"WHAT WE LEARN
WITH PLEASURE
WE NEVER FORGET"

ALI RAZA

INTELLIGENCE

PLUS

CHARACTER

THAT IS THE GOAL OF
TRUE EDUCATION

Cambridge Assessment International Education

Syllabus

Cambridge O Level Accounting 7707

Use this syllabus for exams in 2023, 2024 and 2025.
Exams are available in the June and November series.

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Assessment overview

All candidates take two papers.

All candidates take:	and:
Paper 1 1 hour 15 minutes Multiple Choice 30% 35 marks Multiple-choice questions Questions will be based on all syllabus content Externally assessed	**Paper 2** 1 hour 45 minutes Structured Written Paper 70% 100 marks Questions will be based on all syllabus content Externally assessed

2 Sources and recording of data continued

2.2 Business documents

- recognise and understand the following business documents: invoice, debit note, credit note, statement of account, cheque, receipt
- complete pro-forma business documents
- understand the use of business documents as sources of information: invoice, credit note, cheque counterfoil, paying-in slip, receipt, bank statement.

2.3 Books of prime entry

- explain the advantage of using various books of prime entry
- explain the use of and process accounting data in the books of prime entry: cash book, petty cash book, sales journal, purchases journal, sales returns journal, purchases returns journal and the general journal
- post the ledger entries from the books of prime entry
- distinguish between and account for trade discount and cash discounts
- explain the dual function of the cash book as a book of prime entry and as a ledger account for bank and cash
- explain the use of and record payments and receipts made by bank transfers and other electronic means
- explain and apply the imprest system of petty cash.

3 Verification of accounting records

3.1 The trial balance

- understand that a trial balance is a statement of ledger balances on a particular date
- outline the uses and limitations of a trial balance
- prepare a trial balance from a given list of balances and amend a trial balance which contains errors
- identify and explain those errors which do not affect the trial balance: commission, compensating, complete reversal, omission, original entry, principle.

3.2 Correction of errors

- correct errors by means of journal entries
- explain the use of a suspense account as a temporary measure to balance the trial balance
- correct errors by means of suspense accounts
- adjust a profit or loss for an accounting period after the correction of errors
- understand the effect of correction of errors on a statement of financial position.

3.3 Bank reconciliation

- understand the use and purpose of a bank statement
- update the cash book for bank charges, bank interest paid and received, correction of errors, credit transfers, direct debits, dividends, and standing orders
- understand the purpose of and prepare a bank reconciliation statement to include bank errors, uncredited deposits and unpresented cheques.

3 Verification of accounting records continued

3.4 Control accounts

- understand the purposes of purchases ledger and sales ledger control accounts
- identify the books of prime entry as sources of information for the control account entries
- prepare purchases ledger and sales ledger control accounts to include credit purchases and sales, receipts and payments, cash discounts, returns, irrecoverable debts, dishonoured cheques, interest on overdue accounts, contra entries, refunds, opening and closing balances (debit and credit within each account).

Candidates do not need to prepare control accounts which are part of the double entry system.

Candidates do not need to reconcile control account balances with the sales and purchases ledger balances.

4 Accounting procedures

4.1 Capital and revenue expenditure and receipts

- distinguish between and account for capital expenditure and revenue expenditure
- distinguish between and account for capital receipts and revenue receipts
- calculate and comment on the effect on profit of incorrect treatment
- calculate and comment on the effect on asset valuations of incorrect treatment.

4.2 Accounting for depreciation and disposal of non-current assets

- define depreciation
- explain the reasons for accounting for depreciation
- name and describe the straight-line, reducing balance and revaluation methods of depreciation
- prepare ledger accounts and journal entries for the provision of depreciation
- prepare ledger accounts and journal entries to record the sale of non-current assets, including the use of disposal accounts.

4.3 Other payables and other receivables

- recognise the importance of matching costs and revenues
- prepare ledger accounts and journal entries to record accrued and prepaid expenses
- prepare ledger accounts and journal entries to record accrued and prepaid incomes.

4.4 Irrecoverable debts and provision for doubtful debts

- understand the meaning of irrecoverable debts and recovery of debts written off
- prepare ledger accounts and journal entries to record irrecoverable debts
- prepare ledger accounts and journal entries to record recovery of debts written off
- explain the reasons for maintaining a provision for doubtful debts
- prepare ledger accounts and journal entries to record the creation of, and adjustments to, a provision for doubtful debts.

Basic Accounting

Bookkeeping:

Bookkeeping is a process of detailed recording of all the financial transaction of a business. This means keeping detailed and up to date records on business transactions, the date each one occurred, items received or supplied to and their total prices. Bookkeeping records are entered into the books called books of prime entry and ledger accounts. Together they will provide a complete record of every transaction of business has made.

Accounting:

Accounting involves the preparation of financial summaries and statements from bookkeeping records. The purpose of accounting is to measure the profit or loss and value of a business. The owner of a business needs to know whether the business is making a profit or loss for this purpose an income statement is prepared. The owner of the business also needs to know the financial position at regular intervals so statement of financial position is prepared which summaries financial information about the value of the business.

The bookkeeping and accounting process:

Recording transactions -> Classifying and grouping transactions -> Summarizing financial information -> Reporting and using financial information

Titals/Pillars of accounts:

A -> Assets
L -> Liabilities
C -> Capital
E -> Expenses
R -> Revenue

Assets:

Asset is a resource which are controlled by an entity from which future benefit is derived. There are two types of assets

A) Non-current asset are those assets which have a life of more than one year and it remains productive for several years and can be used over and over again in day to day operation for example machinery, premises, equipment and vehicles.

B) current assets they are those assets which are to be used within one year for example inventory, accounts receivable (debtors), cash at bank, cash at hand.

Inventory: Anything which is purchased for the intention to resale.

accounts receivable (debtors): It represents the amount owed to the business by its credit customer.

Liabilities:

They are the financial obligations to repay money owed to other people and organisations. These include non current liabilities such as bank loans which are amount payable in more than one year and current liabilities which will required repayment quickly, often with in a few months in the accounting for example bank overdraft and accounts payable (creditors).

accounts payable (creditors): It Represent the amount the business owes to the credit suppliers of goods.

Capital:

Owner's capital or equity is the money invested in business assets by the business owners from their own funds. It is the total resources provided by the owner and represents what the business owes the owner.

Expense:

Expired cost of an asset from which no further benefit can be gained are called expenses for example salary expense, rent expense, transportation expense.

Revenue:

It is the gross inflow of resources arises during the course of business example sales, rent income, commission received

Accounting Equation

The total money invested in the total Assets of a business will always be equal to the amount of capital owed by the business to its owners and the total of its liabilities to other people and Organizations. That is

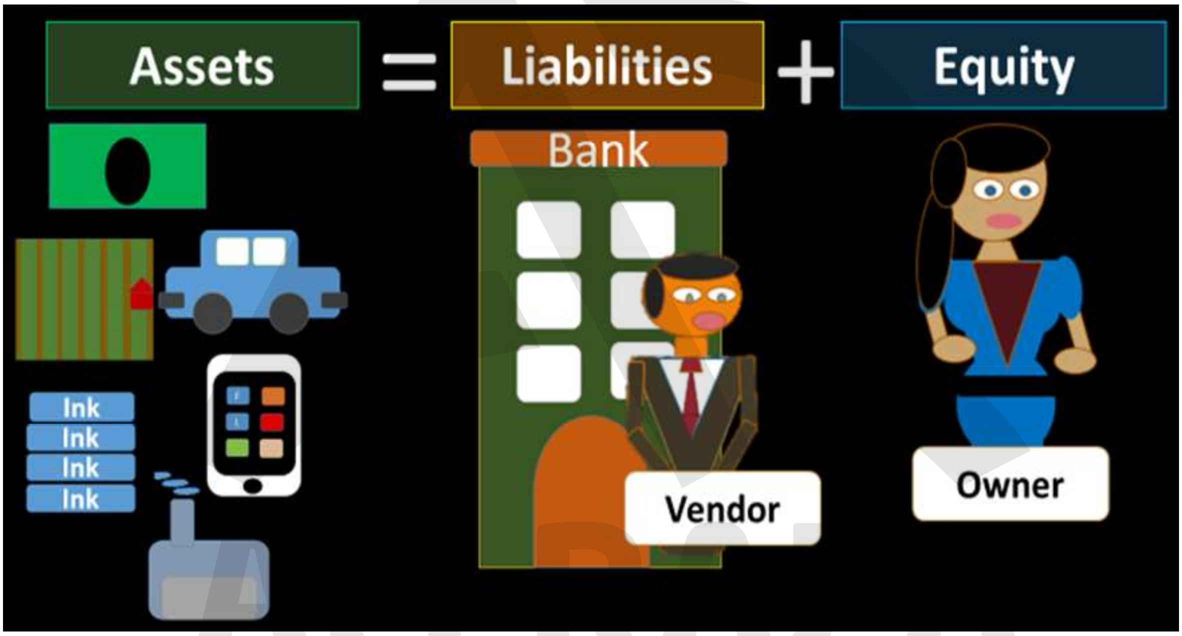
assets = Capital + liabilities

or by simply rearranging

Capital = assets - liabilities

or

liabilities = assets - capital



Debit and credit

Double entry:

The day to day transactions are recorded in the books of a business using the double entry system of bookkeeping. The term double entry is used because the two effects of a transaction are both recorded in the ledger. A business maintained as separate ledger account for each type of asset, Expense, liability and income and also for each individual debtor and creditor. Every transaction is recorded in the ledger account relating to that particular person or item. Ledger accounts are divided into two sections. The left hand side is known as the debit side and the right hand side is known as the credit side. That the term debit is abbreviated to 'dr' and the term credit is usually abbreviated to 'CR'.

Bill Gates
Statement of financial Position
As at 31 Dec 20X6

	$	$
Non-current assets		
Motor van		X
Current assets		
Inventory	X	
Receivables	X	
Cash at bank	X	
Cash in hand	X	X
		X
Capital and Liabilities		
Capital		X
Non-current liabilities		
Bank loan		X
Current liabilities		
Accounts payable		X
		X

Trial balance:

A trial balance is a list of the balances on the accounts in the ledger at a certain date. A trial balance is prepared to check the arithmetical accuracy of the double entry bookkeeping. it is not a part of the double entry system.

Purpose of a trial balance:

1) the trial balance can help in locating arithmetical errors for restore however the balancing of the trial balance is not prove that the entries in the ledger account are completely free from errors
2) A trial balance is useful in preparing financial statements

2 Which of the following are assets and which are liabilities of a business?

(a) Premises
(b) a bank loan
(c) a fork lift truck
(d) money owed to a supplier
(e) office furniture
(f) computer equipment
(g) inventory of goods for resale
(h) money owed by a customer
(i) savings in a bank deposit account
(j) an inventory of stationery for office use

5 On 31 January a business had the following assets, liabilities and capital:

Machinery $110 000
Cash in bank $4 000
Outstanding bank loan $200 000
Vehicles $30 000
Inventory $26 000
Capital $145 000
Trade payables $55 000
Trade receivables $30 000
Premises $180 000
Equipment $20 000

Prepare a simple statement of the financial position of the business as at 31 January from this information.

8 Complete the table to show the impact of the following transactions:

Transaction	Impact on assets	Impact on liabilities	Impact on capital
(a) The owner invests $16 000 of her own money in new equipment for her business	*Increase*		*Increase*
(b) $500 of goods are purchased on credit from a supplier			
(c) A cheque payment of $450 is made to buy a new computer for the office			
(d) The balance of $180 on a trade receivable is paid in full with cash by the credit customer			
(e) The business borrows $15 000 from a car finance company to buy a new van			
(f) The old van is sold off to a scrap merchant for $1 000 in cash			
(g) Immediate payment is received in cash from the sale of $225 worth of goods			

1. Complete the following table.

	Current asset	Non-current asset	Current liability	Non-current liability
Buildings		✓		
Loan from a relative repayable within six months				
Cash on the business premises				
Money owed to suppliers				
Goods for sale held in storage				
Office furniture				
Bank loan repayable over 10 years				
Money owed by customers				
Cash in the business bank account				
Vehicles				
Machinery				

2. The following table shows details about the total assets, liabilities and capital of different businesses. For each one calculate the missing value using the accounting equation.

Business	Assets	Liabilities	Capital
A	$90 000	$40 000	
B	$2.25 million		$1 million
C		$235 000	$122 000
D	$250 000	$134 000	
E	$120 million		$65 million

3. Umar owns and runs a small business. The following information, in no particular order, was taken from his accounts on 31 March this year.

	$
Cash in bank	12 000
Equipment	23 000
Premises	145 000
Inventory	30 000
Trade payables	25 000
Delivery vehicles	14 000
Bank loan	60 000
Trade receivables	21 000
Fixtures and fittings	9 000

(a) What was the value of Umar's total assets at 31 March?

(b) What was the value of his total liabilities at 31 March?

(c) Use the accounting equation to calculate the value of Umar's capital as at 31 March.

(d) Prepare a simple statement of financial position for Umar's business as at 31 March.

Exam-style questions

1 Which task is performed by a book-keeper?

A analysing the trading results

B entering transactions in the ledger

C preparing year-end financial statements

D providing information for decision-making

2 A trader provided the following information:

	$
Premises	180 000
Inventory	23 420
Trade payables	26 180
Trade receivables	21 710
Office fixtures and fittings	32 600
Loan from bank	80 000
Cash at bank	2 550
Motor vehicles	15 900

a Calculate the value of the assets.

b Calculate the value of the liabilities.

c Use the accounting equation to calculate the trader's capital.

3 What is a statement of financial position?

A a calculation of the amount owed to the owner of the business

B a list of assets and liabilities of a business on a certain date

C a list of everything owned by and owed to a business

D a summary of money paid to and received by a business

4 A business had $9 420 in its bank account. The following transactions took place:

	$
Bought goods on credit	250
Sold goods on credit	1 100
Repaid a loan by cheque	5 000

How much was there in the bank after these transactions?

A $3 570 B $4 420 C $4 670 D $5 270

1.1 Complete the gaps in the following table:

	Assets	Liabilities	Capital
	£	£	£
(a)	20,000	3,400	?
(b)	23,000	8,800	?
(c)	19,200	?	3,200
(d)	8,100	?	6,500
(e)	?	7,900	17,300
(f)	?	18,500	51,900

1.2A Complete the gaps in the following table:

	Assets	Liabilities	Capital
	£	£	£
(a)	55,000	16,900	?
(b)	?	17,200	34,400
(c)	36,100	?	28,500
(d)	119,500	15,400	?
(e)	88,000	?	62,000
(f)	?	49,000	110,000

1.3 Which of the items in the following list are liabilities and which of them are assets?

(a) Loan from A. Sangster
(b) We owe a supplier
(c) Equipment
(d) Bank overdraft
(e) Inventory of goods held for sale
(f) Loan to F. Wood

1.4A Classify the following items into liabilities and assets:

(a) Motor vehicles
(b) Premises
(c) Accounts payable for inventory
(d) Inventory
(e) Accounts receivable
(f) Owing to bank
(g) Cash in hand
(h) Loan from D. Jones
(i) Machinery

1.7 Luca Pacioli is setting up a new business. Before actually selling anything, he bought a van for £13,000, a transportable market stall for £1,050; a computer for £450; and an inventory of goods for £8,000. He did not pay in full for his inventory of goods and still owes £3,000 for them. He borrowed £10,000 from Basil Yamey. After the events just described, and before trading starts, he has £1,400 cash in hand and £4,700 in the bank. Calculate the amount of his capital.

1.8A F. Flint is starting a business. Before actually starting to sell anything, he bought fixtures for £1,200, a van for £6,000 and an inventory of goods for £2,800. Although he has paid in full for the fixtures and the van, he still owes £1,600 for some of the inventory. B. Rub lent him £2,500. After the above, Flint has £200 in the business bank account and £175 cash in hand. You are required to calculate his capital.

1.9 Draw up N. Marriott's statement of financial position from the following information as at 31 December 2011:

	£
Capital	20,700
Accounts receivable	800
Car	8,300
Accounts payable	3,600
Equipment	7,900
Inventory	5,700
Cash at bank	1,600

1.10A Draw up M. Kelly's statement of financial position as at 30 June 2012 from the following items.

