receipt
	Purchase of inventory	revenue expenditure
	Proceeds of sale of old motor vehicle at book value	capital receipt
	Discount received	revenue receipt

b error 1 profit overstated

error 2 profit overstated

error 3 no effect

error 4 profit overstated

7 a i The cost of the inventory is the actual purchase price plus any additional costs (such as carriage inwards) incurred in bringing the inventory to its present position and condition.

ii The net realisable value is the estimated receipts from the sale of the inventory, less any costs of completing the goods or costs of selling the goods.

b Prudence

c		\$
	Inventory code number BD20 300 units \times (1.50 + \$0.05)	465.00
	Inventory code number BD23 119 units \times \$0.80	95.20
	Inventory code number BD29 410 units \times 1.78	<u>729.80</u>
		<u>1 290.00</u>

d current assets at 30 November 20–8 understated

profit for the year ended 30 November 20–8 understated

gross profit for the year ended 30 November 20–9 overstated

8 a

Karima							
Rates and insurance account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-4			
Jan 1	Balance (ins.)	b/d	580	Jan 1	Balance (rates)	b/d	560
Feb 28	Bank (rates)		1 120	Dec 31	Income statement		
Apl 30	Bank (rates)		700		Rates		1 680
Jul 1	Bank (ins)		1 200		Insurance		<u>1 180</u>
Dec 31	Balance (rates)	c/d	<u>420</u>		Balance (ins)	c/d	<u>600</u>
			<u>4 020</u>				<u>4 020</u>
20-5				20-5			
Jan 1	Balance (ins)	b/d	600	Jan 1	Balance (rates)	b/d	420

b

Karima	
Extract from statement of financial position at 31 December 20-4	
Current assets	\$
Other receivables	600
Current liabilities	
Other payables	420

- c Adjusting for accrued and prepaid expenses is an application of the principle of matching. The expense in the income statement must be the expense incurred in that financial year irrespective of when actually paid.

If no adjustment is made the profit for the year will be incorrect, and consequently the capital will be incorrect. If no adjustment is made the current assets and current liabilities will be understated.

9 a i

Tanvir							
Tabitha account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8				20-8			
Apl 8	Stationery (returns)		22	Apl 1	Stationery		313
Jan 1	Bank		<u>291</u>				
			<u>313</u>				<u>313</u>

ii

Stationery account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8				20-8			
Jan 1	Balance	b/d	44	Apl 18	Tabitha (returns)		22
Apl 1	Tabitha		313	Dec 31	Income statement		270
					Balance	c/d	<u>65</u>
			<u>357</u>				<u>357</u>
20-9							
Jan 1	Balance	b/d	65				

b i

Tanvir EE Limited account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8				20-8			
Jan 20	Bank		239	Jan 1	Balance	b/d	239
Aug 2	Bank		<u>445</u>	Jul 1	Electricity		<u>445</u>
			<u>684</u>				<u>684</u>

ii

Electricity expense account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8				20-8			
Jun 1	EE Limited		445	Dec 31	Income statement		833
Dec 31	Balance	c/d	<u>388</u>				<u>833</u>
			<u>833</u>				<u>833</u>
				20-9			
				Jan 1	Balance	b/d	388

10 a Loss on disposal = cost 15 000 – (Provision for depreciation 6 000 + proceeds 8 600) = 400

b Depreciation charge for the year = 20% × (18 000 + 21 000) = 7 800

c

Chibuzo Income statement for the year ended 31 December 20-9			
	\$	\$	\$
Revenue			108 200
Less Cost of sales			
Opening inventory		5 410	
Purchases		<u>81 140</u>	
		86 550	
Less Closing inventory		<u>5 550</u>	<u>81 000</u>
Gross profit			27 200
Add Commission receivable (2 050 + 420)			2 470
Reduction in provision for doubtful debts (540 – 450)			<u>90</u>
			<u>29 760</u>
Less Wages (10 300 + 120)		10 420	
Rent and rates (2 100 – 300)		1 800	
Administration and selling expenses		2 230	
Loss on disposal of motor vehicle		400	
Depreciation motor vehicles		7 800	
Depreciation office equipment (4 320 + 1 200 – 5 250)		<u>270</u>	<u>22 920</u>
Profit for the year			<u>6 840</u>

11 a Matching

The cost of the fixtures is spread over the years which benefit from the use of that asset.

Prudence

The depreciation for the year is included in the expenses so that the profit for the year is not overstated. By recording the fixtures at net book value in the statement of financial position it ensures that the non-current assets are not overstated.

b

Nadia Office fixtures account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-3				20-4			
Sep 1	Balance	b/d	4 500	Mar 1	Disposal		1 000
Dec 1	AB Limited		<u>2 400</u>	Aug 31	Balance	c/d	<u>5 900</u>
			<u>6 900</u>				<u>6 900</u>
20-4							
Sep 1	Balance	b/d	5 900				

Provision for depreciation of office fixtures account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-3			
Mar 1	Disposal		750	Sep 1	Balance	b/d	2 100
Aug 31	Balance	c/d	2 675	20-4			
				Aug 31	Income statement		
					(25% × (4 500 – 1 000))		
					+ ((25% × 2 400) × 9/12)		
			<u>3 425</u>				<u>1 325</u>
							<u>3 425</u>
				20-4			
				Sep 1	Balance	b/d	2 675

Disposal of office fixtures account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-4			
Mar 1	Office fixtures		1 000	Mar 1	Provision for depreciation		750
					Cash		120
				Aug 31	Income statement		130
			<u>1 000</u>				<u>1 000</u>

c

Nadia			
Extract from statement of financial position at 31 August 20–4			
	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Non-current assets			
Office fixtures	5 900	2 675	3 325

- 12 a i** An irrecoverable debt is an amount owing to a business which will not be paid by the credit customer.
- ii** A provision for doubtful debts is an estimate of the amount which a business will lose in a financial year because of irrecoverable debts.
- b** Maintaining a provision for doubtful debts ensures that the profit for the year and the amount of trade receivables (current assets) are not overstated.
- c** Matching
- d** Two from:
- reduce credit sales / sell on a cash basis only
 - obtain references from new credit customers
 - fix a credit limit for each customer
 - improve credit control
 - issue invoices and statements promptly
 - refuse further supplies until outstanding balance paid
 - allow cash discount for prompt payment
 - charge interest on overdue accounts.

e

Charlotte							
Provision for doubtful debts account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–3				20–2			
Jul 31	Income statement		23	Aug 1	Balance	b/d	210
	Balance	c/d	187				
			<u>210</u>				<u>210</u>
				20–3			
				Aug 1	Balance	b/d	187

f

Charlotte	
Extracts from income statement for the year ended 31 July 20–3	
	\$
Income	
Reduction in provision for doubtful debts	23
Expenses	
Irrecoverable debts (167 + 66)	233

g

Charlotte			
Extract from statement of financial position at 31 July 20-3			
	\$	\$	\$
Current assets			
Trade receivables		7 480	
Trade receivables		<u>187</u>	7 293

13 a and b

Sharif							
Sales account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Apl 30	Income statement		49 750	Apl 30	Balance	b/d	49 750
			<u>49 750</u>				<u>49 750</u>

Rent receivable account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Apl 30	Income statement		2 400	Apl 30	Balance	b/d	2 000
			<u>2 400</u>		Balance	c/d	400
							<u>2 400</u>
20-7							
May 1	Balance	b/d	400				

Irrecoverable debts account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Apl 30	Balance	b/d	960	Apl 30	Income statement		1 076
	Halijah		116				<u>1 076</u>
			<u>1 076</u>				<u>1 076</u>

Provision for doubtful debts account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Apl 30	Balance	c/d	1 500	Apl 30	Balance	b/d	1 400
			<u>1 500</u>		Income statement		100
							<u>1 500</u>
				20-7			
				May 1	Balance	b/d	1 500

Stationery and office expenses account

Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Apl 30	Balance	b/d	3210	Apl 30	Income statement		3165
					Balance	c/d	45
			<u>3210</u>				<u>3210</u>
20-7							
May 1	Balance	b/d	45				

Inventory account

Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Apl 30	Balance	b/d	4520	Apl 30	Income statement		4520
			<u>4520</u>				<u>4520</u>
20-7				20-7			
Apl 30	Income statement		4970	Apl 30	Balance	c/d	4970
			<u>4970</u>				<u>4970</u>
20-7							
May 1	Balance	b/d	4970				

Office fixtures account

Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Apl 30	Balance	b/d	14500	Apl 28	Disposal		2000
				30	Balance	c/d	12500
			<u>14550</u>				<u>14500</u>
20-7							
May 1	Balance	b/d	12500				

Provision for depreciation of office fixtures account

Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Apl 28	Disposal		800	Apl 30	Balance	b/d	5800
	Balance	c/d	<u>6250</u>		Income statement		<u>1250</u>
			<u>7050</u>				<u>7050</u>
				20-7			
				May 1	Balance	b/d	6250

Disposal of office fixtures account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-7			
Apl 28	Office fixtures		2 000	Apl 28	Provision for depreciation		800
					Cash/bank		780
				30	Income statement		420
			<u>2 000</u>				<u>2 000</u>