	£
Capital	10,200
Equipment	3,400
Accounts payable	4,100
Inventory	3,600
Accounts receivable	4,500
Cash at bank	2,800

1.11 Complete the columns to show the effects of the following transactions:

	Effect upon Assets	Liabilities	Capital
(a) We pay a creditor £310 by cheque.			
(b) Bought fixtures £175 paying in cash.			
(c) Bought goods on credit £630.			
(d) The proprietor introduces another £1,200 cash into the business.			
(e) J. Walker lends the business £2,500 in cash.			
(f) A debtor pays us £50 in cash.			
(g) We return goods costing £90 to a supplier whose bill we had not paid.			
(h) Bought an office computer paying £610 by cheque.			

1.12A Complete the columns to show the effects of the following transactions:

	Effect upon Assets	Liabilities	Capital
(a) Bought a van on credit £8,700.			
(b) Repaid by cash a loan owed to F. Duff £10,000.			
(c) Bought goods for £1,400 paying by cheque.			
(d) The owner puts a further £4,000 cash into the business.			
(e) A debtor returns to us goods worth £150. We agree to make an allowance for them.			
(f) Bought goods on credit £760.			
(g) The owner takes out £200 cash for his personal use.			
(h) We pay a creditor £1,150 by cheque.			

2.1 Complete the following table:

	Account to be debited	Account to be credited
(a) Bought computer on credit from C. Ure Ltd.		
(b) The proprietor paid a creditor, P. Took, from his private funds.		
(c) A debtor, J. Pike, paid us by cheque.		
(d) Repaid part of loan from J. Syme in cash.		
(e) Returned the computer to C. Ure Ltd.		
(f) A debtor, F. Wilson, pays us by cheque.		
(g) Bought car on credit from Wiley Motors.		

2.2A Complete the following table:

	Account to be debited	Account to be credited
(a) Bought lorry for cash.		
(b) Paid creditor, T. Lake, by cheque.		
(c) Repaid P. Logan's loan by cash.		
(d) Sold lorry for cash.		
(e) Bought office machinery on credit from Ultra Ltd.		
(f) A debtor, A. Hill, pays us by cash.		
(g) A debtor, J. Cross, pays us by cheque.		
(h) Proprietor puts a further amount into the business by cheque.		
(i) A loan of £200 in cash is received from L. Lowe.		
(j) Paid a creditor, D. Lord, by cash.		

2.3 Write up the asset and liability and capital accounts to record the following transactions in the records of J. Beach.

2013
July
1 Started business with £62,000 in the bank.
2 Bought office furniture by cheque £3,700.
3 Bought computers £1,710 on credit from VPC Ltd.
5 Bought a van paying by cheque £9,800.
8 Sold some of the office furniture – not suitable for the business – for £450 on credit to D. Bush & Sons.
15 Paid the amount owing to VPC Ltd £1,710 by cheque.
23 Received the amount due from D. Bush & Sons £450 by cheque.
31 Bought machinery by cheque £310.

Review questions

3.1 Complete the following table:

	Account to be debited	Account to be credited
(1) Goods sold for cash.		
(2) Vans bought on credit from H. Thomas.		
(3) Machinery sold for cash.		
(4) Goods sold on credit to B. Perkins.		
(5) Goods purchased by us returned to supplier, H. Hardy.		
(6) Goods bought on credit from J. Reid.		
(7) Goods sold, a cheque being received immediately.		
(8) Goods we returned to H. Forbes.		
(9) Goods sold returned to us by customer, J. Nelson.		
(10) Goods bought on credit from D. Simpson.		

3.2A Complete the following table:

	Account to be debited	Account to be credited
(a) Goods bought on credit from T. Morgan.		
(b) Goods returned to us by J. Thomas.		
(c) Machinery returned to L. Jones Ltd.		
(d) Goods bought for cash.		
(e) Van bought on credit from D. Davies Ltd.		
(f) Goods returned by us to I. Prince.		
(g) D. Picton paid us his account by cheque.		
(h) Goods bought by cheque.		
(i) We paid creditor, B. Henry, by cheque.		
(j) Goods sold on credit to J. Mullings.		

3.3 You are to write up the following in the books:

2012		
July	1	Started in business with £1,600 cash.
	3	Bought goods for cash £220.
	7	Bought goods on credit £600 from F. Herd.
	10	Sold goods for cash £86.
	14	Returned goods to F. Herd £730.
	18	Bought goods on credit £120 from D. Exodus.
	21	Returned goods to D. Exodus £52.
	24	Sold goods to B. Squire £146 on credit.
	25	Paid F. Herd's account by cash £480.
	31	B. Squire paid us his account in cash £146.

2.5A Write up the asset, capital and liability accounts in the books of D. Gough to record the following transactions:

2012		
June	1	Started business with £16,000 in the bank.
	2	Bought van paying by cheque £6,400.
	5	Bought office fixtures £900 on credit from Old Ltd.
	8	Bought van on credit from Carton Cars Ltd £7,100.
	12	Took £180 out of the bank and put it into the cash till.
	15	Bought office fixtures paying by cash £120.
	19	Paid Carton Cars Ltd a cheque for £7,100.
	21	A loan of £500 cash is received from B. Berry.
	25	Paid £400 of the cash in hand into the bank account.
	30	Bought more office fixtures paying by cheque £480.

2.6A Write up the accounts to record the following transactions:

2010		
March	1	Started business with £750 cash and £9,000 in the bank.
	2	Received a loan of £2,000 from B. Blane by cheque.
	3	Bought a computer for cash £600.
	5	Bought display equipment on credit from Clearcount Ltd £420.
	8	Took £200 out of the bank and put it in the cash till.
	15	Repaid part of Blane's loan by cheque £500.
	17	Paid amount owing to Clearcount Ltd £420 by cheque.
	24	Repaid part of Blane's loan by cash £250.
	31	Bought a printer on credit from F. Jones for £200.

3.5 Enter the following transactions in the accounts of L. Linda:

2013

July	1	Started in business with £20,000 in the bank.
	2	D. Rupert lent us £5,000 in cash.
	3	Bought goods on credit from B. Brown £1,530 and I. Jess £4,162.
	4	Sold goods for cash £1,910.
	6	Took £200 of the cash and paid it into the bank.
	8	Sold goods on credit to H. Rise £1,530.
	10	Sold goods on credit to P. Taylor £341.
	11	Bought goods on credit from B. Brown £560.
	12	H. Rise returned goods to us £65.
	14	Sold goods on credit to G. Pate £535 and R. Sim £262.
	15	We returned goods to B. Brown £94.
	17	Bought van on credit from Aberdeen Cars Ltd £9,100.
	18	Bought office furniture on credit from J. Winter Ltd £1,800.
	19	We returned goods to I. Jess £130.
	20	Bought goods for cash £770.
	24	Goods sold for cash £110.
	25	Paid money owing to B. Brown by cheque £1,924.
	26	Goods returned to us by G. Pate £34.
	27	Returned some of office furniture costing £180 to J. Winter Ltd.
	28	L. Linda put a further £2,500 into the business in the form of cash.
	29	Paid Aberdeen Cars Ltd £9,100 by cheque.
	31	Bought office furniture for cash £365.

3.6A Enter the following transactions in the accounts:

2012

May	1	Started in business with £18,000 in the bank.
	2	Bought goods on credit from B. Hind £1,455.
	3	Bought goods on credit from G. Smart £472.
	5	Sold goods for cash £210.
	6	We returned goods to B. Hind £82.
	8	Bought goods on credit from G. Smart £370.
	10	Sold goods on credit to P. Syme £483.
	12	Sold goods for cash £305.
	18	Took £250 of the cash and paid it into the bank.
	21	Bought a printer by cheque £620.
	22	Sold goods on credit to H. Buchan £394.
	23	P. Syme returned goods to us £160.
	25	H. Buchan returned goods to us £18.
	28	We returned goods to G. Smart £47.
	29	We paid Hind by cheque £1,373.
	31	Bought machinery on credit from A. Cobb £419.

Financial Statement of Sole Trader

(Without Adjustment)

➔ **INCOME STATEMENT**

➔ **STATEMENT OF FINANTIAL POSITION (BALANCE SHEET)**

Income Statement:

An income statement is statement prepared for a trading period to show the gross profit and profit for the year.

➔ **Gross profit = Revenue – cost of sales**

- Cost of sales = Opening inventory + net purchases – closing inventory
- Net purchases = Purchases + carriage inward – purchase return

➔ **Profit for the year = gross profit – expenses**

STATEMENT OF FINANTIAL POSITION (BALANCE SHEET):

A statement of financial position shows the assets and liabilities of the business at a certain date.
Financial statements are normally prepared from a trial balance

Mr. Mehdi Ali Dharamsey
Income statement
For the year ended 31 Dec 2013

	$	$
Revenue		xx
Less sale return		(xx)
		xx
Less cost of sales		
Opening inventory	xx	
Add purchase	xx	
Carriage inward	xx	
Less purchase return	(xx)	
Less closing inventory	(xx)	(xx)
Gross profit		xx
Add, other income		
Discount received	xx	
Commission received	xx	xx
		xx
Less expenses		
Carriage outward	xx	
Salaries & wages	xx	
Rent	xx	
Stationery expense	xx	
Electricity expense	xx	(xx)
Profit for the year		xx

Mr. Mehdi Ali Dharamsey
Statement of financial Position
As at 31 Dec 2013

	$	$	$
Noncurrent Assets:			
Building		xx	
Furniture		xx	xx
Current Assets:			
Inventory		xx	
Receivable		xx	
Cash at bank		xx	
Cash at hand		xx	xx
Total assets			xx
Capital & Liabilities:			
Capital			xx
Add profit for the year			xx
			xx
Less drawing			(xx)
			xx
Add Noncurrent Liabilities			
Bank loan			xx
Current liability			
Bank overdraft		xx	
Accounts Payable		xx	xx
			Xx

9.1 From the following information, draw up the trading account section of the income statement of J. Bell for the year ending 31 December 2012, which was his first year in business:

	£
Carriage inwards	1,000
Returns outwards	900
Returns inwards	1,300
Sales	165,000
Purchases	120,000
Inventory of goods: 31 December 2012	11,600

9.2A The following information is available for the year ending 31 March 2013. Draw up the trading account section of the income statement of P. Frank for that year.

	£
Inventory: 31 March 2013	52,400
Returns inwards	16,220
Returns outwards	19,480
Purchases	394,170
Carriage inwards	2,490
Sales	469,320

9.3 From the following trial balance of G. Still, draw up an income statement for the year ending 30 September 2013, and a statement of financial position as at that date.

	Dr	*Cr*
	£	£
Inventory: 1 October 2012	41,600	
Carriage outwards	2,100	
Carriage inwards	3,700	
Returns inwards	1,540	
Returns outwards		3,410
Purchases	188,430	
Sales		380,400
Salaries and wages	61,400	
Warehouse rent	3,700	
Insurance	1,356	
Motor expenses	1,910	
Office expenses	412	
Lighting and heating expenses	894	
General expenses	245	
Premises	92,000	
Motor vehicles	13,400	
Fixtures and fittings	1,900	
Accounts receivable	42,560	
Accounts payable		31,600
Cash at bank	5,106	
Drawings	22,000	
Capital		68,843
	484,253	484,253

Inventory at 30 September 2013 was £44,780.

9.4 The following trial balance was extracted from the books of F. Sorley on 30 April 2013. From it, and the note about inventory, prepare his income statement for the year ending 30 April 2013, and a statement of financial position as at that date.

	Dr	Cr
	£	£
Sales		210,420
Purchases	108,680	
Inventory: 1 May 2012	9,410	
Carriage outwards	1,115	
Carriage inwards	840	
Returns inwards	4,900	
Returns outwards		3,720
Salaries and wages	41,800	
Motor expenses	912	
Rent	6,800	
Sundry expenses	318	
Motor vehicles	14,400	
Fixtures and fittings	912	
Accounts receivable	23,200	
Accounts payable		14,100
Cash at bank	4,100	
Cash in hand	240	
Drawings	29,440	
Capital		18,827
	247,067	247,067

Inventory at 30 April 2013 was £11,290.

9.5A The following is the trial balance of T. Owen as at 31 March 2012. Draw up a set of financial statements for the year ended 31 March 2012.

	Dr	Cr
	£	£
Inventory: 1 April 2011	52,800	
Sales		276,400
Purchases	141,300	
Carriage inwards	1,350	
Carriage outwards	5,840	
Returns outwards		2,408
Wages and salaries	63,400	
Business rates	3,800	
Communication expenses	714	
Commissions paid	1,930	
Insurance	1,830	
Sundry expenses	208	
Buildings	125,000	
Accounts receivable	45,900	
Accounts payable		24,870
Fixtures	1,106	
Cash at bank	31,420	
Cash in hand	276	
Drawings	37,320	
Capital		210,516
	514,194	514,194

Inventory at 31 March 2012 was £58,440.

9.6A F. Brown drew up the following trial balance as at 30 September 2011. You are to draft the income statement for the year ending 30 September 2011 and a statement of financial position as at that date.

	Dr	*Cr*
	£	£
Capital		49,675
Drawings	28,600	
Cash at bank	4,420	
Cash in hand	112	
Accounts receivable	38,100	
Accounts payable		26,300
Inventory: 30 September 2010	72,410	
Van	5,650	
Office equipment	7,470	
Sales		391,400
Purchases	254,810	
Returns inwards	2,110	
Carriage inwards	760	
Returns outwards		1,240
Carriage outwards	2,850	
Motor expenses	1,490	
Rent	8,200	
Telephone charges	680	
Wages and salaries	39,600	
Insurance	745	
Office expenses	392	
Sundry expenses	216	
	468,615	468,615

Inventory at 30 September 2011 was £89,404.

9.9 From the following trial balance of Kingfire, extracted after one year of operations, prepare an income statement for the year ending 30 June 2012, together with a statement of financial position as at that date.

	£	£
Sales		35,800
Purchases	14,525	
Salaries	2,325	
Motor expenses	9,300	
Rent and business rates	1,250	
Insurances – building	750	
– vehicles	1,200	
Motor vehicles	10,000	
Fixtures	17,500	
Cash in hand	500	
Cash at bank		1,250
Drawings	12,000	
Long-term loan		15,000
Capital		19,275
Accounts receivable	11,725	
Accounts payable		9,750
	81,075	81,075

Inventory on 30 June 2012 was £3,000.

Books of Prime Entry and Source Documents

Books of prime entry:

A book of prime entry is one in which transactions are recorded before being entered in the ledger.
There are 6 books of prime entry

1) Sales journal
2) Purchase journal
3) Sales return journal
4) purchase return journal
5) Cash book
6) General journal

1) Sales journal:

The sales journal shows a list of the names of businesses to which credit sales have been made, the value of the goods sold and the date on which the sales were made.

2) Purchase journal:

The Purchase journal shows a list of the names of the businesses from which credit purchases have been made, the value of the goods purchased and the date on which the purchases were made.

3) Sales return journal:

The sales return journal shows a list of the names of businesses which have returned goods previously sold on credit , the value of the goods return and the date on which the returns were made.

4) Purchase return journal:

The Purchase returns channel shows a list of the names of the businesses to which goods previously purchased on credit, have been returned , the value of the goods returned and the date on which the returns were made .

5) Cash book:

Businesses hold cash to make payments for the goods and services they buy and some cash business keep on their premises which are called cash in hand. However most businesses keep up much larger Reserve of cash in a bank account which is called cash in bank. Every transaction of a business involving the exchange of cash should be recorded in its cash book

6) General Journal:

All other transactions that do not fit in any other book of prime entry are recorded in general journal.

Ledger:

Ledger is where a transaction is finally debited and credited
There are three types of ledger
1) Sales ledger
All debtors' accounts are kept in the sales ledger
2) Purchase ledger
All creditors' accounts are kept in the Purchase ledger
3) General ledger
Rest of the accounts is in general ledger including control accounts for both sales and purchase ledger.
4) Cash Book

Source documents:

Business transactions are recorded from source documents. Whenever a business transaction takes place, involving sales or purchases , receiving or payment money it is usual for the transaction to be recorded on a document. These documents are the source of all the information recorded by a business. Documents used to record the business transactions in the books of account of the business include the following

1) Invoice:

When a business sells goods or services on credit to a customer it sends out an invoice. Invoice details the amount and type of goods supplied on credit.
- Sales invoice; for the supplier the invoice is sales invoice since he is selling
- purchase invoice; for customer it is a purchase invoice since he is purchasing

2) Debit note:

Document sent by a customer to a supplier in respect of goods returned or an over payment made

3) Credit note:

A document sent by a supplier to a customer in respect of goods returned or over payments made by the customer.

4) Receipt:

A written confirmation that money has been paid. This is normally in respect of cash sales

5) Statement of account:

A document sent out by a supplier to a customer listing all invoices, credit notes and payments received from the customer

6) Cheque counterfoil:

It is a part of a cheque that has been retained as a record of the transaction.

7) Bank Statement

8) Payroll/Payslip

Discount:

Reduction in payment is called discount
There are two types of discount
a) Trade discount
b) Cash discount

a) Trade discount:

Discount which business allowed on bulk purchases, on customer loyalty, bargaining or on reference. This discount are never recorded in the books of accounts

B) Cash discount:

Discount which business allowed on prompt payment. There are two types of cash discount
I) discount allowed; it is an expense for business
II) Discount received; it is an income for business

Review questions

16.3 You are to enter up the sales, purchases, returns inwards and returns outwards day books from the following details, then to post the items to the relevant accounts in the sales and purchases ledgers. The totals from the day books are then to be transferred to the accounts in the General Ledger.

2013		
May	1	Credit sales: T. Thompson £56; L. Rodriguez £148; K. Barton £145.
	3	Credit purchases: P. Potter £144; H. Harris £25; B. Spencer £76.
	7	Credit sales: K. Kelly £89; N. Mendes £78; N. Lee £257.
	9	Credit purchases: B. Perkins £24; H. Harris £58; H. Miles £123.
	11	Goods returned by us to: P. Potter £12; B. Spencer £22.
	14	Goods returned to us by: T. Thompson £5; K. Barton £11; K. Kelly £14.
	17	Credit purchases: H. Harris £54; B. Perkins £65; L. Nixon £75.
	20	Goods returned by us to B. Spencer £14.
	24	Credit sales: K. Mohammed £57; K. Kelly £65; O. Green £112.
	28	Goods returned to us by N. Mendes £24.
	31	Credit sales: N. Lee £55.

16.4A You are to enter the following items in the books, post to personal accounts, and show the transfers to the General Ledger.

2013		
July	1	Credit purchases from: K. Hill £380; M. Norman £500; N. Senior £106.
	3	Credit sales to: E. Rigby £510; E. Phillips £246; F. Thompson £356.
	5	Credit purchases from: R. Morton £200; J. Cook £180; D. Edwards £410; C. Davies £66.
	8	Credit sales to: A. Green £307; H. George £250; J. Ferguson £185.
	12	Returns outwards to: M. Norman £30; N. Senior £16.
	14	Returns inwards from: E. Phillips £18; F. Thompson £22.
	20	Credit sales to: E. Phillips £188; F. Powell £310; E. Lee £420.
	24	Credit purchases from: C. Ferguson £550; K. Ennevor £900.
	31	Returns inwards from: E. Phillips £27; E. Rigby £30.
	31	Returns outwards to: J. Cook £13; C. Davies £11.

Petty Cash Book

The imprest system is a form of financial accounting system. The most common *imprest system* is the *petty cash system*. The base characteristic of an *imprest system* is that a fixed amount is reserved, which after a certain period of time or when circumstances require, because money was spent, it will be replenished.

The advantages of using the Imprest system are **versatility**, **accountability**, practicality, limitation of theft, **ease** of use and limitation of expenditure. The system is a form of managing petty cash in a business. Using Imprest, the petty cash of a company is kept at a constant rate.

Reasons (advantages) for maintaining Petty Cashbook

- ✓ Reduce the number of entries in the main cash book
- ✓ Removes the small cash payments from 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 staff members

18.1 The following is a summary of the petty cash transactions of Jockfield Ltd for May 2012.

May	1	Received from Cashier £300 as petty cash float	£
	2	Postage	18
	3	Travelling	12
	4	Cleaning	15
	7	Petrol for delivery van	22
	8	Travelling	25
	9	Stationery	17
	11	Cleaning	18
	14	Postage	5
	15	Travelling	8
	18	Stationery	9
	18	Cleaning	23
	20	Postage	13
	24	Delivery van 5,000 mile service	43
	26	Petrol	18
	27	Cleaning	21
	29	Postage	5
	30	Petrol	14

You are required to:

(*a*) Rule up a suitable petty cash book with analysis columns for expenditure on cleaning, motor expenses, postage, stationery, travelling.

(*b*) Enter the month's transactions.

(*c*) Enter the receipt of the amount necessary to restore the imprest and carry down the balance for the commencement of the following month.

(*d*) State how the double entry for the expenditure is completed.

(*Association of Accounting Technicians*)

18.4 Fine Teas operates its petty cash account on the imprest system. It is maintained at a figure of £140, with the balance being restored to that amount on the first day of each month. At 30 April 2012 the petty cash box held £24.37 in cash.

During May 2012, the following petty cash transactions arose:

			£
May	1	Cash received to restore imprest (to be derived)	?
	1	Bus fares	0.41
	2	Stationery	2.35
	4	Bus fares	0.30
	7	Postage stamps	6.50
	7	Trade journal	0.95
	8	Bus fares	0.64
	11	Tippex	1.29
	12	Typewriter ribbons	5.42
	14	Parcel postage	3.45
	15	Paper-clips	0.42
	15	Newspapers	2.00
	16	Photocopier repair	16.80
	19	Postage stamps	1.50
	20	Drawing pins	0.38
	21	Train fare	5.40
	22	Photocopier paper	5.63
	23	Display decorations	3.07
	23	Tippex	1.14
	25	Wrapping paper	0.78
	27	String	0.61
	27	Sellotape	0.75
	27	Biro pens	0.46
	28	Stapler repair	13.66
	30	Bus fares	2.09
June	1	Cash received to restore imprest (to be derived)	?

Required:

(*a*) Open and post the company's analysed petty cash book for the period 1 May to 1 June 2012 inclusive.

(*b*) Balance the account at 30 May 2012.

(*c*) Show the imprest reimbursement entry on June 1.

13.3 A three-column cash book for a wine wholesaler is to be written up from the following details, balanced-off, and the relevant discount accounts in the general ledger shown.

2012

Mar 1 Balances brought forward: Cash £620; Bank £7,142.

2 The following paid their accounts by cheque, in each case deducting 5 per cent cash discounts: G. Slick £260; P. Fish £320; T. Old £420 (all amounts are pre-discount).

4 Paid rent by cheque £430.

6 F. Black lent us £5,000 paying by cheque.

8 We paid the following accounts by cheque in each case deducting a $2^1/_2$ per cent cash discount: R. White £720; G. Green £960; L. Flip £1,600 (all amounts are pre-discount).

10 Paid motor expenses in cash £81.

12 J. Pie pays his account of £90, by cheque £88, deducting £2 cash discount.

15 Paid wages in cash £580.

18 The following paid their accounts by cheque, in each case deducting 5 per cent cash discount: A. Pony £540; B. Line & Son £700; T. Owen £520 (all amounts are pre-discount).

21 Cash withdrawn from the bank £400 for business use.

24 Cash drawings £200.

25 Paid W. Peat his account of £160, by cash £155, having deducted £5 cash discount.

29 Bought fixtures paying by cheque £720.

31 Received commission by cheque £120.

13.4A Enter the following in the three-column cash book of an office supply shop. Balance-off the cash book at the end of the month and show the discount accounts in the general ledger.

2011

June 1 Balances brought forward: Cash £420; Bank £4,940.

2 The following paid us by cheque, in each case deducting a 5 per cent cash discount: S. Braga £820; L. Pine £320; G. Hodd £440; M. Rae £1,040.

3 Cash sales paid direct into the bank £740.

5 Paid rent by cash £340.

6 We paid the following accounts by cheque, in each case deducting $2^1/_2$ per cent cash discount: M. Peters £360; G. Graham £960; F. Bell £400.

8 Withdrew cash from the bank for business use £400.

10 Cash sales £1,260.

12 B. Age paid us their account of £280 by cheque less £4 cash discount.

14 Paid wages by cash £540.

16 We paid the following accounts by cheque: R. Todd £310 less cash discount £15; F. Dury £412 less cash discount £12.

20 Bought fixtures by cheque £4,320.

24 Bought lorry paying by cheque £14,300.

29 Received £324 cheque from A. Line.

30 Cash sales £980.

30 Bought stationery paying by cash £56.

17.1 You are to show the journal entries necessary to record the following items which occured in 2012:

(*a*) May 1 Bought a van on credit from Deedon Garage for £6,000.
(*b*) May 3 A debt of £100 owing from P. Knight was written off as a bad debt.
(*c*) May 8 Office furniture bought by us for £600 was returned to the supplier Timewas Ltd, as it was unsuitable. Full allowance will be given to us.
(*d*) May 12 We are owed £500 by R. Twig. He is declared bankrupt and we received £200 in full settlement of the debt.
(*e*) May 14 We take goods costing £20 out of the business inventory without paying for them.
(*f*) May 28 Some time ago we paid an insurance bill thinking that it was all in respect of the business. We now discover that £80 of the amount paid was in fact insurance of our private house.
(*g*) May 28 Bought machinery for £2,400 on credit from Electrotime Ltd.

17.2A Show the journal entries necessary to record the following items:

2013
Apr 1 Bought fixtures on credit from Bell and Co £1,153.
4 We take goods costing £340 out of the business inventory without paying for them.
9 £68 of the goods taken by us on 4 April is returned back into inventory by us. We do not take any money for the return of the goods.
12 H. Cowes owes us £640. He is unable to pay his debt. We agree to take some computer equipment from him at that value and so cancel the debt.
18 Some of the fixtures bought from Bell and Co, £42 worth, are found to be unsuitable and are returned to them for full allowance.
24 A debt owing to us by P. Lees of £124 is written off as a bad debt.
30 Office equipment bought on credit from Furniture Today Ltd for £1,710.

May/June 2015 – 22

Q2: The following balances were available from the books of Priya on 1 April 2015.

	$
Putil	3000 credit
Wages	1750 debit

The following transactions took place in April 2015.

April 5	Paid Putil half of his outstanding balance on 1 April by cheque, less 2% cash discount
April 8	Bought goods on credit from Putil, $800, less 20% trade discount
April 19	Paid wages in cash $450
April 23	Returned goods, list price $200, purchased on 5 April
April 26	Sold a non-current asset at book value, $2000, on credit

REQUIRED

(a) Complete the following table. The first item has been completed as an example. Where the owner's capital is not affected, write 'No effect'.

Date	Transaction	Source document	Book of prime Entry	Effect on owner's capital $
April 5	Paid Putil half of his outstanding balance on 1 April by cheque, less 2% cash discount	*Cheque counterfoil*	*Cash book*	*+30*
April 8	Bought goods on credit from Putil, $800, less 20% trade discount			
April 19	Paid wages in cash $450			
April 23	Returned goods, list price $200, purchased on 8 April			
April 26	Sold a non-current asset at book value, $2000, on credit			

[12]

May/June 2015 – 21

Q1:Mira prepared a trial balance using the following information on 31 March 2015.
The trial balance failed to balance.

	$
Office fixtures (at cost)	18 000
Office fixtures provision for depreciation	7 200
Trade payables	5 400
General expenses (prepaid)	1 520
Trade receivables	3 700
Inventory	7 800
Bank overdraft	2 600
Capital	16 000

REQUIRED

(a) Prepare the trial balance at 31 March 2015, including an appropriate balancing entry.

Mira
Trial Balance at 31 March 2015

	Dr	Cr
	$	$
Office fixtures (at cost)		
Office fixtures provision for depreciation		
Trade payables		
General expenses		
Trade receivables		
Inventory		
Bank overdraft		
Capital		

[4]

REQUIRED

(c) Complete the following table. The first item has been completed as an example.

Date	Transaction	Source document	Book of prime entry	Account debited	Account credited
April 9	Sold goods on credit to Yash.	*Sales invoice*	*Sales journal*	*Yash*	*Sales*
April 11	Yash returned goods sold on 9 April as damaged.				
April 14	Paid wages by cheque.				
April 19	Purchased office fixtures on credit from Equip Limited.				

[12]

The following were some of the transactions which took place in July.

5 July	Purchased inventory on credit.
10 July	Goods returned by a credit customer.
20 July	Paid wages in cash.
25 July	Disposed of fixtures and fittings on credit.

REQUIRED

(d) Complete the following table for the above transactions naming the source document prepared by Maria and the book of prime entry used. The first item has been completed as an example.

	Source document	Book of prime entry
5 July	*Purchase invoice*	*Purchases journal*
10 July		
20 July		
25 July		

[6]

[Total: 20]

Oct/Nov 14 – 21

Q1: Adil's transactions in August 2014 included the following.

August 2	Purchased goods on credit from Tiara, $1500, less 20% trade discount.
August 5	Returned goods to Tiara, list price $300.
August 7	Paid a cheque to Tiara, $500, after deducting $6 cash discount.
August 9	Sold non-current assets on credit to D Costa, at book value, $4000.

REQUIRED

(a) Complete the following table for the above transactions. The first item has been completed as an example.

Date	Source document	Book of prime entry	Effect on owner's capital
August 2	*Purchase invoice*	*Purchases journal*	*No effect*
August 5			
August 7			
August 9			

[9]

(b) State the sub division of the ledger containing each of the following accounts:

Account	Sub division of the ledger
Purchases	
Tiara	
Non-current assets	
D Costa	

[4]

On 31 August 2014 Adil had the following balances in his books. He was aware that there were some book-keeping errors and that the trial balance would not balance.

	$
Non-current assets	9500
Trade payables	8500
Trade receivables	7250
Inventory	3850
Bank overdraft	1600
Purchases	14400
Revenue	22000
Bank loan	2000
Capital	3000

REQUIRED

(c) Complete the trial balance at 31 August 2014, balancing the trial balance by the use of an appropriate account.

Adil
Trial Balance at 31 August 2014

	Debit	Credit
	$	$
Non-current assets		
Trade payables		
Trade receivables		
Inventory		
Bank overdraft		
Purchases		
Revenue		
Bank loan		
Capital		

[5]

[Total: 18]

The following balances were extracted from the books of Fashran on 30 April 2014.

	$
Trade payables	6450
Trade receivables	9230
Revenue	68400
Purchases	29800
Inventory 1 May 2013	5100
Expenses	22350
Bank overdraft	830
Non-current assets	24000
Provision for depreciation – Non-current assets	7800

REQUIRED

(e) Prepare the trial balance showing Fashran's capital at 30 April 2014.

Fashran
Trial Balance at 30 April 2014

	Dr $	Cr $
Trade payables		
Trade receivables		
Revenue		
Purchases		
Inventory 1 May 2013		
Bank overdraft		
Expenses		
Non-current assets		
Provision for depreciation – Non-current assets		
Capital		

[5]

[Total: 18]

Oct/Nov 2013 – 22

1 Kulbir commenced trading on 1 January 2013 with cash $350, bank $3000, motor vehicle $6500 and a loan from Sanjay of $5000.

REQUIRED

(a) Prepare Kulbir's opening entries in the general journal and show her capital at 1 January 2013. A narrative is required.

General Journal

	Debit $	Credit $
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

[3]

(c) Give **two** other uses of the general journal.

1 ....

....

2 ....

.... [2]

(d) Kulbir operates on a mark-up of 25%. The table below contains transactions carried out by Kulbir in her first week of trading. Complete the table for each transaction. The first transaction has been completed as an example. [9]

2013	Transaction	Source document	Book of prime entry	Effect on profit
Jan 4	Goods sold, cost price $400, on credit to Keen	*Invoice*	*Sales journal*	*Increase $100*
Jan 5	Keen returned goods, selling price $80			
Jan 6	Payment made to J Singh, $323 in cash, after deducting $17 cash discount			
Jan 7	Kulbir withdrew $200 from the bank for personal use			

2 The following are some of the transactions carried out by Tay, a retailer, during April 2013.

(i) Paid insurance $470 by cheque.