14 a

Priti			
Income statement for the year ended 31 March 20-4			
	\$	\$	\$
Revenue		644 000	
Less sales returns		<u>1 050</u>	642 950
Less Cost of sales			
Opening inventory		36 000	
Purchases	528 850		
Carriage inwards	<u>750</u>	<u>529 600</u>	
		565 600	
Less Closing inventory		<u>41 050</u>	<u>524 550</u>
Gross profit			118 400
Add Commission receivable (1 030 + 110)			<u>1 140</u>
			119 540
Less Rates and insurance (10 400 - 180 + 260)		10 480	
Wages (39 400 + 1 600)		41 000	
Administration expenses		5 335	
Irrecoverable debt		150	
Provision for doubtful debts (2 456 - 150) - 2 360		96	
Depreciation fixtures and fitting (20% × 35 000)		7 000	
Depreciation motor vehicle (25% × (24 000 - 10 500))		<u>3 375</u>	<u>67 436</u>
Profit for the year			<u>52 104</u>

b

Priti			
Statement of financial position at 31 March 20–4			
	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Assets			
Non-current assets			
Premises	300 000		300 000
Fixtures and fittings	35 000	21 000	14 000
Motor vehicles	24 000	13 875	10 125
	<u>359 000</u>	<u>34 875</u>	<u>324 125</u>
Current assets			
Inventory			41 050
Trade receivables		49 120	
Less Provision for doubtful debts		<u>2 456</u>	46 664
Other receivables			180
Income accrued			110
Bank			21 335
			<u>109 339</u>
Total assets			<u>433 464</u>
Capital and liabilities			
Capital			
Opening balance			390 000
Plus Profit for the year			<u>52 104</u>
			442 104
Less Drawings			<u>54 000</u>
			<u>388 104</u>
Current liabilities			
Trade payables			43 500
Other payables (260 + 1600)			<u>1 860</u>
			45 360
Total capital and liabilities			<u>433 464</u>

Coursebook answers

Chapter 14

Answers to test yourself questions

Test yourself 14.1

- 1 It is important to reconcile the bank statement balance with that in the cash book to explain why any differences have arisen.
- 2 The bank statement is a copy of the customer's account in the books of the bank and so is a record of transactions as they affect the bank. When money is paid into the bank the customer's account will be credited as this is the amount owed by the bank to the customer.

Test yourself 14.2

- 1 A cheque not yet presented is a cheque which has been paid by the business and entered on the credit side of the cash book, but which does not appear on the bank statement. This is because the payee has not paid the cheque into his bank, or because the cheque is still in the banking system and has not been deducted from the business's account.
- 2 A dishonoured cheque is a cheque paid into the bank but which the drawer's bank refuses to pay. This may occur because of insufficient funds in the account or because of an error on the cheque.
- 3 Any regular payment of a fixed amount which the business may make such as rent, rates, insurance, etc.

Test yourself 14.3

- 1 **a** Current assets
b 141

Answers to exam-style questions

- 1 D
- 2 D
- 3 A
- 4 **a** Two from:
 - obtain accurate bank balance
 - discover errors in the cash book
 - discover errors on the bank statement
 - assists in discovering fraud and embezzlement
 - identifies unpresented cheques
 - identifies amounts not credited
 - identifies 'stale' cheques.**b** A cheque not credited is a cheque that has been paid into the bank and entered on the debit side of the cash book, but which does not appear on the bank statement.
A cheque not presented is a cheque that has been paid by the business and entered on the credit of the cash book, but which does not appear on the bank statement.
- c** Updating cash book: bank charges, direct debit, credit transfer, dishonoured cheque
Bank reconciliation statement: unpresented cheque, cash sales, bank error

- b** A bank statement is a copy of the customer's account in the books of the bank sent by the bank to the customer at regular intervals.

A bank reconciliation statement is a document prepared by a business to explain why the updated bank balance in the cash book does not agree with the balance on the bank statement.

- c** The bank account in the cash book is a record of transactions as they affect the business. Money paid into the bank is debited (the bank is a debtor for this amount) and money withdrawn from the bank is credited (the bank is a creditor for this amount).

The bank statement is a copy of the customer's account in the books of the bank and is maintained from the viewpoint of the bank. Money paid into the bank is credited to the customer's account (that is where the money came from and what the bank owes to the customer) and money withdrawn is debited to the customer's account (that is where the money went and it reduces the amount the bank owes the customer).

Coursebook answers

Chapter 15

Answers to test yourself questions

Test yourself 15.1

- 1 Three from:
 - opening entries
 - purchase and sale of non-current assets
 - non-regular transactions.
- 2 **a** A narrative is a brief explanation of what is being recorded and why the journal entry is being made.

b A narrative is useful because it is impossible to remember the reason for every entry and the entries in the journal sometimes involve 'out of the ordinary' transactions.

Test yourself 15.2

- 1 a–c

Journal			
Date	Details	Debit \$	Credit \$
	Drawings	200	
	Purchases		200
	Goods withdrawn by owner for personal use		
	Capital	5 000	
	Drawings		5 000
	Drawings transferred from drawings account to capital account		
	Income statement	15 000	
	Capital		15 000
	Profit for the year transferred from income statement to capital account		

Test yourself 15.3

- 1 It is necessary to open a suspense account when the totals of a trial balance do not agree.
- 2 **a** An error of principle has been made because capital expenditure has been recorded as revenue expenditure. The transaction has been entered in the wrong class of account.

b It is not necessary to use a suspense account to make a correcting entry as the error does not affect the balancing of the trial balance.

Test yourself 15.4

- 1 This is an error of omission.
- 2 To correct the error the sales account will have to be credited and Mitali's account will have to be debited.
- 3 Correcting the error will increase the profit for the year because the revenue was understated so the gross profit and the profit for the year were also understated.

Answers to exam-style questions

1 C

2 A

3 a

Jenny Journal			
Date	Details	Debit \$	Credit \$
	Stationery AB Supplies	112	112
	Stationery purchased on credit		
	Drawings Purchases	130	130
	Goods withdrawn by owner for personal use		
	Income statement Provision for depreciation of shop fittings	180	180
	Annual depreciation charge on shop fittings transferred to income statement		

b

Jenny Journal			
Date	Details	Debit \$	Credit \$
20–1			
Jul 31	Drawings Rent	780	780
	Rent on owner's apartment transferred to drawings account		
	Income statement Rent	2 340	2 340
	Transfer of rent for the year to income statement		
	Sales Income statement	95 600	95 600
	Transfer of sales for the year to income statement		
	Purchases returns Income statement	1 720	1 720
	Transfer of purchases returns for the year to income statement		

4 B

5 a One from:

- to balance the trial balance
- to allow draft financial statements to be prepared
- to provide a temporary account for holding errors until they are located and corrected.

b

Silas Suspense account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-4			
Jul 31	Discount allowed		181	Jul 31	Difference on trial balance		70
	Discount received		181		Purchases returns		100
					Travelling expenses		42
					Petty cash		<u>150</u>
			<u>362</u>				<u>362</u>

c

Silas Journal			
Date	Details	Debit \$	Credit \$
20-4			
Jul 31	Purchases returns	100	
	Suspense		100
	Carriage inwards	195	
	Carriage outwards		195
	Travelling expenses	42	
	Suspense		42
	Amina	420	
	Amira		420
	(No debit entry)		
	Suspense		150
	Suspense	362	
	Discount allowed		181
	Discount received		181

6 Draft profit for the year 24 920

Error 1 Decrease 1 000

Error 2 No effect

Error 3 Decrease 40

Corrected profit for the year 24 410

Error 4

Error 5

Error 6

Increase 480

Increase 50

No effect

Coursebook answers

Chapter 16

Answers to test yourself questions

Test yourself 16.1

- 1 Sales ledger control account
- 2 Purchases ledger control account
- 3 Three from:
 - assist in locating errors when the trial balance fails to balance
 - are proof of the arithmetical accuracy of the ledgers they control
 - the balances on these accounts are regarded as being equal to the total of the trade receivables and the total of the trade payables, so this information is available immediately
 - draft financial statements can be prepared quickly because of the balances provided by the control accounts
 - they help to reduce fraud as the control accounts are prepared by someone who has not been involved in making the entries on those particular ledgers
 - they provide a summary of the transactions affecting the trade receivables and trade payables for each financial period.

Test yourself 16.2

- 1 The control accounts must be prepared independently and information in the individual ledger account in the sales and purchases ledgers must not be used. An error in the sales ledger or the purchases ledger would not be revealed by a control account if it had been prepared using the information in those ledgers.
- 2
 - a Purchases returns journal
 - b Cash book
 - c Journal

Test yourself 16.3

- 1 A credit customer's account can have credit balance because of an overpayment by the customer, the customer returning goods after paying the account, the customer paying in advance for the goods or cash discount not being deducted before payment was made.

Test yourself 16.4

- 1 A contra entry is an entry which appears in both the sales ledger control account and the purchases ledger control account. It arises when a business sells goods to another business and also buys different goods from that business. Rather than each business sending the other a cheque to cover the amount due they may agree to make a contra entry to set one account off against the other.

Answers to exam-style questions

- 1 D
- 2 C
- 3 D

- 4 a One from:
- more convenient to use
 - allows for division of work
 - allows checking procedures to be introduced
 - reduces the possibility of fraud.
- b Two from:
- assists in locating errors
 - checks the arithmetical accuracy of the purchases ledger
 - provides an immediate total of the amount owing to trade payables
 - allows draft financial statements to be prepared quickly
 - may reduce fraud
 - provides a summary of the transactions affecting trade payables.

c

Hamir Purchases ledger control account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-1				20-1			
May 1	Balance	b/d	105	May 1	Balance	b/d	4897
	31 Purchases returns		657	31	Purchases		5424
	Bank/cash		4312		Interest		20
	Discount received		88		Balance	c/d	76
	Balance	c/d	<u>5255</u>				
			<u>10417</u>				<u>10417</u>
20-1				20-1			
Jun 1	Balance	b/d	76	Jun 1	Balance	b/d	5255

- d i Journal
 ii Purchases returns journal
 iii Cash book
- 5 a i Debit: cash book
 ii Credit: cash book
 iii Credit: purchases journal
 iv Debit: journal
 v Debit: cash book
 vi Credit: journal
 vii Debit: purchases returns journal
- b If the purchases ledger control account was prepared from the purchases ledger and there was an error in that ledger it would be repeated in the control account and would not be revealed.
- c A contra entry occurs when an account in the sales ledger is offset against an account of the same business/person in the purchases ledger. This is required when a business/person is both a credit customer and a credit supplier.