(ii) Sold goods on credit to J Dins, cost price $6400 plus 80% mark up.

(iii) Paid amount owing to P Lee by cheque, $1800, less 4% cash discount.

(iv) Returned damaged goods costing $590 to R & R Ltd.

REQUIRED

(a) Complete the table below for transactions **(ii)** to **(iv)**. Transaction **(i)** has been completed as an example.

[12]

Transaction	Source document	Accounts debited and amount	Accounts credited and amount	Effect on profit for year
(i)	*Cheque Counterfoil*	*Insurance $470*	*Bank $470*	*–$470*
(ii)				
(iii)				
(iv)				

(b) Explain why Tay received cash discount from P Lee.

.... [2]

Oct/Nov 2012 – 22

1 Jane started business on 1 October 2012 with a motor van, $1500, shop fixtures, $250, and cash, $500. To start the business she had borrowed $600 from Peter.

REQUIRED

(a) Complete the following trial balance showing clearly the value of the capital.

Jane
Trial Balance at 1 October 2012

	Debit	Credit
	$	$
Motor van		
Shop fixtures		
Cash		
Peter – loan		
Capital		

[4]

(b) Jane buys and sells goods on credit. She maintains a full set of accounts.
The table below contains a list of transactions carried out in the first week of trading. Complete the table below for **each** transaction, stating clearly the amount, if any, of increase or decrease in the value of capital. The first transaction has been completed as an example. [16]

Transaction	Book of original entry	Account to be Debited	Account to be credited	Effect on capital $
Purchased goods, $600, on credit from Punto	*Purchases journal*	*Purchases*	*Punto*	*No effect*
Sold goods for $750 (cost price $300) on credit to Yuen				
Sold all the shop fixtures for cash, $200				
Paid wages by cash, $150				
Yuen returned goods, valued at $100				

Bank Reconciliation Statement

Bank Reconciliation Statement:
It 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.

Items Presented in Cash Book not in Bank Statement:

I) Unpresented cheque:

These are the cheque that have been paid by the business entered on the credit side of the cash book, but which do not appear on the bank statement. This may be because the suppliers have not paid the cheque into his bank or the cheque is still in the banking system and has not yet been deducted from the business account.

II) Uncleared Cheque:

An **uncleared cheque** is a **cheque** that has been written and recorded by the business on the debit side of the cash book, but the **cheque** has not yet been paid by the bank on which it is drawn.

Items Presented in Bank Statement not in Cash Book:

I) Credit Transfer:

They are money received from customers directly through the **banking** system. It will be debited in cash book.

II) Standing Order:

Standing Order is an instruction to the **bank** to transfer funds of a specific amount to another account on a specific date on a recurring basis. Therefore, the balance as per **bank** statement may be lower than the balance as per cash book due to payments made through **standing orders** not yet accounted for by the entity.

III) Direct debit:

There are payments which have to be made, such as gas bills electricity bills, telephone bills, Instead of asking the bank to pay the money, as with standing orders, you give permission to creditor to obtain the money directly from your bank account.

IV) Dishonoured Cheque:

They are **cheques** deposited and debited in cash book but subsequently returned by the **bank** due to nonsufficient amount or any other reason.

V) Dividend:

A **dividend** is a payment made by a corporation to its shareholders, usually as a distribution of profits. It will directly credited by company in customer's bank account.

VI) Bank Charges:

The bank may deduct an amount from the customer's account to cover the cost of running the account.

VII) Interest Credited:

The bank credits interest in customer's saving account. On receiving bank statement business make entry debit side of the cash book.

VIII) Interest Debited:

The bank charge interest from its customers on overdrafts and loans. On receiving bank statement business make entry credit of the cash book.

Quad-E-Azam
Bank recompilation statement
As at 31 July 2018

	$	$
Balance as per up to date cash book		xx
Add, Unpresented cheque		
F Nelson	xx	
W Grean	xx	xx
Less, Uncleared cheque		
W Hack	xx	
G Grill	xx	(xx)
Balance as per bank statement		xx

Or

Balance as per bank statement		xx
Add, Uncleared cheque		
W Hack	xx	
G Grill	xx	(xx)
Less, Unpresented cheque		
F Nelson	xx	
W Grean	xx	xx
Balance as per up to date cash book		xx

30.3 The following are extracts from the cash book and the bank statement of F. Perry.

You are required to:
(*a*) Write the cash book up to date, and state the new balance as on 31 December 2012, and
(*b*) Draw up a bank reconciliation statement as on 31 December 2012.

Cash Book

2012		*Dr*	£	2012		*Cr*	£
Dec	1	Balance b/d	3,419	Dec	8	B. Young	462
	7	F. Lamb	101		15	F. Gray	21
	22	G. Brock	44		28	T. Errant	209
	31	W. Terry	319		31	Balance c/d	3,437
	31	S. Miller	246				
			4,129				4,129

Bank Statement

2012			*Dr*	*Cr*	*Balance*
			£	£	£
Dec	1	Balance b/d			3,419
	7	Cheque		101	3,520
	11	B. Young	462		3,058
	20	F. Gray	21		3,037
	22	Cheque		44	3,081
	31	Credit transfer: T. Morris		93	3,174
	31	Bank charges	47		3,127

30.4A The bank columns in the cash book for June 2012 and the bank statement for that month for D. Hogan are as follows:

Cash Book

2012		*Dr*	£	2012		*Cr*	£
Jun	1	Balance b/d	1,410	Jun	5	L. Holmes	180
	7	J. May	62		12	J. Rebus	519
	16	T. Wilson	75		16	T. Silver	41
	28	F. Slack	224		29	Blister Disco	22
	30	G. Baker	582		30	Balance c/d	1,591
			2,353				2,353

Bank Statement

2012			*Dr*	*Cr*	*Balance*
			£	£	£
Jun	1	Balance b/d			1,410
	7	Cheque		62	1,472
	8	F. Lane	180		1,292
	16	Cheque		75	1,367
	17	J. Rebus	519		848
	18	T. Silver	41		807
	28	Cheque		224	1,031
	29	SLM standing order	52		979
	30	Flynn: trader's credit		64	1,043
	30	Bank charges	43		1,000

30.7 The bank statement for R. Hood for the month of March 2012 is:

2012			*Dr* £	*Cr* £	*Balance* £
Mar	1	Balance			4,200 O/D
	8	T. MacLeod	184		4,384 O/D
	16	Cheque		292	4,092 O/D
	20	W. Milne	160		4,252 O/D
	21	Cheque		369	3,883 O/D
	31	G. Frank: trader's credit		88	3,795 O/D
	31	TYF: standing order	32		3,827 O/D
	31	Bank charges	19		3,846 O/D

The cash book for March 2012 is:

2012		*Dr*	£	2012		*Cr*	£
Mar	16	G. Philip	292	Mar	1	Balance b/d	4,200
	21	J. Forker	369		6	T. MacLeod	184
	31	S. O'Hare	192		30	W. Milne	160
	31	Balance c/d	4,195		30	S. Porter	504
			5,048				5,048

You are required to:

(*a*) Write the cash book up to date, and

(*b*) Draw up a bank reconciliation statement as on 31 March 2012.

30.8A The following is the cash book (bank columns) of F. King for December 2013:

2013		*Dr*	£	2013		*Cr*	£
Dec	6	P. Pan	230	Dec	1	Balance b/d	1,900
	20	C. Hook	265		10	J. Lamb	304
	31	W. Britten	325		19	P. Wilson	261
	31	Balance c/d	1,682		29	K. Coull	37
			2,502				2,502

The bank statement for the month is:

2013			*Dr* £	*Cr* £	*Balance* £
Dec	1	Balance			1,900 O/D
	6	Cheque		230	1,670 O/D
	13	J. Lamb	304		1,974 O/D
	20	Cheque		265	1,709 O/D
	22	P. Wilson	261		1,970 O/D
	30	Tox: standing order	94		2,064 O/D
	31	F. Ray: trader's credit		102	1,962 O/D
	31	Bank charges	72		2,034 O/D

You are required to:

(*a*) Write the cash book up to date to take the necessary items into account, and

(*b*) Draw up a bank reconciliation statement as on 31 December 2013.

May/June 2014 – 21

1 Akma received the following bank statement on 30 April 2014:

Date	Details	Debit $	Credit $	Balance $
1 April	Balance			614 Dr
2 April	Cheque – Stanning	88		702 Dr
10 April	Cash receipt		1204	502 Cr
12 April	Cheque – Chong	640		138 Dr
18 April	Paying in – Trinity Stores		780	642 Cr
20 April	Cheque – Pang	94		548 Cr
22 April	Charges	16		532 Cr
25 April	MDA Electricity – S.O.	104		428 Cr
28 April	Dividend receipt		41	469 Cr

Akma compared the bank statement with her cash book.

REQUIRED

(a) Bring the cash book of Akma up to date. Balance the cash book and bring down the balance.

Cash Book (bank columns)

		$			$
8 April	Sales	1204	1 April	Balance b/d	614
8 April	Trinity Stores	780	2 April	Stanning	88
23 April	Xain	73	8 April	Chong	640
24 April	Li Ye	37	23 April	Zaine	59
………………………………………			27 April	Pang	94
………………………………………			………………………………………		
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[5]

(b) Prepare the bank reconciliation statement at 30 April 2014.

Bank Reconciliation Statement at 30 April 2014

	$	$
Balance as per bank statement		469
Plus		
………………………………………………………………………		
………………………………………………………………………		
………………………………………………………………………		
Less		
………………………………………………………………………		
………………………………………………………………………		
Balance as per cash book ………………………………………		

[4]

May/June 2011 – 22

1 Mohan is a trader. On 24 April 2011 he had a bank overdraft of $150.
The following transactions took place during the week ended 30 April 2011.

April 25	Withdrew $200, by cheque, for personal use.
April 26	Paid by cheque the balances on the accounts owed to: Kerai, $400, less 3% cash discount Susan, $750, less 4% cash discount.
April 27	Cash sales, $630, paid into the bank.
April 28	Received a cheque from Loula for the balance of her account, $2000, less 4% cash discount.
April 30	Cashed cheque to pay wages, $430.

REQUIRED

(a) Prepare the bank columns of Mohan's cash book for the week ended 30 April 2011. Show the balance brought down on 1 May 2011.

Mohan
Cash Book (Bank columns only)

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On 1 May 2011 Mohan received the following bank statement:

Bank Statement

	Dr	Cr	Balance
	$	$	$
April 24 Balance			150 Dr
April 25 Cheque	200		350 Dr
April 28 Cheque	388		738 Dr
April 29 Cheque	720		1 458 Dr
April 29 Credit Transfer (Dividend)		24	1 434 Dr
April 29 Credit		630	804 Dr

REQUIRED

(b) Starting with the closing balance from **(a)** update the bank columns in the cash book. Bring down the amended balance.

Mohan
Cash Book (Bank columns only)

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.... [2]

(c) Prepare the bank reconciliation statement at 1 May 2011.

Mohan
Bank Reconciliation Statement at 1 May 2011

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(d) Place a tick (✓) in the appropriate box to show whether **each** of the following is an account, a book of prime entry or both an account and a book of prime entry. The first item has been completed as an example.

	ledger account	book of prime entry	a ledger account and a book of prime entry
Inventory	✓		
Purchases journal			
Cash book			
Provision for depreciation			

[3]

[Total: 20]

May/June 2010 – 21

Q1: On 20 April, Goldy received the following bank statement.

			Dr	Cr	Balance
			$	$	$
April	1	Balance b/d			650 Cr
	8	Pacific Traders		1500	2150 Cr
	12	Kwan	730		1420 Cr
	15	Interest	12		1408 Cr
	16	Credit transfer (dividends)		130	1538 Cr

REQUIRED

(c) Update the cash book for Goldy on 20 April. Balance the cash book on that date.

Cash book (bank columns only)

		$			$
April 1	Balance b/d	650	April 12	Kwan	730
8	Pacific Traders	1500	17	Headland Garage	75
18	Stanton & Co	96			

(d) Prepare the bank reconciliation statement at 20 April.

Bank reconciliation statement at 20 April 2010

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.... [4]

[Total: 19]

May/June 2006

1 Kylie Johnson's cash book (bank columns) had a debit balance of $460 on 30 April 2006. The bank statement at the same date showed that Kylie had a balance at the bank of $323.

On checking the cash book against the bank statement the following differences were found.

1 A debtor, Nancy Tan, paid $80 directly into the bank. This had not been recorded in the cash book.

2 Bank charges, $50, were included on the bank statement but had not been recorded in the cash book.

3 Insurance paid, $32, was recorded on the bank statement but not in the cash book.

4 A cheque, $140, sent to a creditor had not yet been presented to the bank for payment.

5 A transfer of $125 from the business bank account to Kylie's private bank account had been entered in the cash book but not on the bank statement.

6 An amount of $400 paid into the bank on 29 April did not appear on the bank statement.

REQUIRED

(a) Starting with the balance on 30 April 2006, update the cash book and bring down the amended balance.

Kylie Johnson

Dr Cash Book (bank columns) Cr

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.... [4]

(b) Prepare the bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 30 April 2006.

Kylie Johnson
Bank Reconciliation Statement as at 30 April 2006

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.... [4]

(c) Explain how the following would appear in the ledger accounts of Kylie Johnson:

(i) Bank overdraft;

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(ii) Short term loan from the business to Kylie Johnson.

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[4]
[Total: 17]

Oct/Nov 2004

1 Vigo's cash book (bank columns) showed the following entries.

Vigo
Cash Book

Dr		$		Cr	$
July 1	Balance b/d	1450	July 7	Singh	920
10	Cash	500	16	Robinson	480
19	Parker	260	24	Kings	220
31	Cash	200			

The following bank statement was received by Vigo.

Date	Details	Withdrawn $	Paid in $	Balance $
July 1	Balance b/f			1450
10	Cash		500	1950
12	Singh	920		1030
19	Parker		260	1290
21	Robinson	480		810
22	Dishonoured cheque – Parker	260		550
25	Dividend		25	575
31	Bank charges	20		555

REQUIRED

(a) Calculate the cash book balance on 31 July. Prepare and update the cash book. Bring down the balance.

Vigo
Cash Book

Dr Cr

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.... [5]

(b) Prepare a bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 31 July 2004.

Vigo
Bank Reconciliation Statement as at 31 July

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.... [6]

(c) Explain how the cash book is **both** a book of prime entry **and** a ledger account.

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.... [2]

[Total: 13]

1 The following extract was taken from Abbie's cash book on 30 September 2015.

Cash Book (Bank Columns)

Date	Details	$	Date	Details	$
Sept 1	Balance b/d	290	Sept 8	Husna	102
9	L Lee	475	17	Yang Stores	849
15	Ng	150	23	Lam	364
21	JG Supplies	980	26	Xevera	500
29	Sampson	625	30	Balance c/d	705
		2520			2520
Oct 1	Balance b/d	705			

Abbie received the following bank statement on 1 October 2015.

Date	Details	Debit	Credit	Balance
		$	$	$
Sept 1	Balance			290 Cr
9	L Lee		475	765 Cr
10	Husna	102		663 Cr
15	Ng		150	813 Cr
22	JG Supplies		980	1793 Cr
23	Bank charges	35		1758 Cr
24	Ng – Dishonoured	150		1608 Cr
25	YJ Electric	250		1358 Cr

Abbie compared the bank statement with her cash book.

REQUIRED

(a) Bring Abbie's cash book up to date. Balance the cash book and bring down the balance on 1 October 2015.

Cash Book (Bank Columns)

Date	Details	$	Date	Details	$
Oct 1	Balance b/d	705			

[4]

(b) Prepare the bank reconciliation statement at 1 October 2015.

Bank Reconciliation Statement at 1 October 2015

	$	$
Balance as per bank statement		1358

Plus

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Less

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Balance as per cash book ....

[5]

On 30 September 2016 the balance on the bank account in the books of Gabi was $450 debit.

Gabi received a bank statement for September 2016. The differences between the bank account and the bank statement were as follows:

1 A cheque for $50 paid to J Simpson had not been presented for payment.

2 Bank charges, $230, had been charged to Gabi's account but were not recorded in Gabi's books.

3 The bank had received a dividend payment, $120, which was not recorded in Gabi's books.

4 The cheque received from Kacela, $860, was not recorded on the bank statement.

REQUIRED

(c) Update the bank account of Gabi. Balance the account and bring down the updated balance on 1 October.

Bank account

Date	Details	$	Date	Details	$
2016					
Sept 30	Balance b/d	450			

[3]

(d) Prepare the bank reconciliation statement on 1 October 2016. Start with the updated bank account balance.

Bank Reconciliation Statement at 1 October 2016

$

Balance on bank account ....

Plus ....

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Less ....

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Balance on bank statement ....

[4]

Control Account

Purpose:
If the trial balance fails to balance and the error cannot be readily located, it is necessary to check all the accounting records. This can take a considerable amount of time. The Checking process can be speeded up if a control account for the sales ledger and control account for the purchase ledger have been prepared. These accounts act as a check on the individual accounts with in these ledgers.

Sales ledger control account:
It is used to check the accuracy of the total for all the entries for the transaction posted to trade receivable account in the same ledger.

Purchase ledger control account:
The Purchase ledger control account is used to check the accuracy of the total for all the entries for transaction to trade payable accounts in the purchase ledger.

Advantages of control account:
1) It calculate total receivables and total payable to be recorded in financial statements
2) It checks the arithmetical accuracy of books of prime entry and subsidiary ledgers
3) it prevents from theft, errors and frauds.

Sources of information of sales ledger control account:

1. Sales journal
2. Sales return journal
3. Cash book
4. The journal

Sources of information of purchase ledger control account
1. Purchase journal
2. Purchase return journal
3. Cash book
4. The journal

Limitations of control account:

1. It only provides a summary of each transaction but do not provide the details of each transaction
2. These accounts cannot detect all types of errors for example error of commission and omission
3. As it is not a part of a double entry system it is difficult to locate each error.

Sales Ledger Control Account

Dr. Cr.

Details	$	Details	$
Balance b/d (Debit balance)	xxxx	Balance b/d (Credit balance)	xxx
Credit Sales	xxxx	Cash/Bank	xxxx
Bank (Dishonored cheque)	xx	Discount Allowed	xx
Bank/Cash (Refunds to trade receivables)	xx	Sales Returns	xx
Interest charged on overdue accounts.	xx	Bad debts	xx
		Set-off (transfer to purchases ledger)	xx
Balance c/d (Credit balance)	xxx	Balance c/d (Debit balance)	xxxx
	xxxx		xxxx
Balance b/d (Debit balance)	xxxx	Balance b/d (Credit balance)	xxx

Purchases Ledger Control Account

Dr. Cr.

Details	$	Details	$
Balance b/d (Debit balance)	xxxx	Balance b/d (Credit balance)	xxx
Cash/Bank	xxxx	Credit Purchases	xxxx
Discount received	xx	Bank/Cash (Refunds from trade payables)	xx
Purchase returns	xx	Interest charged on overdue account	xx
Set-off (transfer to sales ledger)	xx		
Balance c/d (Credit balance)	xxx	Balance c/d (Debit balance)	xxxx
	xxxx		xxxx
Balance b/d (Debit balance)	xxxx	Balance b/d (Credit balance)	xxx

2 The following information is available from the books of Yana for August 2015.

	$
Trade receivables at 1 August 2015	27 520
Credit sales	32 400
Cash sales	19 970
Sales returns from credit customers	1 700
Cheques received from credit customers	40 150
Discount allowed	780
Bad debts written off	2 900
Interest charged on overdue accounts	600

REQUIRED

(a) Prepare the sales ledger control account for August. Balance the account and bring down the balance on 1 September 2015.

Sales ledger control account

Date	Details	$	Date	Details	$

[8]

2 Valda prepares a monthly control account for her sales ledger.

The following information relates to the month of August 2016.

	Debit	Credit
	$	$
Sales ledger control account balances 1 August 2016	18410	720
Sales ledger control account balances 1 September 2016	?	580

	$
Cheques received	40500
Dishonoured cheque (included in cheques received)	800
Cash sales	8950
Discount allowed	970
Bad debt written off	2750
Credit sales	39600
Returns inwards	3900

REQUIRED

(a) Prepare the sales ledger control account for the month of August 2016. Balance the account and bring down the balances on 1 September.

Sales ledger control account

Date	Details	$	Date	Details	$

[8]

May/June 2015 – 21

2 The following information was obtained from the books of Arden.

		$
1 February 2015	Trade receivables balance	14 900 Dr
	Trade payables balance	17 160 Cr
28 February 2015	Cheques received from trade receivables	45 800
	Cheque from trade receivable later dishonoured	200
	Cheques paid to trade payables	32 500
	Discount allowed	2 700
	Discount received	910
	Purchases returns	3 800
	Irrecoverable debts	1 800
	Cash sales	10 500
1 March 2015	Trade receivables balance	12 600 Dr
	Trade payables balance	8 450 Cr

(a) Prepare the purchases ledger control account showing the credit purchases made in the month of February 2015.

(b) Prepare the sales ledger control account showing the credit sales made for the month of February 2015.

May/June 2014 – 22

2 On 1 April 2014, Yee's sales ledger control account showed the following balances: $20 450 debit and $600 credit.

During April the following transactions were recorded:

	$
Credit sales	50 500
Cash sales	10 000
Returns from credit customers	700
Receipts from credit customers	48 600
Refunds to credit customers	750
Discount allowed	1 200
Bad debt written off	800

On 1 May 2014, Yee's sales ledger control account showed a credit balance of $180. The debit balance is to be determined.

REQUIRED

(a) Prepare the sales ledger control account for the month of April 2014. Balance the account and bring down the balances.

Sales ledger control account

Date	Details	$	Date	Details	$
1 April	Balance b/d	20 450	1 April	Balance b/d	600

[7]

Oct/Nov 2013 – 22

2 Ann buys and sells on credit. She supplied the following information for the month ended 31 May 2013.

2013			$
May	1	Trade receivables	5687
	31	Credit sales	72641
		Receipts from credit customers	64500
		Credit notes issued to customers	8242
		Cash discounts allowed	1894
		Irrecoverable debts	800
		Contra entry	300

The sales journal had been under-cast by $86. A cheque received and banked on 8 May from John Lee for $2300 had been returned by the bank because of insufficient funds.

(a) Prepare the sales ledger control account for the month ended 31 May 2013. Balance the account at that date and bring the balance down on 1 June 2013.

(b) State **three** benefits of using control accounts.

1 ....

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2 ....

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3 ....

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.... [6]

(c) State **two** sources of information for the sales ledger control account.

1 ....

2 ....

[2]

Oct/Nov 2011

2 Andrea prepares a sales ledger control account. At 30 September 2011 the following information is available:

	$
Trade receivables at 1 October 2010	25000
Credit sales for year	80000
Receipts from credit customers for year	75000
Trade receivables at 30 September 2011	30000

REQUIRED

(a) Prepare the sales ledger control account for the year ended 30 September 2011.

Andrea
Sales Ledger Control account

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.... [4]

(b) State **two** reasons why Andrea prepares a sales ledger control account.

1 ....

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2 ....

.... [4]

On 30 September 2011, after preparing the sales ledger control account Andrea was advised that Keira is unable to pay the whole of her debt, $2500.

Andrea accepted $500 in full settlement and the balance of the debt was written off.

(c) Prepare the journal entry to record the transactions on 30 September 2011. A narrative is **not** required.

Journal

	Dr	Cr
	$	$

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.... [3]

May/June 2010

2 Tsang is in business buying and selling goods on credit. The following information is available for the month of March 2010.

	$
Revenue (sales)	65 000
Inventory (stock) 1 March	3 400
Trade payables (creditors) 1 March	1 700
Payments to suppliers	47 000
Discount received	300
Inventory (stock) 31 March	2 900
Ordinary goods purchased	47 900
Wages & expenses	2 500

REQUIRED

(a) Prepare the purchase ledger control account showing the balance of trade payables (creditors) at 31 March 2010.

Purchases Ledger Control account

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.... [5]

May/June 2007

The following information was obtained from the books of Sam Stryder.

		$
1 April 2007	Debtors' balance	7 190
	Creditors' balance	4 120
30 April 2007	Credit sales for month	46 300
	Credit purchases for month	29 900
	Cash sales for month	14 360
	Cash purchases for month	9 750
	Sales returns for month	1 070
	Purchase returns for month	940
	Cheques received from debtors	38 900
	Cheques paid to creditors	28 100
	Discounts allowed	1 060
	Discounts received	760
	Balance in sales ledger set off against balance in purchases ledger	90
	Interest charged to customers on overdue accounts	20
	Interest charged by supplier on overdue account	10

REQUIRED

(b) Select the appropriate items and prepare the purchases ledger control account for the month of April.

Sam Stryder
Purchases ledger control account

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[9]

(c) State two uses of control accounts.

1: ....

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2: ....

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[2]

May/June 2005

3 Mary Goswing is a trader. She does not operate a full double entry system but she does keep books of prime entry from which control accounts are prepared. The following information relates to the year ended 30 April 2005.

	$
Debtors' control account balance 1 May 2004	24 000
Debtors' control account balance 30 April 2005	48 000
Receipts from debtors	120 000
Receipts from cash sales	18 000
Bad debt written off	4 000
Discount allowed	6 000

REQUIRED

(a) Calculate the total sales for the year ended 30 April 2005.
Show **all** workings.

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.... [7]

(b) Explain **two** ways in which control accounts can be used by Mary Goswing in her business.

(i) ....

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.... [2]

(ii) ....

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.... [2]

(c) Suggest **two** limitations to the usefulness of control accounts in Mary Goswing's approach to record keeping.

(i) ....

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.... [2]

(ii) ....

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.... [2]

[Total: 15]

Correction of Errors

Errors which do not affect trial balance:

Name of error	Description of error	Example
Error of commission	This occurs when a transaction is entered using the correct amount and on the correct side, but in the wrong account of the same class.	Cash received from Malini credited to Mallika's account.
Error of complete reversal	This occurs when the correct amount is entered in the correct accounts, but the entry has been made on the wrong side of each account.	Cash drawings debited to the cash account and credited to the drawings account.
Error of omission	This occurs when a transaction has been completely omitted from the accounting records. Neither a debit entry nor a credit entry has been made.	Payment of wages not entered in the books.
Error of original entry	This occurs when an incorrect figure is used when a transaction is first entered in the accounting records. The double entry will therefore use the incorrect figure.	Goods, $100, bought on credit but recorded as $1000.
Error of principle	This occurs when a transaction is entered using the correct amount and on the correct side, but in the wrong class of account.	Motor expenses debited to the motor vehicles account.
Compensating errors	These occur when two or more errors cancel each other out.	Purchases account under-added by $100 and sales returns account over-added by $100.

Errors which affect trial balance:
Some errors may occur that result in the totals of the trial balance not balancing. If the errors are not found immediately, the trial balance is balanced by insulting the difference between two sides in a **suspense accounts**. It is regarded as a temporary account in which the difference on the trial balance is held until the errors are discovered.

32.2 Show the journal entries necessary to correct the following errors:

(*a*) A sale of goods for £412 to T. More had been entered in T. Mone's account.
(*b*) The purchase of a machine on credit from J. Frank for £619 had been completely omitted from our books.
(*c*) The purchase of a computer for £550 had been entered in error in the Office Expenses account.
(*d*) A sale of £120 to B. Wood had been entered in the books, both debit and credit, as £102.
(*e*) Commission received £164 had been entered in error in the Sales account.
(*f*) A receipt of cash from T. Blair £68 had been entered on the credit side of the cash book and the debit side of T. Blair's account.
(*g*) A purchase of goods for £372 had been entered in error on the debit side of the Drawings account.
(*h*) Discounts Allowed £48 had been entered in error on the debit side of the Discounts Received account.

32.3A Show the journal entries needed to correct the following errors:

(*a*) Purchases £1,410 on credit from A. Ray had been entered in B. Roy's account.
(*b*) A cheque of £94 paid for printing had been entered in the cash column of the cash book instead of in the bank column.
(*c*) Sale of goods £734 on credit to D. Rolls had been entered in error in D. Rollo's account.
(*d*) Purchase of goods on credit L. Hand £819 entered in the correct accounts in error as £891.
(*e*) Cash paid to G. Boyd £64 entered on the debit side of the cash book and the credit side of G. Boyd's account.
(*f*) A sale of fittings £320 had been entered in the Sales account.

32.5 Give the journal entries needed to record the corrections of the following. Narratives are not required.

(*a*) Extra capital of £5,000 paid into the bank had been credited to Sales account.
(*b*) Goods taken for own use £72 had been debited to Sundry Expenses.
(*c*) Private rent £191 had been debited to the Rent account.
(*d*) A purchase of goods from D. Pine £246 had been entered in the books as £426.
(*e*) Cash banked £410 had been credited to the bank column and debited to the cash column in the cash book.
(*f*) Cash drawings of £120 had been credited to the bank column of the cash book.
(*g*) Returns inwards £195 from G. Will had been entered in error in T. Young's account.
(*h*) A sale of a printer for £100 had been credited to Office Expenses.

32.6A Journal entries to correct the following are required, but the narratives can be omitted.

(*a*) Rent Received £430 have been credited to the Commissions Received account.
(*b*) Bank charges £34 have been debited to the Business Rates account.
(*c*) Completely omitted from the books is a payment of Motor Expenses by cheque £37.
(*d*) A purchase of a fax machine £242 has been entered in the Purchases account.
(*e*) Returns inwards £216 have been entered on the debit side of the Returns Outwards account.
(*f*) A loan from G. Bain £2,000 has been entered on the credit side of the Capital account.
(*g*) Loan interest of £400 has been debited to the Van account.
(*h*) Goods taken for own use £84 have been debited to the Purchases account and credited to Drawings.

May/June 2014 – 22

2 On 1 April 2014, Yee's sales ledger control account showed the following balances: $20 450 debit and $600 credit.

During April the following transactions were recorded:

On inspection of her ledger, Yee discovered the following errors:

1. A cheque received from D Moy, $450, had been posted to the account of D Kay.
2. An invoice for goods received from G Fallen, costing $790, had been recorded in the purchases journal as $970.
3. Discount received, $45, had been debited to the discount received account and credited to F Tay.
4. Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account.

REQUIRED

(b) Prepare the journal entries to correct the errors in **1 to 4** above. Narratives are **not** required.

Journal

	Dr $	Cr $
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

[8]

(c) Complete the following table to name the type of error in **1 to 4** on the previous page. The first item has been completed as an example.

		Type of error
1	A cheque received from D Moy, $450, had been posted to the account of D Kay.	*Commission*
2	An invoice for goods received, costing $790, had been recorded in the purchases journal as $970.	
3	Discount received, $45, had been debited to the discount received account and credited to F Tay.	
4	Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account.	

[3]

(d) State **two** reasons why a suspense account would be used.

1 ....

....

2 ....

.... [2]

[Total: 20]

May/June 2014 – 21

On reviewing his purchases account, Ghani found the following errors.

1 Goods purchased for cash, $450, had **not** been recorded in the books.
2 Goods purchased on credit from C Maxley, $950, had been recorded in the books as $590.
3 A purchase of a motor vehicle, $6000, had been recorded in the purchases account.
4 Goods purchased from Y Li, $820, had been credited to the purchases account and debited to Y Li's account.

REQUIRED

(b) Prepare journal entries to correct the errors in **1 to 4** above. Narratives are **not** required.

Journal

	Dr $	Cr $
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

[6]

(c) Complete the table below naming the type of error and the effect on the gross profit of correcting the error. The first item has been completed as an example.

		Type of error	Effect on gross profit
1	Goods purchased for cash, $450, had not been recorded in the books.	*Omission*	*Decrease $450*
2	Goods purchased on credit from C Maxley, $950, had been recorded in the books as $590.		
3	A purchase of a motor vehicle, $6000, had been recorded in the purchases account.		
4	Goods purchased from Y Li, $820, had been credited to the purchases account and debited to Y Li's account.		