6 a

Eva							
Sales ledger control account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5				20-5			
Feb 1	Balance	b/d	2470	Feb 1	Balance	b/d	110
28	Sales		3480	28	Sales returns		118
	Bank (dis. chq)		104		Bank		3403
	Balance	c/d	95		Discount allowed		144
					Irrecoverable debts		200
					Contra entry		240
					Balance	c/d	<u>1934</u>
			<u>6149</u>				<u>6149</u>
20-5				20-5			
Mar 1	Balance	b/d	1934	Mar 1	Balance	b/d	95

b Credit sales – sales journal, dishonoured cheque – cash book, sales returns – sales returns journal, cheques received – cash book, discount allowed – cash book, bad debts – journal, contra entry – journal

c Two from:

- provision for doubtful debts
- cash sales
- discount received.

None of these would appear in the account of a credit customer so do not appear in the sales ledger control account.

d Two from:

- an overpayment by a credit customer
- the credit customer returning goods after paying the account
- the credit customer paying in advance for the goods
- cash discount not being deducted before payment was made.

Coursebook answers

Chapter 17

Answers to test yourself questions

Test yourself 17.1

- 1 A statement of affairs is a summary of the financial position of a business on a certain date.
- 2 A statement of affairs is prepared instead of a statement of financial position when double entry records have not been maintained.
- 3 It is not satisfactory to measure profit by changes in capital as it can only be an estimate of the profit. It is not possible to show details of the gross profit, the revenue, the cost of sales, the expenses and so on. This means that it is not possible to analyse the results and so informed decisions about the future cannot be made.

Test yourself 17.2

1

Manan Capital account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-5				20-5			
Jan 31	Drawings		3 500	Jan 1	Balance	b/d	40 000
	Balance	c/d	50 000	31	Bank/cash		5 000
					Profit		8 500
			<u>53 500</u>				<u>53 500</u>
				20-6			
				Jan 1	Balance	b/d	50 000

Test yourself 17.3

- 1 Payments to credit suppliers 23 300 – trade payables (1 June 20-7) 2 500 + trade payables (at 31 May 20-8) 3 100 = credit purchases for year 23 900 + cash purchases 4 000 = total purchases for year 27 900

Test yourself 17.4

- 1 Margin is the gross profit expressed as a percentage of the selling price.
Mark-up is the gross profit expressed as a percentage of cost price.

$$2 \quad \text{Percentage margin} = \frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1} = \frac{\$1\,000}{\$5\,000} \times \frac{100}{1} = 20\%$$

$$\text{Percentage mark-up} = \frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1} = \frac{\$1\,000}{\$4\,000} \times \frac{100}{1} = 25\%$$

Answers to exam-style questions

1 A

2 a

Leroy			
Statement of affairs at 1 June 20–8			
	\$	\$	\$
Assets			
Non-current assets			
Fixtures and fittings at valuation			6 000
Motor vehicles at cost			14 000
			<u>20 000</u>
Current assets			
Inventory			3 800
Trade receivables			4 250
Other receivables			360
			<u>8 410</u>
Total assets			<u>28 410</u>
Capital and liabilities			
Capital			
Balance			18 050
Non-current liabilities			
Loan – Lenders Ltd			5 000
Current liabilities			
Trade payables			2 950
Bank overdraft			2 410
			<u>5 360</u>
Total capital and liabilities			<u>28 410</u>

b

Leroy			
Statement of affairs at 31 May 20–9			
	\$	\$	\$
Assets			
Non-current assets			
Fixtures and fittings at valuation			5 600
Motor vehicles at cost		14 000	
Less Provision for depreciation		<u>2 800</u>	<u>11 200</u>
			<u>16 800</u>
Current assets			
Inventory			4 100
Trade receivables			4 660
Bank			<u>380</u>
			<u>9 140</u>
Total assets			<u>25 940</u>
Capital and liabilities			
Capital			
Balance			<u>14 300</u>
Non-current liabilities			
Loan – Lenders Ltd			<u>8 500</u>
Current liabilities			
Trade payables			<u>3 140</u>
Total capital and liabilities			<u>25 940</u>

c

Leroy							
Capital account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–9				20–8			
May 31	Drawings		2 000	Jun 1	Balance	b/d	18 050
	Loss		1 750				
	Balance	c/d	<u>14 300</u>				
			<u>18 050</u>				<u>18 050</u>
				20–9			
				Jan 1	Balance	b/d	14 300

- 3 D
- 4 Calculations

Total trade receivables account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8				20-9			
May 1	Balance	b/d	17 300	Apl 30	Bank		458 800
20-9					Balance	c/d	21 500
Apl 30	Sales		<u>463 000</u>				
			<u>480 300</u>				<u>480 300</u>
20-9							
May 1	Balance	b/d	21 500				

Total trade payables account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-9				20-8			
Apl 30	Bank		371 820	May 1	Balance	b/d	16 450
	Balance	c/d	15 510	20-9			
			<u>387 330</u>	Apl 30	Purchases		<u>370 880</u>
							<u>387 330</u>
				20-9			
				May 1	Balance	b/d	15 510

Bank account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-8				20-9			
May 1	Balance	b/d	9 750	Apl 30	Trade payables		371 820
20-9					Motor expenses		15 070
Apl 30	Trade receivables		458 800		General expenses		25 500
					Fixtures		4 000
					Drawings		20 000
					Balance	c/d	<u>32 160</u>
			<u>468 550</u>				<u>468 550</u>
20-9							
May 1	Balance	b/d	32 160				

Opening capital		\$	\$
Assets			
Fixtures	24 800		
Motor vehicle	9 000		
Inventory	19 600		
Trade receivables	17 300		
Bank	<u>9 750</u>		80 450
Less Liabilities			
Trade payables			<u>16 450</u>
Capital			<u><u>64 000</u></u>

a

Mohan			
Income statement for the year ended 30 April 20–9			
	\$	\$	\$
Revenue			463 000
Less Cost of sales			
Opening inventory		19 600	
Purchases		<u>370 880</u>	
		390 480	
Less Closing inventory		<u>23 080</u>	<u>367 400</u>
Gross profit			95 600
Less Motor expenses		15 070	
General expenses		25 500	
Depreciation fixtures (10% × (31 000 + 4 000))		3 500	
Depreciation motor vehicle (25% × 15 000)		<u>3 750</u>	<u>47 820</u>
Profit for the year			<u><u>47 780</u></u>

b

Mohan			
Statement of financial position at 30 April 20–9			
	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Assets			
Non-current assets			
Fixtures	35 000	9 700	25 300
Motor vehicles	<u>15 000</u>	<u>9 750</u>	<u>5 250</u>
	<u>50 000</u>	<u>19 450</u>	<u>30 550</u>
Current assets			
Inventory			23 080
Trade receivables			21 500
Bank			<u>32 160</u>
			<u>76 740</u>
Total assets			<u>107 290</u>
Capital and liabilities			
Capital			
Opening balance			64 000
Plus Profit for the year			<u>47 780</u>
			111 780
Less Drawings			<u>20 000</u>
			<u>91 780</u>
Current liabilities			
Trade payables			<u>15 510</u>
Total capital and liabilities			<u>107 290</u>

5 D

Coursebook answers

Chapter 18

Answers to test yourself questions

Test yourself 18.1

- Three from:
 - receipts and payments account
 - income statement for a trading activity
 - income and expenditure account
 - statement of financial position.
- Subscriptions are the amounts that members pay, usually annually, to use the facilities provided by the club or society.
- The purpose of a receipts and payments account is to show a summary of the cash book for the financial year. It summarises the monies received and the monies paid. The balance represents either the money owned by the organisation or the overdrawn bank balance.

Test yourself 18.2

- If the club or society operates any form of trading (buying and selling) the trading section of an income statement should be prepared for each trading activity to show the profit earned on that activity.

Test yourself 18.3

- Loss for the year
 - Income statement
- The income and expenses of any fundraising activity should be offset against each other in the income and expenditure account so that the profit or loss on that particular activity can be clearly seen.

Test yourself 18.4

- Capital
- If a trading organisation earns a profit it is credited to the capital account. A surplus is the equivalent of a profit in a trading organisation, so this is credited to the accumulated fund account (the equivalent of the capital account) and so increases the accumulated fund.
 - If a trading organisation makes a loss it is debited to the capital account. A deficit is the equivalent of a loss in a trading organisation, so this is debited to the accumulated fund account (the equivalent of the capital account) and so reduces the accumulated fund.

Test yourself 18.5

- When amounts are received from members they are credited to the subscriptions account (which may be regarded as the account of the members). To complete the double entry the cash book is debited to show the money coming into the club.
- Subscriptions paid in advance by the members of a club are a current liability because the club has an obligation to provide a period of membership which has already been paid for.
- The subscriptions shown in a receipts and payments account is the amount of subscriptions actually received by the club during the financial period. The income and expenditure account shows the amount of subscriptions relating to the financial year (which is the amount received adjusted for any prepaid and accrued subscriptions).