[6]

[Total: 12]

Oct/Nov 2013 – 21

3 Rod's trial balance at 30 September 2013 failed to agree.

(a) Name **two** types of errors not shown by a trial balance.

1 ....

2 ....

[2]

Rod later discovered the following errors:

1 the sales journal had been over added by $279;

2 the total of the discount allowed column in the cash book, $123, had been credited to the discount received account;

3 a payment to B Kaur, $105, had been correctly entered in the bank account but posted to the creditor's account as $150.

(b) Complete the following table showing the effect and amount **each** of the above errors would have on B Kaur's profit for the year if left uncorrected. The first item has been completed as an example.

	Overstated	Understated	No effect	Amount $
1	✓			*279*
2				
3				

[4]

(c) Write up the journal entries to correct these errors. Narratives are **not** required.

Journal

	Dr $	Cr $
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

[7]

[Total: 13]

May/June 2013 – 22

2 John Given's trial balance at 31 May 2013 failed to agree and a suspense account for the difference, $926 debit, was opened.

The following errors were discovered:

1 Commission received, $120, had been recorded in the account twice.

2 Total trade receivables were understated by $824.

3 A payment for insurance, $650, had been correctly entered in the cash book, but recorded in the insurance account as $560.

4 The total of the sales returns journal had been overcast by $108.

REQUIRED

(a) Show the entries in the general journal to correct items **1 to 4** above. Narratives are **not** required.

Journal

	Dr $	Cr $
…………	…………	…………
…………	…………	…………
…………	…………	…………
…………	…………	…………
…………	…………	…………
…………	…………	…………
…………	…………	…………
…………	…………	…………
…………	…………	…………
…………	…………	…………
…………	…………	…………

[8]

(b) Prepare the suspense account at 31 May 2013.

Suspense account

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.... [4]

Oct/Nov 2012 – 22

2 The following trial balance was extracted from the books of Peng on 31 August 2012. It was prepared by an inexperienced bookkeeper and failed to balance.

Peng

Trial Balance at 31 August 2012

	Dr	Cr
	$	$
Capital	18 240	
Bank overdraft	3 000	
Fixtures and fittings	14 100	
Provision for depreciation – fixtures and fittings		8 800
Inventory	14 200	
Trade receivables	12 300	
Trade payables	9 900	
Revenue	110 000	
Purchases		51 000
Discount received	1 800	
Wages and salaries		26 000
Sundry expenses	34 000	
Discount allowed		620
	217 540	86 420

REQUIRED

(a) Prepare the corrected trial balance at 31 August 2012. Show any difference you find as a balance on an appropriate account.

Peng

Trial Balance at 31 August 2012

	Debit	Credit
	$	$
Capital		
Bank overdraft		
Fixtures and fittings		
Provision for depreciation – fixtures and fittings		
Inventory		
Trade receivables		
Trade payables		
Revenue		
Purchases		
Discount received		
Wages and salaries		
Sundry expenses		
Discount allowed		

[9]

Additional information:
The following errors were later discovered:

1 A sale of goods, \$200, to A. Winscom had been posted to the account of W. Wilson.
2 A purchase of fixtures, \$900, had been posted to the purchases account.
3 Wages, \$1500, had been debited to the bank and credited to the wages account.
4 Discount received, \$240, had been correctly entered in the cash book and had been debited to the discount received account.

(b) Name the type of errors in 1 to 3 above.

1 ....

2 ....

3 .... [3]

(c) Prepare journal entries to correct the errors in 1 to 4 above. Narratives are **not** required.

Journal

	Dr \$	Cr \$

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.... [8]

[Total: 20]

May/June 2012 – 22

2 Haung's income statement showed a draft profit for the year of $15 500. After completion of the income statement the following errors were discovered:

1 Purchases of goods on credit from Takka, $4000, had been omitted from the books.
2 Goods sold on credit to Nolan, $380, had been posted to the account of North.
3 Discount received, $3050, had been debited to the discount received account.
4 A debt of $375, owing by Long, was considered irrecoverable. No entries had been made in the books.

REQUIRED

(a) Prepare the journal entries to correct the errors 1 **–** 4 above. Narratives are **not** required.

Journal

	Dr $	Cr $

.... [8]

(b) Prepare a statement showing the corrected profit for the year.

Statement of revised profit

		$	$	$	$
	Draft profit for year				15 500
		Increase	Decrease	No effect	
1					
2					
3					
4					
	Revised profit for year				

[4]

Oct/Nov 2010

2 Jayani prepared a trial balance at 30 September 2010, which balanced.

A draft income statement (trading and profit and loss account) was then prepared and a gross profit of $60 000 and a profit for the year (net profit) of $15 000 was calculated.

Jayani then discovered the following errors:

1 A sale of office equipment at net book vaule, $3 000, had been recorded in the sales account.

2 Purchases of goods, $650, on credit from Alana had been credited to the purchases account and debited to Alana's account.

3 An invoice from JGL Insurance, $425, for buildings insurance, had not been recorded in the books.

REQUIRED

(a) Prepare journal entries to correct the errors in 1 to 3 above.
Narratives are not required.

Journal

	Dr $	Cr $
…………………………………………………………………………	………..	………..
…………………………………………………………………………	………..	………..
…………………………………………………………………………	………..	………..
…………………………………………………………………………	………..	………..
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…………………………………………………………………………	………..	………..
…………………………………………………………………………	………..	………..
…………………………………………………………………………	………..	………..

[6]

(b) Name the type of error made in 1 to 3 above.

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[3]

(c) Calculate the revised gross profit and profit for the year (net profit) for Jayani, following the correction of the errors 1 to 3 above.

Where the error would have no effect on the gross profit or profit for the year (net profit), state 'no effect'.

	Gross profit	Profit for the year (Net profit)
	$	$
Draft profit	60 000	15 000
Error 1		
Error 2		
Error 3		
Revised profit		

[8]

(d) Jayani is considering the purchase of a new computerised book-keeping system. State two benefits that Jayani will gain from using Information and Communications Technology (ICT) in book-keeping.

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[2]

[Total: 19]

May/June 2009

2 Miranda prepared her draft final accounts for the year ended 30 April 2009 and calculated a net profit for the year of $14 670. After the preparation of the draft final accounts the following errors were discovered, which had not been revealed by the trial balance.

(i) Goods, $2000, purchased on credit from A Morston had not been entered in the accounting records.

(ii) Goods, $650, sold on credit to T Cley had been correctly entered in the sales account but had been entered into the account of C Tilley.

(iii) A motor vehicle expense, $500, for the year had been posted to the motor vehicles account.

(iv) A discount received from L Staithe of $190 had been entered in the discount allowed column in the cash book and credited to the account of L Staithe.

REQUIRED

(a) Name the type of error in (i) to (iv) above.

....

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[4]

(b) Prepare the journal entries required to correct each of the errors (i) to (iv). Narratives are not required.

	Dr	Cr
	$	$

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[9]

(c) Calculate the revised net profit for the year ended 30 April 2009.

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[5]
[Total: 18]

Oct/Nov 2008

(c) State and explain three errors which do not affect a trial balance.

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…… [6]

On investigation Jason identified the following errors in his books.

1 $3000 debited to plant and equipment should have been recorded as purchases.

2 A payment to creditors of $1000 in cash had not been recorded.

REQUIRED

(d) Make journal entries to record the correction of the errors. Narratives are not required.

Dr Cr

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....

[4]

May/June 2004

3 The following incomplete trial balance was drawn up by Link Ltd on 31 December 2003.

Link Ltd
Trial Balance as at 31 December 2003

	Dr $	Cr $
Sales		241 200
Purchases	126 300	
Stock, 1 January 2003	20 100	
General expenses	66 700	
Motor expenses	48 900	
Motor vehicles	26 000	
Provision for depreciation for motor vehicles		13 000
Plant and equipment	48 000	
Provision for depreciation for plant and equipment		12 000
Debtors	22 000	
Creditors		10 600
Cash at bank	1 000	
Share capital		30 000
Net profit for the year ended 31 December 2003		4 600
Suspense account		

REQUIRED

(a) **(i)** Calculate the total of the debit column of the above trial balance. Insert your answer in the trial balance above.

(ii) Calculate the total of the credit column. Use this figure to calculate the balance of the suspense account.

(iii) Insert your suspense account balance in the trial balance above and total.

[3]

(b) Investigation identified the following errors and omissions.

1 The Profit and Loss Account balance at 1 January 2003 was not included in the trial balance. It was $47 000.

2 A poorly written figure in a debtor's account meant that total debtors was incorrectly recorded in the trial balance. The correct figure for debtors is $22 600.

3 The provision for doubtful debts of $1200 at 1 January 2003 has been omitted from the trial balance.

Draw up the suspense account for Link Ltd showing the original balance and corrections.

Suspense account

Dr Cr

....

....

....

....

....

.... [4]

(c) State the uses of the trial balance.

....

....

....

.... [3]

2 Martino's trial balance at 30 September 2015 did not agree and a suspense account was opened.

The following errors were discovered.

1 The total of the purchases journal had been undercast by $950.

2 Discount received, $85, had been debited to the discount received account.

3 A payment of rent, $750, had been correctly entered in the cash book, but recorded in the rent account as $570.

4 A purchase of office fixtures, $2300, had been recorded in the general expenses account.

REQUIRED

(a) Show the entries in the general journal to correct items 1 to 4. Narratives are **not** required.

General Journal

	Debit $	Credit $

[8]

(b) Prepare the suspense account at 30 September 2015 showing the original difference on the trial balance.

Suspense account

Date	Details	$	Date	Details	$

[4]

(c) Complete the following table to show the effect on the profit for the year of **correcting each** error.

The first item has been completed as an example.

Error		Increase/Decrease/ No effect	Amount $
1	The total of the purchases journal had been undercast by $950.	*Decrease*	*950*
2	Discount received, $85, had been debited to the discount received account.		
3	A payment of rent, $750, had been correctly entered in the cash book, but recorded in the rent account as $570.		
4	A purchase of office fixtures, $2300, had been recorded in the general expenses account.		

[6]

(d) Explain why an error of commission would **not** be revealed by the trial balance.

....

....

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....

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....[2]

[Total: 20]

Valda later found the following errors in her books.

1 A cheque received from Fatin, $930, had been correctly entered in the cash book but had been credited to the account of Martin.

2 The total of the discount allowed column in the cash book, $970, had been credited to the discount received account.

3 Returns inwards of $390 had been correctly recorded in Ann's account, but had been recorded as $930 in the returns inwards account.

REQUIRED

(c) Name the type of error that Valda made by crediting Martin's account.

....[1]

(d) Prepare the general journal entries to correct errors 1, 2 and 3. Narratives are **not** required.

General journal

	Debit $	Credit $
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

[7]

Accounting concepts

Matching concept:

Profit is determined by matching revenue for the period against the expenses incurred in earning that revenue. Revenue received and expenses paid that do not relate to the period are excluded from financial statements.

Prudence concept:

Expenses should be recognized even if they are likely to be occurred and income when right of a receivable becomes established.
For example provision for doubtful debts, no income would be recorded on the basis of price bond or Lottery ticket.

Business entity concept:

Business is an entity separate from its owner; personal transactions of the owner are not recorded in the books of accounts.

Consistency concept:

Once an accounting method has been chosen, that method should be used unless there is a sound reason to do so.

Going concern concept:

The business will be able to continue its operations in the foreseeable future. Assets will be recorded in the balance sheet at their cost value instead of market value.

Money Measurement:

The accounting process records only activities that can be expressed in monetary terms.

Historical cost:

It is the measures of value used in the accounting in which the price of an asset in the statement of financial position is based on its original cost.

Materiality:
Information is material if its omission or miss statement good influence the economic decisions of users taken on the basis of the financial statements.

Dual aspect:

For every debit, there is a Credit entry of an equal amount

Accounting Period Convention

Final accounts are prepared at the end of the accounting period i.e. one year.

Realization concept:

Revenue is recognized when goods are sold, either for cash or credit i.e. the debtor accepts the goods or services and the responsibility to pay for them

Substance over form

Real substance take over legal form i.e. we consider the accounting point of you rather than legal point of view in recording transaction.

Inventory Valuation

Inventory should be valued at lower of cost and NRV. NRV is expected selling price – Expected cost to sell. This is according to prudence concept.

REQUIRED

(d) Name the accounting principle/concept which would **not** be complied with if Aina and Barry implemented the suggestions.

	Suggestions	Accounting principle/concept
1	Remove the provision for doubtful debts from the income statement.	
2	Increase the value of the premises from cost to the current market value.	
3	Reduce the depreciation rate on computers from 30% to 10% per annum.	
4	Record expenses paid without adjustment for amounts owing.	

[4]

Capital & Revenue Expenditure

As important as many different aspects of accounting are, what is just as important is the ability to differentiate between expenses and revenues. But does it end there? No. In accounting, one has to learn to differentiate between the different types of expenses and revenue as well.

Capital Expenditure: Meaning and Examples

Capital Expenditure is an expenditure that occurs solely for creating future benefits. Any expense that leads to the purchase of a non-current asset, improvement in the life or quality of an existing asset belongs to this category. It may also be an expense that increases the capacity of an asset or makes it more productive. All such types of expenses are Capital Expenditure. It also includes all expenses such as legal costs, transport costs and installation costs that incur to bring a newly bought asset to its present location and condition for the first time.

Examples:
1): Buying a new car is a capital expenditure.
2): Painting a new house for the first time is capital expenditure.
3): Building an extension to a new house is capital expenditure.

Revenue Expenditure: Meaning and Examples

Revenue Expenditure is an expenditure that incurs solely for the day-to-day running of the business. Examples include Stationary, Salaries, Rent and Lightning etc. all belong to the same category. Buying a new asset might be Capital Expenditure but repairing an old asset is Revenue Expenditure, as it is not increasing the original value of the asset, only restoring it. This type of expense only gives short-term benefits, rather than long-term in case of Capital Expenditure.

Examples:
1): Heating and Lightning.
2): Rent and Rates.
3): Sundry Expenses.

DIFFERENCE	
CAPITAL EXPENDITURE	**REVENUE EXPENDITURE**
• Results in an addition in an asset account.	• Results in an addition in an expense account.
• Payments for new assets or extensions to previous ones that increase their life.	• Payments for repairs and replacement parts of old vehicles which restore their life.
• Benefits two or more accounting periods.	• Benefits only the accounting period in which it occurs.
• It appears under the Non-Current Asset section in the Statement of Financial Position.	• It appears under the expense section in Income Statement.

Capital Receipts/Income: Meaning and Examples

Just like there are differences in expenditures, there are also differences in income. Capital Receipts are receipts that arise from the sale/disposal of capital non-current assets like machinery, vehicles or equipment, which seldom occur. Following are examples of Capital Receipts:

1): Bonds and Cash.
2): Sale of shares in the business.
3): Sale of Non-Current Assets.
4): Insurance claim for a damaged fixed asset.

Revenue Receipts/Income: Meaning and Examples

Revenue Receipts are receipts earned from daily activities like sale of goods, are repetitive in nature and are shown in the credit side of the Income Statement. These result from daily activities and are used to pay business expenses. Examples of Revenue Receipts are:

1): Interest Received.
2): Rent Received.
3): Dividend Received.
4): Commission Received.

DIFFERENCE	
CAPITAL RECEIPTS	**REVENUE RECEIPTS**
• Decreases the value of an asset or increases the value of a liability.	• Does not affect the value of an asset or liability.
• Shown in the Statement of Financial Position.	• Shown in the Income Statement.
• Produces Revenue Receipts in the future. (Capital invested gives revenue receipts)	• Does not produce neither Capital nor Revenue receipts.
• It has long-term effect, with the benefit lasting for many years.	• It has a short-term effect and does not last for more than one accounting period.

(d) Complete the following table by inserting a (✓) showing whether **each** transaction is revenue expenditure, a revenue receipt, capital expenditure or a capital receipt. The first one has been completed as an example.