Test yourself 18.6

- The amount shown for purchases in the income statement must represent the total purchases for the period. The amount paid to credit suppliers does not necessarily equal the purchases for the period as there could be an amount owing to suppliers at the start and the end of the financial period.
- Accumulated fund = Assets – Liabilities

Answers to exam-style questions

1

YY Club							
Receipts and payments account for the year ended 30 April 20–8							
Receipts			\$	Payments			\$
20–8				20–7			
Apl 30	Subscriptions		14 000	May 1	Balance	b/d	4 734
	Proceeds of sale of				20–8		
	sports equipment		580	Apl 30	Sports equipment		3 100
	Loan		4 000		Rent		3 000
					Insurance		520
					Running expenses		3 902
					Balance	c/d	3 324
			<u>18 580</u>				<u>18 580</u>
20–8							
May 1	Balance	b/d	3 324				

2 A

3 C

4 a

WS Music Club			
Income and expenditure account for the year ended 31 May 20–9			
	\$	\$	\$
Income			
Subscriptions (12 100 + 400 – 500)			12 000
Concert – ticket sales		1 400	
expenses		<u>990</u>	<u>410</u>
			<u>12 410</u>
Expenditure			
Rent (5 000 + 200)		5 200	
Insurance (600 – 120)		480	
General expenses (1 720 + 30)		1 750	
Loan interest (5% × 1 000 × 6/12)		25	
Depreciation musical instruments (10% × 3 000)		<u>300</u>	<u>7 755</u>
Surplus for the year			<u>4 655</u>

b

WS Music Club			
Statement of financial position at 31 May 20–9			
	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Assets			
Non-current assets			
Musical instruments	<u>3 000</u>	<u>300</u>	<u>2 700</u>
Current assets			
Subscriptions accrued			400
Other receivables			120
Bank (14 500 – 11 310)			<u>3 190</u>
			<u>3 710</u>
Total assets			<u>6 410</u>
Accumulated fund and liabilities			
Accumulated fund			
Surplus for the year			<u>4 655</u>
Non-current liabilities			
Loan – AB Music Group			<u>1 000</u>
Current liabilities			
Subscriptions prepaid			500
Other payables (200 + 30 + 25)			<u>255</u>
			<u>755</u>
Total liabilities			<u>6 410</u>

5 a

HJ Club			
Shop income statement for the year ended 30 June 20–5			
	\$	\$	\$
Revenue			14 100
Less Cost of sales			
Opening inventory		1 030	
Purchases (8 520 + 870 – 920)		<u>8 470</u>	
			9 500
Less Closing inventory		<u>1 680</u>	
Cost of goods sold			7 820
Wages of shop assistant		<u>4 500</u>	<u>12 320</u>
Profit on shop			<u>1 780</u>

b

HJ Club			
Income and expenditure account for the year ended 30 June 20–5			
	\$	\$	\$
Income			
Subscriptions (15 500 – 200 – 300)			15 000
Profit on shop			1 780
Competition – entrance fees		1 350	
prizes		<u>1 220</u>	<u>130</u>
			16 910
Expenditure			
Rent (3 150 + 450)		3 600	
Wages of sports trainer		3 630	
General expenses		5 470	
Depreciation of equipment (20% × (18 200 + 2 000))		<u>4 040</u>	<u>16 740</u>
Surplus for the year			<u>170</u>

6 A

Coursebook answers

Chapter 19

Answers to test yourself questions

Test yourself 19.1

- 1 A partnership is a business in which two or more people work together as owners with a view to making profits.
- 2 **a** Two from:
 - share risks
 - share responsibilities/workload
 - additional finance is available for the business
 - opportunity to discuss matters before making decisions.
- b** Two from:
 - share profits
 - decisions have to be recognised by all partners
 - decisions may take longer to put into effect
 - one partner's actions on behalf of the business are binding on all the partners
 - disagreements can occur
 - all partners are responsible for the debts of the business.

Test yourself 19.2

- 1 Partners may decide to charge interest on drawings in order to discourage drawings being made (especially early in the financial year) and to penalise a partner who makes excessive drawings.
- 2 Partners may agree to allow interest on capital as a reward for investing in the business and also as a form of compensation to a partner who has invested more capital than the other partners.
- 3 Residual profit is the amount of profit available for sharing out between the partners. It is the profit for the year plus interest on drawings and minus interest on capital and partners' salaries.

Test yourself 19.3

- 1 **a** A debit balance on a current account can result from the partner's drawings being more than his/her total share of profit.
b A debit balance on a partner's current account represents money owed by the partner to the business as the partner has withdrawn more than he/she is entitled to from total profit share.

Answers to exam-style questions

- 1 C
- 2 C
- 3 B

4 a

Diksha and Padmaja			
Profit and loss appropriation account for the year ended 31 July 20–5			
		\$	\$
Profit for the year			11 240
Interest on drawings	Diksha	75	
	Padmaja	<u>125</u>	<u>200</u>
			11 440
Less Interest on capital	Diksha	2 000	
	Padmaja	<u>1 600</u>	3 600
Partner's salary	Padmaja		<u>4 000</u>
			<u>7 600</u>
			3 840
Profit shares	Diksha		2 560
	Padmaja		<u>1 280</u>
			<u>3 840</u>

b

Padmaja							
Current account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–4				20–5			
Aug 1	Balance	b/d	200	Jul 31	Interest on capital		1 600
					Salary		4 000
20–5					Profit share		1 280
Jul 31	Drawings		5 000				
	Interest on drawings		125				
	Balance	c/d	<u>1 555</u>				
			<u>6 880</u>				<u>6 880</u>
				20–5			
				Aug 31	Balance	b/d	1 555

c Two from:

- easy to see amount invested by each partner
- easy to calculate interest on capital for each partner
- easy to see amount retained in the business by each partner
- easy to see if a partner is making excessive drawings.

5 a Kate transferred \$10 000 from her capital account to her current account.

b Interest on capital 7 500 + salary 9 000 – interest on drawings 480 – residual loss 10 500 = profit 5 520

c $\frac{4\,500}{90\,000} \times \frac{100}{1} = 5\%$ or $\frac{3\,000}{(70\,000 - 10\,000)} \times \frac{100}{1} = 5\%$

d $\frac{6\,300}{10\,500} \times \frac{100}{1} = 60\%$ $\frac{4\,200}{10\,500} \times \frac{100}{1} = 40\%$

The profit sharing ratio is 3:2.

Capital and liabilities			
	Manu	Zahur	Total
Capital accounts	<u>400 000</u>	<u>200 000</u>	600 000
Current accounts			
Opening balance	9 000	(1 000)	
Interest on capital	20 000	10 000	
Partner's salary		14 000	
Profit shares	<u>10 000</u>	<u>5 000</u>	
	<u>39 000</u>	<u>28 000</u>	
Less Drawings	<u>30 000</u>	<u>29 600</u>	
	<u>9 000</u>	<u>(1 600)</u>	<u>7 400</u>
Non-current liabilities			
Loan – CFU Limited			<u>25 000</u>
Current liabilities			
Trade payables		37 450	
Other payables		320	
Bank overdraft		<u>9 800</u>	<u>47 570</u>
Total capital and liabilities			<u>679 970</u>

Coursebook answers

Chapter 20

Answers to test yourself questions

Test yourself 20.1

- 1 Direct factory wages are the wages of the people employed in the factory making the goods. Indirect factory wages are the wages of people employed in the factory but who are not involved in the actual production process.
- 2 Royalties and hire of a special machine, or any other suitable direct expense.
- 3
 - a Factory overhead
 - b Direct material
 - c Factory overhead
 - d Direct labour
 - e Factory overhead
 - f Direct materials

Test yourself 20.2

- 1 Prime cost is the total of the direct materials, direct labour and direct expenses. It is the cost of the essentials necessary for production.
- 2 An alternative name for factory overheads is indirect factory expenses.

Test yourself 20.3

- 1 Work in progress is the goods which are partly completed at the end of the financial year.
- 2 It is necessary to make an adjustment for work in progress so that the cost of production only represents the cost of goods actually completed during the financial year.

Test yourself 20.4

- 1 It is necessary to include the production cost of goods completed in the trading section of the income statement because the business has actually made the goods instead of purchasing them ready-made. For most manufacturers the cost of production replaces the purchases in the trading section of the income statement.
- 2 A manufacturing business may sometimes purchase finished goods when production does not meet demand, when it is cheaper to buy the goods rather than make them, or when those particular items cannot be made by the business.

Answers to exam-style questions

- 1 B
- 2 D
- 3 C

4 a

Leeford Manufacturers Ltd		
Manufacturing account for the year ended 30 September 20–8		
	\$	\$
Cost of material consumed		
Opening inventory of raw material	41 800	
Purchases of raw material	<u>495 800</u>	
	537 600	
Less Closing inventory of raw material	<u>43 200</u>	494 400
Direct wages		<u>52 750</u>
Prime cost		547 150
Factory overheads		
Factory indirect salaries	29 760	
Factory expenses	<u>41 840</u>	<u>71 600</u>
		618 750
Add Opening work in progress		<u>18 600</u>
		637 350
Less Closing work in progress		<u>17 850</u>
Cost of production		<u>619 500</u>

b Two from:

- revenue
- opening inventory of finished goods
- closing inventory of finished goods
- purchases of finished goods
- office and sales salaries.

These items are not part of the cost of manufacturing. The first four are connected with finished goods and appear in the trading section of the income statement. The last item is an office/selling expense and appears in the profit and loss section of the income statement.

5 a i Direct costs are those costs in a manufacturing business which can be traced directly to the item being manufactured. They include direct material, direct labour and direct expenses.

Indirect costs are those costs in a manufacturing business which cannot be traced directly to the item being manufactured. They include factory overheads.

ii Prime cost is the total of the direct materials, direct labour and direct expenses. It is the cost of the essentials necessary for production.

Cost of production is the prime cost plus factory overheads, plus opening work in progress and less closing work in progress.

b Work in progress is the goods which are partly made at the end of the financial year.

c A manufacturer may purchase finished goods if he is unable to meet demand, if it is cheaper to buy rather than make or if he cannot make those particular items.

d i Prime cost = cost of material consumed: opening inventory of raw material 4 750 + purchases 49 590 + carriage on purchases 3 710 – closing inventory of raw materials 4 850 = 53 200 + direct wages 61 940, direct factory expenses 2 960

Prime cost: 118 100

ii Cost of production = prime cost 118 100 + overheads (indirect factory wages 29 660 + factory indirect expenses 48 930) 78 590 = 196 690 + opening work in progress 5 600 – closing work in progress 4 300

Cost of production: 197 990

6 a

Farouk		
Manufacturing account for the year ended 31 March 20–6		
	\$	\$
Cost of material consumed		
Purchases of raw material	22 800	
Carriage on raw material	<u>1 300</u>	
	24 100	
Less Closing inventory of raw material	<u>2 520</u>	21 580
Direct wages		<u>27 200</u>
Prime cost		48 780
Factory overheads		
Factory supervisors' salaries	10 400	
General expenses (4800 × 2/3)	3 200	
Rent and rates (5100 × 2/3)	3 400	
Depreciation factory machinery (25% × 28 000)	7 000	
Depreciation factory hand tools (800 – 650)	<u>150</u>	<u>24 150</u>
		72 930
Less Closing work in progress		<u>2 140</u>
Cost of production		<u>70 790</u>

b

Farouk		
Income statement for the year ended 31 March 20–6		
	\$	\$
Revenue		100 400
Less Cost of sales		
Cost of production	70 790	
Purchases of finished goods	<u>12 200</u>	
	82 990	
Less Closing inventory of finished goods	<u>5 210</u>	<u>77 780</u>
Gross profit		22 620
Less Wages of office staff	15 400	
General expenses (4 800 × 1/3)	1 600	
Rent and rates (5 100 × 1/3)	1 700	
Depreciation office fixtures and fittings (10% × 6 500)	<u>650</u>	<u>19 350</u>
Profit for the year		<u>3 270</u>

Coursebook answers

Chapter 21

Answers to test yourself questions

Test yourself 21.1

- 1 A limited liability company is a legal entity which has a separate identity from its shareholders, whose liability for the company's debts is limited.
- 2 A member of a limited company is only liable for the debts of the company up to the amount he/she has agreed to pay for their shares.
- 3 The two types of limited company are private limited companies and public limited companies.
- 4 Dividends

Test yourself 21.2

- 1 Three from:

Preference shares	Ordinary shares
carry a fixed rate of dividend	carry a variable rate of dividend
dividend is paid before ordinary share dividend	dividend is paid after preference share dividend and depends on profit
do not usually carry voting rights	carry voting rights
capital is repaid before ordinary shares in a winding-up	are last to be repaid in a winding-up

- 2 Three from:

Debentures	Ordinary shares
carry a fixed rate of interest	carry a variable rate of dividend
interest is paid irrespective of profit	dividend depends on profit
do not carry voting rights	carry voting rights
priority for repayment in a winding-up	are last to be repaid in a winding-up
are lenders	are members of the company

Test yourself 21.3

- 1 Retained earnings represent any profit that is not appropriated for dividends and is carried forward to the following financial year.
- 2 An interim dividend (or half way dividend) is a dividend which is paid during the year to which it relates. It appears in the statement of changes in equity in the year in which it is paid.
- 3 A dividend paid is one which has been paid by the company to the shareholders. It appears in the statement of changes in equity for the year in which it is paid, which is not necessarily the same as the year to which it relates.

A dividend proposed is a dividend which has been promised that will be paid by the company to the shareholders. This only appears in the statement of changes in equity for the year during which it is actually paid (which is not necessarily the year to which it relates).

Test yourself 21.4

- 1 Debentures are recorded under the heading of non-current liabilities in the statement of financial position of a limited company.
- 2 General reserve and retained earnings are added to the ordinary share capital in the statement of financial position of a limited company as they represent profits which have been retained in the company and, as such, belong to the ordinary shareholders.

Answers to exam-style questions

- 1 B
- 2 D
- 3 **a i** Called-up share capital is that part of the issued share capital for which payment has been requested from shareholders.
Paid-up share capital is that part of the called-up share capital for which the company has received payment from shareholders.
ii Preference shares receive a fixed rate of dividend which is paid before ordinary share dividend. In the event of the company being wound up they are repaid before ordinary shareholders. The holders are not usually allowed to vote at shareholders' meetings.
Ordinary shares receive a variable rate of dividend depending on the profits of the company, which is paid after preference share dividend. In the event of the company winding up they are repaid after preference shareholders. The holders are allowed to vote at shareholders' meeting.
iii Ordinary share dividend paid relating to the current year is the dividend which has actually been paid to the ordinary shareholders. It is often referred to as an interim dividend. It appears in the statement of changes in equity.
Ordinary share dividend proposed relating to the current year is what the directors are recommending be paid. This is often referred to as a final dividend. It will not appear in the statement of changes in equity for the current year as it will not actually be paid until the following financial year.
- b i** $33\,000 - 3\,000 = 30\,000$
- ii** $14\,300 + 30\,000 - 2\,400 - 5\,000 = 36\,900$
- 4 D
- 5 **a** $59\,000 - 5\,000 = 54\,000$

b

Tiwari & Company				
Statement of changes in equity for the year ended 30 June 20–8				
	Ordinary share capital	General reserve	Retained earnings	Total
	\$	\$	\$	\$
Balance at 1 July 20–7	300 000	12 000	9 500	321 500
Profit for the year			54 000	54 000
Interim dividend for the year ended 30 June 20–8			(15 000)	(15 000)
Transfer to general reserve		10 000	(10 000)	
Balance at 30 June 20–8	<u>300 000</u>	<u>22 000</u>	<u>38 500</u>	<u>360 500</u>

c

Tirwari & Company			
Extract from statement of financial position at 30 June 20–8			
	\$	\$	\$
Equity and reserves			
Ordinary share capital			300 000
General reserve			22 000
Retained earnings			<u>38 500</u>
			<u>360 500</u>

d No dividends will appear in the statement of financial position. Dividend on preference shares has been paid in full and proposed ordinary share dividend does not appear in the statement.

6 a

AK Limited				
Statement of changes in equity for the year ended 30 April 20–5				
	Ordinary share capital	General reserve	Retained earnings	Total
	\$	\$	\$	\$
Balance at 1 May 20–4	400 000	20 000	51 500	471 500
Profit for the year			79 500	79 500
Final dividend for the year ended 30 April 20–4			(16 000)	(16 000)
Interim dividend for the year ended 30 June 20–5			(10 000)	(10 000)
Transfer to general reserve		<u>17 500</u>	<u>(17 500)</u>	
Balance at 30 April 20–5	<u>400 000</u>	<u>37 500</u>	<u>87 500</u>	<u>525 000</u>

b

AK Limited			
Statement of financial position at 30 April 20–5			
	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Assets			
Non-current assets			
Premises	425 000		425 000
Equipment	124 000	93 000	31 000
Motor vehicles	<u>80 000</u>	<u>25 000</u>	<u>55 000</u>
	<u>629 000</u>	<u>118 000</u>	<u>511 000</u>
Current assets			
Inventory			35 750
Trade receivables		32 000	
Less Provision for doubtful debts		<u>800</u>	31 200
Other receivables			1 520
Bank			<u>15 000</u>
			<u>83 470</u>
Total assets			<u>594 470</u>
Equity and liabilities			
Equity			
Ordinary share capital			400 000
General reserve			37 500
Retained earnings			<u>87 500</u>
			<u>525 000</u>
Non-current liabilities			
5% debentures			<u>30 000</u>
Current liabilities			
Trade payables			38 700
Other payables			<u>770</u>
			<u>39 470</u>
Total capital and liabilities			<u>594 470</u>

Coursebook answers

Chapter 22

Answers to test yourself questions

Test yourself 22.1

- 1 The two main groups of ratios are profitability ratios and liquidity ratios.
- 2 Working capital is the difference between the current assets and the current liabilities and is the amount available for the day-to-day running of the business.
- 3 Capital owned is the amount owed by a business to the owner(s) of that business on a certain date.
- 4 Capital employed may be calculated as the owner's capital plus any non-current liabilities, or as the non-current assets plus the net current assets (current assets minus current liabilities).

Test yourself 22.2

- 1 The rate of return on capital employed shows the profit earned for every \$100 used in the business in order to earn that profit.
- 2 Two from:
 - increasing selling prices
 - obtaining cheaper supplies
 - changing the proportions of different types of goods sold.
- 3 The percentage of expenses to revenue is the difference between the gross margin and the profit margin, so is 11%.

Test yourself 22.3

- 1 Two from:
 - cannot meet immediate liabilities when they are due
 - experience difficulties in obtaining further supplies on credit
 - cannot take advantage of cash discounts
 - cannot take advantage of business opportunities when they arise.
- 2 Two from:
 - introducing further capital by the owner(s)
 - obtaining long-term loans / non-current liabilities
 - selling surplus non-current assets
 - delaying purchasing non-current assets
 - increasing profit
 - reducing drawings by the owner(s) (or reduction in dividends).
- 3 The current ratio compares the assets which are in the form of cash (or which can be turned into cash relatively easily within the next 12 months) with the liabilities which are due for repayment within that period of time. The liquid (acid test) ratio compares the assets which are in the form of money (or which will convert into money quickly) with the liabilities which are due for repayment in the near future. The difference between the ratios is that the liquid (acid test) ratio excludes inventory as this is not regarded as a liquid asset.