Transaction	Revenue		Capital	
	Expenditure	Receipt	Expenditure	Receipt
Sold office computer				✓
Received interest on deposit account				
Took out a 5-year bank loan				
Paid property insurance				
Bought motor vehicle to deliver goods				
Received commission				

[5]

May/June 2008

2 Saira Mir sells computers on credit to schools. She buys component parts which are assembled in her factory and are then delivered to schools in her business motor vehicle.

REQUIRED

(a) Explain the meaning of capital expenditure and revenue expenditure.

Capital expenditure ....

....

....

Revenue Expenditure ....

....

....
[4]

(b) Give one example of capital expenditure and one example of revenue expenditure in Saira Mir's business.

Capital expenditure ....

Revenue expenditure.. [2]

(c) State how fixed assets should be valued in Saira Mir's accounts.

....

....[1]

May/June 2006

4 The following balances are included in Sam Chung's books of account:

	$
Purchases	84 000
Wages	18 600
Fixtures and fittings	24 500
Investment income	900

REQUIRED

(a) Identify the revenue income, revenue expenditure and capital expenditure in the table below. Purchases has been completed as an example.

	$	Revenue income	Revenue expenditure	Capital Expenditure
Purchases	84 000			
Wages	18 600			
Fixtures and fittings	24 500			
Investment income	900			

(b) Sam Chung included half of the purchases as capital expenditure in the accounts.

State the effect and the amount this error had on his net profit.

....

....

.... [2]

Depreciation

It is a systematic allocation of depreciable amount over the useful life of an asset.

OR

Fall in the value of fixed asset during one year

Why fixed assets depreciate **OR** causes of depreciation

1) Wear and tear
2) Obsolescence
3) Environmental conditions

Why Depreciation has to be provided in financial statements

1) to record as an expense in income statement
2) to record net book value of the Asset in statement of financial position.

Methods of depreciation:

1) Straight line method:

In this method equal amount of depreciation is charged each year. Depreciation is calculated by dividing the cost of fixed asset by number of years estimated. It can be calculated as follows

Formula:

$$\frac{\text{Cost} - \text{Scrap/Residual Value}}{\text{Useful Life (In years)}}$$

or

$$(\text{Cost} - \text{Scrap Value}) \times \%$$

2) Reducing balance method:

This method is applied on those assets which perform efficiently in initial years and less efficiently in later heirs. Depreciation can be calculated as follows

$$[\text{Cost} - \text{Accumulated Depreciation}] \times \text{Rate } (\%)$$

3) Revaluation method:

This method is applied on low cost items like loose tools. It is difficult to ascertain the value of each item so collectively they are valued it and amount used is depreciation. It can be calculated as follows

	$
Value at Start	XXX
Add: Purchases	X
Available for use	XXX
Less: Value at end	(XX)
Depreciation	XX

Double entry for depreciation

	Debit	Credit
Income Statement	XX	
Provision for Depreciation		XX

Ledgers:

Provision for Depreciation			
	$		$
Disposal	XXX	Balance b/d	XXX
Balance c/d	XXX	Income Statement	XX
	XXX		XXX
		Balance b/d	

Disposal of an asset:

Entries:

	Debit	Credit
Dispoal A/c	XX	
Furniture A/c		XX

	Debit	Credit
Provision for Depreciation A/c	XX	
Dispoal A/c		XX

	Debit	Credit
Bank	XX	
Dispoal A/c		XX

	Debit	Credit
Income Statement	XX	
Dispoal A/c		XX

OR

	Debit	Credit
Disposal A/c	XX	
Income Statement		XX

Ledger:

Non-Current Asset			
	$		$
Bal b/d	XX	Disposal	XX
Bank	XX	Bal c/d	XX
	XX		XX
Bal b/d	XX		XX

Disposal			
	$		$
Non-Current Asset account	XX	Bank	XX
		Provision for Depreciation	XX
Income Statement (Gain)	XX	Income Statement (Loss)	XX
	XX		XX

May/June 2015 – 22

2 Atto Electrical had the following non-current assets on 31 March 2013.

	Net book value $
Premises (cost $50 000)	48 000
Motor vehicles (cost $16 000)	12 000
Computers	6 000

Atto Electrical has the following depreciation policy.

Premises are depreciated at the rate of 2% per annum by straight-line method.
Motor vehicles are depreciated at the rate of 25% per annum by diminishing (reducing) balance method.
Computers are depreciated by revaluation method.

A full year's depreciation is charged on all non-current assets owned at the end of the financial year.

Additional information

1 There were no purchases or sales of non-current assets during the year ended 31 March 2014.

2 The following purchases of non-current assets were made during the year ended 31 March 2015. Payments were made by cheque.

	$
Premises	30 000
Motor vehicles	9 000
Computers	3 200

3 Computers were valued as follows:

	$
31 March 2014	4 200
31 March 2015	6 000

REQUIRED

(a) Explain the term depreciation.

....

....

....

.... [2]

(b) State **one** cause of depreciation of a computer.

.... [1]

(c) Complete the table to show the depreciation to be charged to the income statement for **each** of the years ended 31 March 2014 and 31 March 2015.

	Year ended 31 March 2014 $	Year ended 31 March 2015 $
Premises		
Motor vehicles		
Computers		

(d) Prepare the following ledger accounts for **each** of the years ended 31 March 2014 and 31 March 2015. Balance the accounts and bring down the balances on 1 April.

Motor vehicles account

Date	Details	$	Date	Details	$

[4]

Motor vehicles provision for depreciation account

[5]

Date	Details	$	Date	Details	$

(e) Identify which **two** of the following accounting principles/concepts support the charging of depreciation in an accounting year.

Accruals/Matching
Dual aspect
Going concern
Materiality
Money measurement

1 ....

2 .... [2]

[Total: 20]

Oct/Nov 2014 – 22

2 Ajib commenced business on 1 October 2014 delivering parcels to customers' homes. He purchased a motor van on that date, the details are as follows.

Purchase price	$9600
Life of motor van	3 years
Residual value	$1200

Ajib is undecided whether to use the straight-line method or diminishing (reducing) balance method to depreciate the motor van.

If Ajib uses the diminishing (reducing) balance method the annual rate of depreciation charged would be 50%.

REQUIRED

(a) Explain the term depreciation.

....

....

.... [2]

(b) Complete the following table to show the depreciation to be charged for the years ended 30 September 2015, 2016 and 2017 using the straight-line method and the diminishing (reducing) balance method.

For the year ended	Straight-line method $	Diminishing (reducing) balance method $
30 September 2015		
30 September 2016		
30 September 2017		

[6]

(c) State **one** advantage of Ajib using the straight-line method when depreciating the motor van.

....

.... [1]

(d) State **one** advantage of Ajib using the diminishing (reducing) balance method when depreciating the motor van.

....

.... [1]

Ajib is considering:

Proposal 1 Charging the total purchase price of the motor van to the 2015 income statement.

Proposal 2 Using the diminishing (reducing) balance method to charge depreciation on the motor van in 2015, and then to change to the straight line method for 2016 and 2017.

REQUIRED

(e) Name and explain which accounting concept would **not** be complied with if Ajib implemented his proposals.

Proposal 1

Accounting concept ....

Explanation ....

....

Proposal 2

Accounting concept ....

Explanation ....

....

[6]

Ajib also incurred the following expenditure.

1 Delivery of motor van from manufacturer
2 Fuel for motor van
3 Signwriting his business name on the motor van
4 Motor van insurance

REQUIRED

(f) State whether each of the items above is capital expenditure or revenue expenditure.

1 ....

2 ....

3 ....

4 ....

[4]

[Total: 20]

Oct/Nov 2014 – 21

2 The following information relates to the delivery vehicles of Swift Limited.

1 July 2012	Purchased delivery vehicle 1 for $15 000.
1 July 2013	Purchased delivery vehicle 2 for $20 000.
30 June 2014	Disposed of delivery vehicle 1 and received a cheque for $8000.

Depreciation is charged at the rate of 20% using the diminishing (reducing) balance method.

REQUIRED

(a) State **two** causes of depreciation of a delivery vehicle.

1...

2...

[2]

(b) Complete the following table to show the depreciation charged for the years ended 30 June 2013 and 30 June 2014.

Year ended	Delivery vehicle 1	Delivery vehicle 2	Total for year
	$	$	$
30 June 2013			
30 June 2014			
Total			

[3]

(c) Prepare the provision for depreciation of delivery vehicles account for the year ended 30 June 2014. Balance the account and bring down the balance.

Provision for depreciation of delivery vehicles account

Date	Details	$	Date	Details	$

[4]

(d) Prepare the journal entries to record the disposal of delivery vehicle 1. Narratives are **not** required.

Journal

	Dr $	Cr $

[6]

(e) Prepare an extract from the statement of financial position at 30 June 2014, showing the delivery vehicles.

....

....

....

....

....

.... [2]

Swift Limited are considering the following expenditure on delivery vehicle 2.

1 Replacement tyres

2 A new trailer

3 An annual maintenance service.

REQUIRED

(f) State whether each of the items 1, 2 and 3 above is capital expenditure or revenue expenditure.

1 ....

2 ....

3 ....

[3]

[Total: 20]

May/June 2013 – 21

4 On 1 April 2011 Lynne purchased two motor vehicles for business use on credit from Villa Motors Limited. The vehicles cost $12 000 each.

Depreciation is charged on the motor vehicles at 20% per annum by the diminishing (reducing) balance method. A full year's depreciation is charged in the year of purchase but no depreciation is charged in the year of sale.

On 23 January 2013 one of the motor vehicles was sold for $6500.

REQUIRED

(a) Show the journal entry to record the purchase of the motor vehicles on 1 April 2011. Dates and narratives are **not** required.

Journal

	Debit $	Credit $
....	....	....
....	....	....
....	....	....
....	....	....

[2]

(b) Prepare the provision for depreciation account for the years ended on 31 March 2012 and 2013.

Provision for Depreciation account

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.... [5]

(c) Prepare the disposal account.

Disposal account

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.... [5]

(d) State **two** other methods of depreciation.

1 ....

2 .... [2]

[Total: 14]

May/June 2011 – 22

2 Amayi owns a manufacturing business. Her financial year ends on 30 April.

She has the following depreciation policy:

Machinery is depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

Office furniture is depreciated at the rate of 10% per annum using the straight-line method.

Loose tools are depreciated using the revaluation method.

A full year's depreciation is charged on assets in the year of purchase but no depreciation is charged in the year of sale.

REQUIRED

(a) Give **two** reasons why depreciation should be charged.

1 ....

....

2 ....

.... [4]

(b) Suggest **one** reason why the diminishing (reducing) balance method might be the most appropriate method for Amayi to depreciate her machinery.

....

....

.... [2]

The following information is available for the year ended 30 April 2011.

1 Balances 1 May 2010

	$
Non-current assets at cost	
Machinery	80 000
Office furniture	15 000
Provisions for depreciation	
Machinery	60 000
Office furniture	5 000

2 On 31 July 2010, additional machinery, $18 000, was purchased.

3 On 20 February 2011, office furniture, which had cost $1 000 on 1 May 2008, was sold for $550 cash.

4 On 1 May 2010, loose tools, cost price $1600, were valued at $1050.
Additional loose tools were purchased during the year for $630.
On 30 April 2011 loose tools were valued at $1400.

REQUIRED

(c) Calculate the depreciation to be charged on **each** of the following for the year ended 30 April 2011.

(i) Machinery

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(ii) Office furniture

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iii) Loose tools

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.... [6]

(d) Calculate the profit or loss on the office furniture sold on 20 February 2011.

....

....

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....

....

.... [3]

(e) Calculate the net book value on 30 April 2011 of

(i) Machinery

....

....

(ii) Office furniture

....

.... [2]

(f) Identify by ticking the appropriate box, (✓) whether **each** payment is capital expenditure or revenue expenditure.

	Capital expenditure	Revenue expenditure
Purchase of spares for machinery		
Installation of additional machinery		
Repairs to office furniture		
Purchase of loose tools		

May/June 2010 – 21

2 Sparky Ltd set up business on 1 May 2008 with the following assets:

	$
Property (Land and buildings)	150 000
Computer equipment	40 000
Inventory (stock in trade)	70 000

Sparky Ltd decided on the following policy for depreciation:

1 Land costing $80 000 was not to be depreciated.

2 Buildings are to be depreciated at 2% per annum on cost using the straight line method.

3 Computer equipment is to be depreciated at 25% per annum using the diminishing (reducing) balance method.

REQUIRED

(a) State **two** causes of depreciation.

(i) ....

(ii) ....[2]

(b) Explain why Sparky Ltd does **not** depreciate each of the following:

(i) Land

....

....

(ii) Inventory (stock in trade)

....

.... [4]

(c) Explain why depreciation is an application of the matching/accruals principle.

....

....

.... [2]

(d) Calculate the depreciation on property (land and buildings) for the year ended 30 April 2009.

....

.... [1]

On 30 April 2010 Sparky Ltd sold some of the computer equipment for $7000. The computer equipment had cost $12 000 on 1 May 2008. Sparky Ltd charges a full year's depreciation in the year of disposal.

REQUIRED

(e) Prepare the disposal account on 30 April 2010 recording the disposal of the computer equipment.

Disposal account

....

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....

....

.... [5]

During the year ended 30 April 2010, Sparky Ltd carried out work on the buildings.

1 Built an extension

2 Redecorated the interior

3 Installed air conditioning

REQUIRED

(f) State whether **each** item, 1 to 3 above, is capital expenditure **or** revenue expenditure.

1 ....

2 ....

3 .... [3]

[Total: 17]

Oct/Nov 2009

2 Universal Industries provided the following information:

1 Purchased a machine for $8 000 on 1 October 2007.

2 Sold the machine for cash, $7000, on 31 March 2009.

3 The policy of Universal Industries is to charge depreciation at the rate of 10 % per annum on cost using the straight line method. Depreciation on machinery is charged from the date of purchase and up to the date of sale.

4 All sales of fixed assets are recorded in a disposal account.

5 Universal Industries prepares final accounts on 31 March each year.

REQUIRED

(a) Explain the term depreciation.

....

....

....

....[2]

(b) State two reasons why fixed assets depreciate.

....

....

[2]

(c) Prepare the journal entries to record the sale of the machine. Show the transfer of any profit or loss on the sale to the final accounts on 31 March 2009. Narratives are not required.

	Dr	Cr
	$	$

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[8]

(d) Explain why depreciation is an application of the accruals concept.

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[2]

(e) Complete the table below for items (i) to (iii). State in each case the most appropriate method of depreciation and give one reason for your answer.

Asset	
(i) Buildings	Method of depreciation
	Reason
(ii) Computers	Method of depreciation
	Reason
(iii) Loose tools	Method of depreciation
	Reason

[6]

May/June 2008

2: A motor vehicle purchased by Saira Mir on 1 May 2004 for $8000 was sold on 30 April 2008 for $400. She uses the diminishing (reducing) balance method at 50 % per annum. The motor vehicle had been depreciated by $7000 by 30 April 2007.

REQUIRED

(d) (i) Explain the term depreciation.

....

....

(ii) Calculate depreciation for the motor vehicle for the year ended 30 April 2008.

....

....

....

(iii) Show the journal entry for the provision for depreciation at 30 April 2008. A narrative is not required.

	Dr	Cr
	$	$

....

....

....

....

....

[2]

(iv) Prepare the disposal account for the motor vehicle.

....

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....

[2]

Oct/Nov 2006

4 John Regan set up a garage and car sales business on 1 September 2004 with the following assets:

	$
Land and buildings	120 000
Plant and equipment	60 000
Loose tools	5 000
Stock of motor vehicles	45 000
Stock of car parts	7 000
Cash at bank	1 000

John decided on the following policy for depreciation:

1 Land, costing $70 000, is not to be depreciated.

2 Buildings, costing $50 000, are to be depreciated at 4% per annum on cost using the straight line method.

3 Plant and equipment is to be depreciated at 50% per annum using the diminishing (reducing) balance method.

4 Loose tools are to be depreciated using the revaluation method.

REQUIRED

(a) Explain why John Regan does not depreciate each of the following:

(i) Land

....

....

....

....

[2]

(ii) Stock of motor vehicles

....

....

....

....

[2]

(b) (i) Explain one reason why John Regan uses the revaluation method to depreciate loose tools.

....

....

....