Test yourself 22.4

$$1 \quad \frac{\text{Cost of sales}}{\text{Average inventory}}$$

2 Two from:

- a reduction in sales
- over-purchasing of inventory
- too high selling prices
- falling demand
- slowing down of business activity
- business inefficiency.

$$3 \quad \frac{\text{Trade receivables}}{\text{Credit sales}} \times \frac{365}{1}$$

4 The trader would not be satisfied as the trade receivables are taking, on average, ten days more than the period of credit allowed. The trader has to wait longer to be repaid and the risk of irrecoverable debts is increased.

5 One advantage from:

- has the use of the money for a longer period of time
- is able to make use of the money within the business / pay expenses / settle other commitments.

One disadvantage from:

- loss of cash discount
- damage relationship with the supplier
- the supplier may refuse further supplies.
- the supplier may refuse credit in the future.

Test yourself 22.5

1 Four from:

- 1 The businesses may use different accounting policies. Using different policies such as different methods of depreciation will affect the profit and the book value of the non-current assets, so a comparison is difficult.
- 2 The business may operate different operating policies. For example, one business may rent premises and the other may own premises, or one business may have long-term finance in the form of capital only whereas the other business may also have a long-term loan. The different policies will affect the profit and also the statement of financial position.
- 3 The financial statements only include monetary items. There are many non-monetary items which affect the success of the business. These cannot be measured in money and consequently make a comparison of businesses more difficult.
- 4 It is not always possible to obtain all the information about another business. For example, the financial statements do not show details of the age and condition of the non-current assets. The results of any comparison may be flawed.
- 5 The information about the other business may be for one financial year only, so trends cannot be calculated. Also, that year may not be a typical year, so any comparison may not be appropriate.
- 6 If the financial years end on different dates a comparison can be difficult as one business may have a year-end when inventories are particularly high, the year-end for the other business may be at a time when inventories are particularly low.
- 7 The financial statements are based on historic cost and do not show the effects of inflation. Identical non-current assets purchased at different times will be recorded as different costs in the accounting records. This also affects the comparison.

Test yourself 22.6

1 Three from:

- Owner. The owner is interested in all aspects of the business – both profitability and liquidity in order to assess the performance and progress.
- Manager(s). Like owners they are interested in all aspects of the business. They may use ratios to assess past performance, plan for the future and take remedial action where necessary.
- Bank managers. If a business requests a bank loan or an overdraft facility, the bank manager will need to know whether there is adequate security to cover the amount of the loan or overdraft, whether it can be repaid when due and whether interest can be paid when due.
- Other lenders. Anyone who had made a loan to the business will be interested in the security available, whether the loan can be repaid when due and whether the interest can be paid when due.
- Trade payables. They are interested in the liquidity position and the trade payables turnover. These will be considered when determining the credit limit and the length of credit allowed.
- Potential buyers of the business. They are interested in the profitability of the business and the market value of the assets of the business.
- Customers. They are interest in ensuring the continuity of supplies.
- Employees and trade unions. They want to know that the business is able to continue operating and so maintain jobs and continue to pay adequate wages (and, in some cases, contribute to pension schemes).
- Government departments. They may want information for purposes such as compiling business statistics and checking that the correct amount of tax is being paid.

2 Three from:

- Time factor. Accounting statements are a record of what has happened in the past, not a guide to the future. Additionally, there is a gap between the end of the financial year and the preparation of the accounting statements. In that time significant events may have taken place.
- Historic cost. The only way to record financial transactions is to use the actual cost price. However, comparing transactions taking place at different times can be difficult because of the effect of inflation.
- Accounting policies. All businesses should apply the accounting principles, but there are several acceptable accounting policies which may be applied. Where businesses use different policies it is difficult to make comparisons. Similarly, where a business changes its policy a comparison with the results of previous years is difficult.
- Different definitions. If a business has borrowed money it may calculate the profit from operations and then deduct finance costs; another business will not make this distinction. Also there can be different definitions of profit used when calculating accounting ratios.
- Money measurement. Accounts only record information which can be expressed in monetary terms. This means that there are many important factors which influence the performance of a business which will not appear in the accounting statements.

Answers to exam-style questions

- 1 C
- 2 a Working capital: $4\,620 + 5\,340 - 4\,150 - 2\,110 - 2\,000 = 1\,700$
- b Two from:
- cannot meet liabilities when they are due
 - experience difficulties in obtaining further supplies on credit
 - cannot take advantage of cash discounts
 - cannot take advantage of business opportunities when they arise.
- c Proposal 1 Working capital increases by 5 000 as bank overdraft changes to positive balance.
Proposal 2 No change to working capital as one current liability is exchanged for another.
Proposal 3 No change to working capital as one current asset is exchanged for another.
Proposal 4 Working capital increases by 83 as current liabilities reduce by 4 150 and bank reduces by 4 067.
- d Two from:
- obtain additional long-term loan
 - sell any surplus non-current assets
 - delay purchase of non-current assets
 - increase profit
 - reduce drawings.
- 3 B
- 4 a Gross margin 26.00%, profit margin 8.50%, return on capital employed 5.47%, rate of inventory turnover 8.28 times
- b Two from:
- trading in different type of goods
 - furniture has higher selling price per unit than food
 - furniture has higher gross profit margin than food
 - food business is cutting prices to sell more
 - food business not passing on higher costs to customers.
- c AK Limited had better control of the expenses. The expenses as a percentage of revenue were 8.25% and the same ratio for Vijay was 17.50%.
- d Two from:
- trading in different type of goods
 - food sells faster than furniture
 - food is in daily demand, furniture is not
 - food is cheaper than furniture
 - cost of goods is higher for furniture
 - value of inventory is higher for furniture.

e Four from:

- dealing in different goods – furniture and food
- Vijay is a sole trader, the other business is a limited company
- Vijay has been in business three years, the other business was established many years ago
- the capital of the businesses will be different
- the size of the businesses will be different
- the sources of long-term funds will differ (Vijay has a loan; no detail provided about AK Limited)
- the financial year may end at different times of the trading cycle
- the businesses may have different types of expenses (e.g. one may rent, the other own premises)
- the financial statements do not show non-monetary factors
- it may not be possible to obtain all the information needed to make comparisons.

5 B

6 a Current assets – Inventory: Current liabilities

b $(2650 + 2960) : (3670 + 2500) = 0.91 : 1$

c Immediate assets are slightly below the immediate liabilities and this would be generally regarded as satisfactory. Rita can almost pay all the current liabilities from the cash at bank and the trade receivables without having to sell inventory.

d The liquid ratio is a more reliable measure of liquidity as it excludes inventory which is not as immediate an asset as actual money and money due from credit customers. It is two steps away from being money.

e Item 1 Current ratio decrease, liquid (acid test) ratio decrease
 Item 2 Current ratio no effect, liquid (acid test) ratio decrease
 Item 3 Current ratio increase, liquid (acid test) ratio increase

f Four from:

Manager	to assess performance, plan for the future and take remedial action if necessary
Bank manager / lender	to assess whether any loan/overdraft and the interest on this would be repaid on time and the security available
Trade payables	to assess the liquidity position and the likelihood of the debt being repaid on time and to determine the credit limit and the length of credit allowed
Potential buyers	to assess the profitability of the business and the market value of the business assets
Customers	to assess the likelihood of continuity of supplies
Employees / trade unions	to assess whether the business will be able to continue and so maintain jobs and continue to pay adequate wages
Government departments	for compiling statistics and tax purposes

Answers to Section 4 practice questions

- 1 B
- 2 B
- 3 B
- 4 A
- 5 C
- 6 a

Omar Cash Book											
Date	Details	Fo	Discount allowed	Cash	Bank	Date	Details	Fo	Discount received	Cash	Bank
			\$	\$	\$				\$	\$	\$
20-4						20-4					
Mar 1	Balance	b/d		150		Mar 1	Balance	b/d			3940
14	Sales				2310	8	Drawings				1500
21	Abdul				110	18	Mariam	8			312
25	Zaffar		10		490	30	Operating expenses			242	
29	Sales			2462		31	Bank	c		2170	
31	Cash	c			2170		Bank charges				21
	Balance	c/d			693		Balance	c/d		200	
			<u>10</u>	<u>2612</u>	<u>5773</u>				<u>8</u>	<u>2612</u>	<u>5773</u>
20-4						20-4					
Apl 1	Balance	b/d		200		Apl 1	Balance	b/d			693

Omar Bank reconciliation statement at 31 March 20-4		
	\$	\$
Balance shown on bank statement		(2453)
Add Amounts not yet credited – Zaffar	490	
cash	<u>2170</u>	<u>2660</u>
		207
Less Bank error		<u>900</u>
Balance shown in cash book		<u>(693)</u>

7 a

Darren Journal			
Date	Details	Debit	Credit
		\$	\$
20-8			
Feb 1	Premises	125 000	
	Shop fittings	17 500	
	Inventory	5 320	
	Bank	22 180	
	Loan		50 000
	Capital		120 000
	Assets, liabilities and capital at this date	<u>170 000</u>	<u>170 000</u>

b

Journal			
Date	Details	Debit	Credit
		\$	\$
20-8			
Aug 1	Drawings	440	
	Purchases		440
	Goods withdrawn by owner for personal use		
12	Motor vehicles	16 250	
	Capital		16 250
	Private motor vehicle introduced into the business		

c

Journal			
Date	Details	Debit	Credit
		\$	\$
20-9			
Jan 31	Irrecoverable debts	150	
	Paula		150
	Debt written off as irrecoverable		
	Income statement	150	
	Irrecoverable debts		150
	Transfer of irrecoverable debts to income statement		
	Purchases returns	1 075	
	Income statement		1 075
	Transfer of purchases returns for the year to income statement		

Income statement	13 620	
Operating expenses		13 620
Transfer of operating expenses for the year to income statement		
Income statement	550	
Provision for doubtful debts		550
Creation of provision for doubtful debts		
Income statement	1 750	
Provision for depreciation of shop fittings		1 750
Annual depreciation charge transferred to income statement		

8 a

Uzma Suspense account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20–6				20–6			
Oct 31	Difference on trial balance		1 640	Oct 31	Petty cash		120
					Supplier		200
					Sales		1 000
					Discount allowed		320
			<u>1 640</u>				<u>1 640</u>

b

Uzma Statement of corrected profit for the year ended 31 October 20–6			
		\$	\$
Draft profit for the year from income statement			2 860
Add Prepaid rent omitted			<u>480</u>
			3 340
Less Purchases omitted		990	
Sales overcast		1 000	
Discount allowed omitted		<u>320</u>	
Corrected profit for the year			<u>1 030</u>

c

Uzma		
Corrected Statement of financial position at 31 October 20–6		
	\$	\$
Assets		
Non-current assets at book value		26 000
Current assets		
Inventory		8 500
Trade receivables		6 270
Other receivables		480
Bank		700
Petty cash		120
		<u>16 070</u>
Total assets		<u>42 070</u>
Capital and liabilities		
Capital		
Opening balance		28 000
Plus Profit for the year		1 030
		<u>29 030</u>
Less Drawings		12 900
		<u>16 130</u>
Non-current liabilities		
Loan		15 000
Current liabilities		
Trade payables (10 150 – 200 + 990)		10 940
Total capital and liabilities		<u>42 070</u>

9 a Two from:

- can assist in locating errors when the trial balance fails to balance
- is proof of the arithmetical accuracy of the sales ledger
- provides an instant total of the total trade receivables
- draft financial statements can be prepared quickly
- helps to reduce fraud
- provides a summary of the transactions affecting trade receivables.

b A contra entry is when a transfer is made from an account in the sales ledger to an account of the same business/person in the purchases ledger. This occurs when a person/business is both a customer and a supplier and the balance of one account is set off against the balance on the other account so that only one party has to issue a cheque / pay the remaining balance.

c

Violetta							
Sales ledger control account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-1				20-1			
May 1	Balance	b/d	3 020	May 1	Balance	b/d	35
	31 Sales		3 965	31	Bank		2 695
	Interest		10		Sales returns		166
	Balance	c/d	20		Discount allowed		55
					Irrecoverable debts		114
					Contra entry		150
					Balance	c/d	<u>3 800</u>
			<u>7 015</u>				<u>7 015</u>
20-1				20-1			
Jun 1	Balance	b/d	3 800	Jun 1	Balance	b/d	20

d

Journal			
Date	Details	Debit	Credit
		\$	\$
20-1			
May 10	Irrecoverable debts	95	
	Wilma		95
	Debt written off as irrecoverable		
	Jim (in purchases ledger)	200	
	Jim (in sales ledger)		200
	Transfer of balance on sales ledger account to purchases ledger account		

10 a Credit sales = receipts from trade receivables 36 750 + discount allowed 750 + irrecoverable debts 860 – opening trade receivables 3 620 + closing trade receivables 4 020 = 38 760

b Gross profit = $38\,760 \times \frac{20}{120} = 6\,460$

c Cost of sales = $38\,760 - 6\,460 = 32\,300$

d Three from:

- full details are available about assets, liabilities, revenues and expenses
- the preparation of financial statements is relatively straightforward
- the calculation of the profit or loss for the year is likely to be reliable and accurate
- more informed decision-making is possible
- a greater degree of control over business activities can be exercised
- the possibility of fraud is reduced
- comparisons with the results of previous years and with other businesses are possible
- detailed records are available for reference purposes
- information required by a bank or other lender is readily available.

11 a

Jamal							
Total trade receivables account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-3				20-4			
Oct 1	Balance	b/d	3 166	Sep 30	Bank		34 125
20-4					Discount allowed		875
Sep 30	Sales		37 290		Irrecoverable debts		134
					Returns		2 066
					Balance	c/d	<u>3 256</u>
			<u>40 456</u>				<u>40 456</u>
20-4							
Oct 1	Balance	b/d	3 256				

b

Jamal							
Total trade payables account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-4				20-3			
Sep 30	Bank		46 948	Oct 1	Balance	b/d	4 095
	Discount received		1 452	20-4			
	Balance	c/d	<u>5 115</u>	Sep 30	Purchases		<u>49 420</u>
			<u>53 515</u>				<u>53 515</u>
				20-4			
				Oct 1	Balance	b/d	5 115

c

Jamal							
Bank account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-3				20-4			
Oct 1	Balance	b/d	11 440	Sep 30	Trade payables		46 948
20-4					Non-current assets		12 600
Sep 30	Trade receivables		34 125		Operating expenses		6 777
	Cash sales		19 420				
	Balance	c/d	<u>1 340</u>				
			<u>66 325</u>				<u>66 325</u>
				20-4			
				Oct 1	Balance	b/d	1 340

12 a

CK Club							
Subscriptions account							
Date	Details	Fo.	\$	Date	Details	Fo.	\$
20-7				20-7			
Jan 1	Balance	b/d	1 680	Jan 1	Balance	b/d	600
Dec 31	Income & expenditure		24 000	Dec 31	Bank/cash		24 360
	Balance	c/d	720		Irrecoverable debts		480
			<u>26 400</u>		Balance	c/d	<u>960</u>
							<u>26 400</u>
20-8				20-8			
Jan 1	Balance	b/d	960	Jan 1	Balance	b/d	720

- b i** Subscriptions are the amounts paid by member to the club, often annually, in order to be able to use the facilities provided by the club.
 - ii** An income and expenditure account is prepared at the end of each financial year to compare the gains with the expenses to calculate the surplus or deficit for the year.
 - iii** A receipts and payments account is a summary of the cash book which is prepared annually.
 - iv** The accumulated fund consists of the surpluses (less any deficits) which have accumulated over the life of the club. It replaces capital in the statement of financial position of a club.
- c** If a club is involved in any form of trading it is necessary to prepare a trading section of an income statement for each trading activity to show the profit earned on that activity.

13 a

Hamid and Waheed					
Profit and loss appropriation account for the year ended 31 August 20-6					
			\$	\$	\$
Profit for the year					19 463
Interest on drawings	Hamid			126	
	Waheed			<u>216</u>	<u>342</u>
					19 805
Less Interest on capital	Hamid				
	4% × 90 000 × 6/12		1 800		
	4% × 110 000 × 6/12		<u>2 200</u>		
			4 000		
	Waheed		<u>2 800</u>	6 800	
Partner's salary	Waheed 5000 × 6/12		2 500		
	7000 × 6/12		<u>3 500</u>	<u>6 000</u>	<u>12 800</u>
					7 005
Profit shares	Hamid			4 203	
	Waheed			<u>2 802</u>	<u>7 005</u>

b

Hamid and Waheed Current accounts								
Date	Details		Hamid	Waheed	Date	Details	Hamid	Waheed
			\$	\$			\$	\$
20–5					20–5			
Sep 1	Balance	b/d	1 950		Sep 1	Balance	b/d	12 050
20–6					20–6			
Aug 31	Drawings		4 200	7 200	Aug 31	Interest on capital	4 000	2 800
	Interest on drawings		126	216		Salary		6 000
	Balance	c/d	<u>1 927</u>	<u>16 236</u>		Profit share	<u>4 203</u>	<u>2 802</u>
			<u>8 203</u>	<u>23 652</u>			<u>8 203</u>	<u>23 652</u>
					20–6			
					Sep 1	Balance	b/d	1 927
								16 236

c

Hamid and Waheed Extract from statement of financial position at 31 August 20–6			
	\$	\$	\$
	Hamid	Waheed	Total
Capital accounts	<u>110 000</u>	<u>70 000</u>	180 000
Current accounts	<u>1 927</u>	<u>16 236</u>	<u>18 163</u>
			<u>198 163</u>

d

Hamid and Waheed Journal			
Date	Details	Debit	Credit
		\$	\$
20–6			
Sep 1	Waheed current	10 000	
	Waheed capital		10 000
	Transfer of funds from current account to capital account		
	Office equipment	2 000	
	Waheed capital		2 000
	Office equipment introduced into the business by partner		

14 a

Beth and Zara			
Statement of financial position at 31 August 20–2			
	\$	\$	\$
Assets			
Non-current assets			
Office furniture and equipment			36 850
Motor vehicles			<u>18 250</u>
			<u>55 100</u>
Current assets			
Trade receivables			6 120
Other receivables			310
Bank			<u>3 780</u>
			<u>10 210</u>
Total assets			<u>65 310</u>
Capital and liabilities			
	Beth	Zara	Total
Capital accounts	<u>36 000</u>	<u>24 000</u>	60 000
Current accounts			
Opening balance	4 000	(1 500)	
Interest on capital	1 440	960	
Partner's salary		5 000	
	<u>5 440</u>	<u>4 460</u>	
Less Drawings	<u>3 000</u>	<u>4 000</u>	
Interest on drawings	60	80	
Share of loss	<u>1 080</u>	<u>720</u>	
	<u>4 140</u>	<u>4 800</u>	
	<u>1 300</u>	<u>(340)</u>	960
			<u>60 960</u>
Current liabilities			
Trade payables			4 200
Other payables			<u>150</u>
			<u>4 350</u>
Total capital and liabilities			<u>65 310</u>

b i $\frac{60}{3\,000} \times 100 = 2\%$ or $\frac{80}{4\,000} \times 100 = 2\%$

ii $\frac{1\,440}{36\,000} \times 100 = 4\%$ or $\frac{960}{24\,000} \times 100 = 4\%$

- c i** One from:
- liability is limited to the amount the shareholders agree to pay for the shares
 - a company is a separate legal entity so any legal actions are taken against the company not the individual shareholders
 - a company has continuity of existence.
- ii** There any many legal requirements in relation to forming and running a limited company.
- d** Two from:
- money is only tied up for five years
 - interest on loan is to be greater than interest on capital
 - loan interest is an expense to the business and not affected by the amount of profit
 - it is not as risky as investing further capital as loans are repaid before capital.

15 a

Pierre			
Manufacturing account for the year ended 31 March 20–6			
	\$	\$	\$
Cost of material consumed			
Opening inventory of raw material		30 460	
Purchases of raw material	364 510		
Carriage on purchases	9 430	373 940	
		<u>404 400</u>	
Less Closing inventory of raw material		31 850	372 550
Direct wages (296 770 + 1 830)			<u>298 600</u>
Prime cost			671 150
Factory overheads			
Factory rent, rates and insurance ((28 480 – 1 040) × 3/4)		20 580	
Factory operating expenses (33 780 × 2/3)		22 520	
Factory supervisors' wages		87 400	
Depreciation factory machinery (20% × 154 000) + (20% × 18 000 × 6/12)		32 600	163 100
			<u>834 250</u>
Add Opening work in progress			18 020
			<u>852 270</u>
Less Closing work in progress			17 470
Cost of production			<u>834 800</u>

b

Pierre			
Income statement for the year ended 31 March 20–6			
	\$	\$	\$
Revenue			1 036 500
Less Cost of sales			
Opening inventory of finished goods		62 000	
Cost of production		834 800	
Purchases of finished goods	38 720		
Carriage on purchases	<u>1 240</u>	<u>39 960</u>	
		936 760	
Less Closing inventory of finished goods		<u>71 060</u>	<u>865 700</u>
Gross profit			170 800
Less Office rent, rates and insurance $((28\,480 - 1040) \times 1/4)$		6 860	
Office operating expenses $(33\,780 \times 1/3)$		11 260	
Wages of office and sales staff		82 300	
Depreciation office equipment $(15\% \times (32\,000 - 8880))$		<u>3 468</u>	<u>103 888</u>
Profit for the year			<u>66 912</u>

c Prudence

d Ensures that the revenue for the year is matched against the expenses of the same period of time.

e Prudence and matching

16 a

LS Limited				
Statement of changes in equity for the year ended 30 June 20–3				
	Ordinary share capital	General reserve	Retained earnings	Total
	\$	\$	\$	\$
On 1 July 20–2	100 000	15 000	8 900	123 900
Issue of ordinary shares	20 000			20 000
Profit for the year			7 300	7 300
Ordinary share dividend for the year ended 30 June 20–3			(5 000)	(5 000)
Transfer to general reserve		3 000	(3 000)	
Balance at 30 June 20–3	120 000	18 000	8 200	146 200

b

LS Limited			
Statement of financial position at 30 June 20–3			
	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Assets			
Non-current assets			
Land and buildings	98 000		98 000
Fixtures and equipment	50 000	13 550	36 450
Motor vehicles	36 000	22 500	13 500
	<u>184 000</u>	<u>36 050</u>	<u>147 950</u>
Current assets			
Inventory			15 680
Trade receivables		16 800	
Less Provision for doubtful debts		<u>420</u>	16 380
Other receivables			650
			<u>32 710</u>
Total assets			<u>180 660</u>
Equity and liabilities			
Equity and reserves			
Ordinary share capital			120 000
General reserve			18 000
Retained earnings			8 200
			<u>146 200</u>
Non-current liabilities			
5% debentures			<u>20 000</u>
Current liabilities			
Trade payables			8 450
Other payables			870
Bank overdraft			5 140
			<u>14 460</u>
Total capital and liabilities			<u>180 660</u>

c Two from:

- dividend payable after preference share dividend
- dividend may vary according to the profits of the company
- in a winding-up are repaid after all other liabilities
- holders are usually entitled to one vote per share.

d Two from:

- receive a fixed rate of interest
- interest is payable irrespective of the profits of the company
- in a winding-up are repaid before the shareholders

- are often secured on the assets of the company
 - holders are not allowed to vote at shareholders meetings.
- e** Present profit for the year 7 300 – additional debenture interest $5\% \times 45\,000 = 2\,250 =$ expected annual profit for the next three years 5 050
- f** Present profit for the year 7 300 + existing debenture interest $5\% \times 20\,000 = 1\,000 =$ present operating profit 8 300
- | | |
|---|-------|
| Expected operating profit = 8 300 + 10% | 9 130 |
| Less expected debenture interest | 3 250 |
| Expected profit for the year | 5 880 |
- g** Estimated profit available for distribution lower than at present so ordinary share dividend will probably fall. In the event of the company being wound up there will be more prior claims before any capital is returned to ordinary shareholders.
- 17 a i** Issued share capital is the amount of share capital which is issued to the shareholders.
- ii** Called-up capital is that part of the issued share capital for which payment has been requested from shareholders.
- iii** Paid-up share capital is that part of the called up share capital for which the company has received payment from shareholders.
- b** Two from:
- ordinary shares receive variable dividends, debentures received fixed interest
 - ordinary share dividend depends on profit, debenture interest does not depend on profit
 - ordinary shareholders are members of the company, debenture holders are lenders/creditors
 - ordinary shares carry voting rights, debentures do not carry voting rights
 - ordinary shareholders are paid last in a winding up, debentures are repaid before shareholders
 - ordinary shares are not secured on the assets of the company, debentures may be so secured.
- c** Some profit is retained each year so that the cash can be used for investment by the company. It is also retained when there is not enough cash to pay a dividend and also used in the future when profits are low.
- d** One from:
- to provide shareholders with a return on their investment
 - to distribute profit to shareholders.
- e** Profit for the year = 65 500 – six months debenture interest 1 000 = 64 500
- f** Retained earnings = balance 13 500 + profit for year 64 500 – transfer to reserve 6 000 – dividend paid 15 000 = 57 000

g

DC Limited			
Extract from statement of financial position at 30 April 20–9			
	\$	\$	\$
Equity and reserves			
Ordinary share capital			150 000
General reserve (35 000 + 6 000)			41 000
Retained earnings			57 000
			248 000

- 18 a i** Current assets : Current liabilities
- ii** $(7\,600 + 6\,150 + 650) : (5\,460 + 4\,000) = 1.52 : 1$
- iii** Only just within the generally accepted benchmark.
Immediate assets are $1\frac{1}{2}$ the amount of the immediate liabilities.
Can meet the immediate liabilities from the immediate assets.
- b i** Current assets – Inventory : Current liabilities
- ii** $(6\,150 + 650) : (5\,460 + 4\,000) = 0.72 : 1$
- iii** Only just within the generally accepted benchmark.
Cannot meet the immediate liabilities from the liquid assets.
Is reliant on selling inventory to be able to meet the immediate liabilities.
- c i** Trade receivables/Credit sales $\times 365$
- ii** $\frac{6\,150}{73\,200} \times 365 = 31$ days
- iii** Only one day outside the period of credit allowed, so is satisfactory.
No cash discount will have to be granted as the amounts paid outside the set time.
Possibility of irrecoverable debts is reduced.
- iv** Two from:
- offer cash discount / increase rate of cash discount
 - improve credit control policy
 - charge interest on overdue accounts
 - refuse further supplies until outstanding debt is paid.
- d i** $\frac{\text{Trade payables}}{\text{Credit purchases}} \times 365$
- ii** $\frac{5\,460}{66\,600} \times 365 = 30$ days
- iii** Do not have to grant cash discount.
- iv** One from:
- adversely affects cash flow
 - the longer a debt is outstanding the greater the risk of it becoming irrecoverable.
- 19 a** Two from:
- increasing rate of trade discount allowed to customers
 - selling at lower prices
 - not passing on increased costs to customers.
- b i** Gross profit = $20\% \times 360\,000 = 72\,000$
Profit for the year = $72\,000 - 44\,500 = 27\,500$
- ii** $\frac{27\,500}{360\,000} \times 100 = 7.64\%$
- iii** Expenses/revenue in 20–6 = $(23.50 - 9.25) = 14.25\%$
Expenses/revenue in 20–7 = $(20.00 - 7.64) = 12.36\%$
Better control in 20–7 as percentage of expenses to revenue is lower.
- c i** $\frac{27\,500}{(543\,000 + 119\,500 - 92\,500)} \times 100 = \frac{27\,500}{570\,000} \times 100 = 4.82\%$
- ii** Decrease from 5.54% to 4.82%. Funds are not being employed as effectively in second year. The ratio is affected by any change in the capital employed and any change in the profit for the year.

iii Transaction 1

No change. One asset is being exchanged for another so no change to capital employed.
Sold at book value so no change to profit.

Transaction 2

Decrease. Capital employed will increase by the funds provided by the new ordinary shares. No change to the profit as any dividend is deducted after the calculation of the profit for the year.

Transaction 3

Decrease. Capital employed will increase by the funds provided by the long-term loan.
The operating profit for the year (profit before interest) will not be affected.