(ii) John Regan purchased additional loose tools costing $1000 during the year ended 31 August 2005. The tools were revalued at $4000 on 31 August 2005. Calculate the depreciation for the year.

....

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[4]

(c) Calculate the depreciation for each of the years ended 31 August 2005 and 31 August 2006 for the following:

(i) Buildings

....

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....

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....

.... [3]

(ii) Plant and equipment

....

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....

.... [4]

(d) John Regan charges a full year's depreciation in the year of disposal.

He sold all the plant and equipment for $12 000 during August 2006.

Prepare the disposal account on 31 August 2006.

Disposal of Plant and Equipment account

....

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....

[5]

May/June 2004

4 Habib provides the following information.

Fixed Asset	Cost $	Depreciation method
Computer Office furniture Loose tools	2000 3000 800	Diminishing (reducing) balance – 60% per annum Straight-line – 10% per annum Revaluation

REQUIRED

(a) Explain the following methods of depreciation.

(i) Diminishing (reducing) balance

....

....

.... [2]

(ii) Straight-line

....

....

.... [2]

(iii) Revaluation

....

....

.... [2]

(b) Using the above figures, calculate the depreciation in Years 1 and 2 for each asset.

(i) Computer

Year 1 depreciation ....

....

....

Year 2 depreciation ....

....

.... [2]

(ii) Office furniture

Year 1 depreciation ....

....

....

Year 2 depreciation ....

....

.... [2]

(iii) Loose tools
(Assume the value of loose tools at the end of Year 1 was $600 and was $350 at the end of Year 2.)

Year 1 ....

....

....

Year 2 ....

....

.... [2]

(c) Comment on the suitability of each depreciation method for the three fixed assets.

(i) Computer ....

....

....

....

(ii) Office furniture ....

....

....

....

(iii) Loose tools ....

....

....

.... [6]

[Total: 18]

2 The following balances were recorded in the books of Sofea on 1 March 2015.

	$
Motor vehicles account (at cost)	50 000
Motor vehicles – provision for depreciation account	18 400

Additional information

1 On 31 May 2015 a motor vehicle costing $16 000 and with an accumulated depreciation of $7000 was sold for $8400.

2 On 30 June 2015 a motor vehicle costing $20 000 was purchased on credit.

3 The depreciation policy of Sofea is as follows:

Motor vehicles are depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

A full year's depreciation is charged in the year of purchase.

No depreciation is charged in the year of sale.

REQUIRED

(a) State the meaning of the accounting term depreciation.

....

....

....

....[2]

(b) Identify by ticking the appropriate box (✓) whether **each** statement about depreciation is true or false. The first one has been completed as an example.

Statement	True	False
There is only one method of charging depreciation.		✓
Depreciation is the cash set aside for non-current asset replacement.		
Depreciation is an application of the going concern concept.		

[2]

(c) Calculate the:

(i) profit or loss on the sale of the motor vehicle on 31 May 2015.

....

....

....

....

....[1]

(ii) motor vehicles depreciation charge for the year ended 29 February 2016.

....

....

....

....

....

....

....

....[2]

(d) Prepare the motor vehicles provision for depreciation account for the year ended 29 February 2016. Balance the account and bring down the balance on 1 March 2016.

Motor vehicles provision for depreciation account

Date	Details	$	Date	Details	$

[5]

Irrecoverable debts

It is an amount owing to a business which will not be paid by the credit customer

Double Entry:

	Debit	Credit
Irrecoverable debts	XX	
Trade Receivable		XX

Ledgers:

Irrecoverable debts

2013	$	2013	$
31 Dec Debtor	xx	31 Dec Income statement	xx

Debtor (Mr. A)

2013	$	2013	$
1st Jan Bal b/d	xx	31 Dec Irrecoverable debts	xx

Provision for doubtful debts:

At the end of their financial year, many businesses try to anticipate the amount which will be lost because of Irrecoverable debts. This ensures that the profit for the year is not overstated and the amount of trade receivables in the statement of financial position is shown at a realistic value.
This is an application of the principle of prudence. By maintaining a provision for doubtful debts, a business also observed the principle of matching. The amount of sales for which the business is unlikely to be paid is regarded as an expense of the year in which those sales are made (rather than an expense of the year in which the debt is actually written off)

Double entry:

	Debit	Credit
Income Statement	XX	
Provision for Doubtful Debts		XX

Ledger:

Provision for doubtful debts

2013	$	2013	$
31 Dec Bal c/d	xx	31st Dec income statement	xx
		2014	
		1st Jan bal b/d	xx

Increase in provision for doubtful debts:

Double entry:

	Debit	Credit
Income Statement	XX	
Provision for doubtful debts		XX

Ledger:

Provision for doubtful debts

2013	$	2013	$
		1st Jan bal b/d	xx
31 Dec Bal c/d	xx	31st Dec income statement	xx
		2014	
		1st Jan bal b/d	xx

Decrease in provision for doubtful debts:

Double entry:

	Debit	Credit
Provision for doubtful debts	XX	
Income Statement		XX

Ledger:

Provision for doubtful debts

2013	$	2013	$
31st Dec income statement	xx	1st Jan bal b/d	xx
31 Dec Bal c/d	xx		
		2014	
		1st Jan bal b/d	xx

25.1 In a new business during the year ended 31 December 2013 the following debts are found to be bad, and are written-off on the dates shown:

31 May	S. Gill & Son	£600
30 September	H. Black Ltd	£400
30 November	A. Thom	£200

On 31 December 2013 the schedule of remaining accounts receivable totalling £15,000 is examined and it is decided to make an allowance for doubtful debts of £500.

You are required to show:

(*a*) The Bad Debts Account, and the Allowance for Doubtful Debts Account.
(*b*) The charge to the Income Statement.
(*c*) The relevant extracts from the Statement of Financial Position as at 31 December 2013.

25.2 A business had always made an allowance for doubtful debts at the rate of 2 per cent of accounts receivable. On 1 January 2011 the amount for this, brought forward from the previous year, was £300.

During the year to 31 December 2011 the bad debts written-off amounted to £700.

On 31 December 2011 the accounts receivable balance was £17,000 and the usual allowance for doubtful debts is to be made.

You are to show:

(*a*) The Bad Debts Account for the year ended 31 December 2011.
(*b*) The Allowance for Doubtful Debts Account for the year.
(*c*) Extract from the Income Statement for the year.
(*d*) The relevant extract from the Statement of Financial Position as at 31 December 2011.

25.3 A business started trading on 1 January 2010. During the two years ended 31 December 2010 and 2011 the following debts were written off to the Bad Debts Account on the dates stated:

31 May 2010	F. Lamb	£200
31 October 2010	A. Clover	£300
31 January 2011	D. Ray	£100
30 June 2011	P. Clark	£400
31 October 2011	J. Will	£ 50

On 31 December 2010 the total accounts receivable was £55,000. It was decided to make an allowance for doubtful debts of £800.

On 31 December 2011 the total accounts receivable was £59,000. It was decided to make an allowance for doubtful debts of £900.

You are required to show:

(*i*) The Bad Debts Account and the Allowance for Doubtful Debts Account for each of the two years.
(*ii*) The relevant extracts from the Statements of Financial Position as at 31 December 2010 and 2011.

25.4A A business, which started trading on 1 January 2010, adjusted its allowance for doubtful debt at the end of each year on a percentage basis, but each year the percentage rate is adjusted in accordance with the current 'economic climate'. The following details are available for the three years ended 31 December 2010, 2011 and 2012.

	Bad debts written off year to 31 December	*Accounts receivable at 31 December after bad debts written-off*	*Percentage allowance for doubtful debts*
	£	£	
2010	1,240	41,000	4
2011	2,608	76,000	6
2012	5,424	88,000	5

You are required to show:

(*a*) Bad Debts Accounts for each of the three years.
(*b*) Allowance for Doubtful Debts Accounts for each of the three years.
(*c*) Statement of Financial Position extracts as at 31 December 2010, 2011 and 2012.

Oct/Nov 2013 – 22

Q2: Ann was informed that John Lee was unable to pay his outstanding balance of $2300. It was agreed that he would pay 40 cents for each dollar owed and he sent a cheque on 26 June 2013 in settlement. The balance was written off as a bad debt.

REQUIRED

(d) Prepare the general journal entry to write off the bad debt. A narrative is required.

General Journal

	Debit $	Credit $
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

(e) Advise Ann why she should create a provision for doubtful debts.

....

....

....

....

....

....

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.... [6]

[Total: 26]

Oct/Nov 2013 – 21

2 Raja supplied the following information relating to her trade receivables before the preparation of the income statement for the year ended 31 May 2013.

1

	31 May 2012	31 May 2013
	$	$
Trade receivables	18 800	19 200
Provision for doubtful debts	940	?

2 The following accounts are to be written off as Irrecoverable debts.

	$
R B Brown	502
L Wong	90
P Singh	288

3 The provision for doubtful debts is maintained at 5% of trade receivables.

REQUIRED

(a) Prepare the provision for doubtful debts account for the year ended 31 May 2013. Balance the account and bring the balance down on 1 June 2013.

Provision for Doubtful Debts account

....

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....

.... [6]

(b) Indicate with a tick (✓) the effect a reduction in the provision for doubtful debts would have on the following:

	Increase	Decrease	No effect
Gross profit			
Profit for the year			
Trade receivables			

[3]

Raja is concerned that her profits have been falling and wishes to stop charging the provision for doubtful debts in her income statement.

REQUIRED

(c) Advise Raja on whether she should continue to maintain a provision for doubtful debts. Give reasons for your answer.

....

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.... [9]

May/June 2007

2 Carson's debtors owed $47 900 on 29 April 2007. The debtors included the following:

Debtor	Balance $
Iqbal	72
Johnston	148
Turner	880

1 Iqbal paid Carson $72 in cash on 30 April.

2 Carson was told that Johnston had left the country and decided to write off the outstanding balance as a bad debt.

3 On 30 April Carson was informed that Turner was bankrupt. A cheque for $240 was received in full and final settlement. Carson wrote off the remaining balance as a bad debt.

4 Carson decided to create a provision for doubtful debts at 2 % of the remaining debtors at 30 April 2007.

No other transactions occurred on 30 April 2007.

REQUIRED

(a) Prepare the journal entries to record the bad debt write-offs and creation of the provision for doubtful debts. Narratives are not required.

Carson
Journal Dr. Cr.

....

....

....

....

....

....

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....

(b) Make entries in the following sales ledger accounts to record the transactions on 29 April and 30 April 2007.

Iqbal account

29 April Balance b/d 72

....

.... [1]

Johnston account

29 April Balance b/d 148

....

....

[1]

Turner account

29 April Balance b/d 880

……

……

……

[2]

(c) Show the entries which would appear in the final accounts of Carson for Irrecoverable debts and provision for doubtful debts.

Profit and Loss Account for the year ended 30 April 2007

……

……

……

……

[2]

Balance Sheet at 30 April 2007

……

……

……

……

[2]

(d) Name one accounting principle which is applied in final accounts when making a provision for doubtful debts.

…… [1]

[Total: 16]

Andrea carried out a review of her remaining trade receivables before preparing her financial statements. The following information relating to her debtors was available:

Analysis of balances

	$	Age of debt
George	11500	One month
Ranjula	9500	Two months
Harry	5000	Four months
Trupti	1500	Eight months
	27500	

Andrea has the following policy for calculating the provision for doubtful debts:

Age of debts	%
Up to 3 months	2
3–6 months	10
Over 6 months	20

REQUIRED

(d) Calculate the value of the provision for doubtful debts at 30 September 2011.

....

....

....

....

....

.... [4]

(e) On 1 October 2010 the balance of the provision for doubtful debts account was $1300.

Prepare the provision for doubtful debts account for the year ended 30 September 2011. Bring down the balance on 1 October 2011.

Andrea
Provision for doubtful debts account

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.... [3]

(f) Name **two** accounting principles which Andrea is applying by maintaining a provision for doubtful debts.

1 ....

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2 ....

.... [2]

2 The following balances were recorded in the books of Sofea on 1 March 2015.

	$
Motor vehicles account (at cost)	50000
Motor vehicles – provision for depreciation account	18400

Additional information

1 On 31 May 2015 a motor vehicle costing $16000 and with an accumulated depreciation of $7000 was sold for $8400.

2 On 30 June 2015 a motor vehicle costing $20000 was purchased on credit.

3 The depreciation policy of Sofea is as follows:

Motor vehicles are depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

A full year's depreciation is charged in the year of purchase.

No depreciation is charged in the year of sale.

REQUIRED

(a) State the meaning of the accounting term depreciation.

....

....

....

....[2]

(b) Identify by ticking the appropriate box (✓) whether **each** statement about depreciation is true or false. The first one has been completed as an example.

Statement	True	False
There is only one method of charging depreciation.		✓
Depreciation is the cash set aside for non-current asset replacement.		
Depreciation is an application of the going concern concept.		

[2]

(c) Calculate the:

(i) profit or loss on the sale of the motor vehicle on 31 May 2015.

....

....

....

....

....[1]

(ii) motor vehicles depreciation charge for the year ended 29 February 2016.

....

....

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....

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....[2]

(d) Prepare the motor vehicles provision for depreciation account for the year ended 29 February 2016. Balance the account and bring down the balance on 1 March 2016.

Motor vehicles provision for depreciation account

Date	Details	$	Date	Details	$

[5]

Accruals & Pre-Payments

Prepaid expense:

Expenses paid in advance. It becomes current asset

Accrued expense:

Expenses due but not yet paid. It becomes current liability

Prepaid income:

Income received in advance. It becomes current liability

Accrued income

Income due But not yet received. It becomes current assets mass

28.1 The financial year of M. Hussey ended on 31 December 2009. Show the ledger accounts for the following items including the balance transferred to the necessary part of the financial statements, also the balances carried down to 2010:

(*a*) Motor expenses: Paid in 2009 £800; Owing at 31 December 2009 £100.
(*b*) Insurance: Paid in 2009 £900; Prepaid as at 31 December 2009 £70.
(*c*) Stationery: Paid during 2009 £400; Owing as at 31 December 2008 £200; Owing as at 31 December 2009 £300.
(*d*) Business rates: Paid during 2009 £2,000; Prepaid as at 31 December 2008 £180; Prepaid as at 31 December 2009 £160.
(*e*) Hussey sublets part of the premises. He receives £1,600 during the year ended 31 December 2009. Willis, the tenant, owed Hussey £190 on 31 December 2008 and £210 on 31 December 2009.

28.2A W. Hope's year ended on 30 June 2011. Write up the ledger accounts, showing the transfers to the financial statements and the balances carried down to the next year for the following:

(*a*) Stationery: Paid for the year to 30 June 2011 £240; Inventory of stationery at 30 June 2010 £60; at 30 June 2011 £95.
(*b*) General expenses: Paid for the year to 30 June 2011 £470; Owing at 30 June 2010 £32; Owing at 30 June 2011 £60.
(*c*) Rent and business rates (combined account): Paid in the year to 30 June 2011 £5,410; Rent owing at 30 June 2010 £220; Rent paid in advance at 30 June 2011 £370; Business rates owing 30 June 2010 £191; Business rates owing 30 June 2011 £393.
(*d*) Motor expenses: Paid in the year to 30 June 2011 £1,410; Owing as at 30 June 2010 £92; Owing as at 30 June 2011 £67.
(*e*) Hope earns commission from the sales of one item. Received for the year to 30 June 2011 £1,100; Owing at 30 June 2010 £50; Owing at 30 June 2011 £82.

Expense Account					
Jan 1	Prepaid b/d	XXX	Jan 1	Accrued b/d	XXX
	Bank	XX	Dec 31	Income Statement	XX
Dec 31	Accrued c/d	X	Dec 31	Prepaid c/d	X
		XXX			XXX

Income Account					
Jan 1	Accrued b/d	XXX	Jan 1	Prepaid b/d	XXX
Dec 31	Income Statement	XX		Bank	XX
Dec 31	Prepaid c/d	X	Dec 31	Accrued c/d	X
		XXX			XXX

1 The following balances were taken from the books of Krul Limited on 1 July 2015.

	$
Carston Garages account	200 credit
Motor van expenses account	3200 debit

The following transactions took place in July 2015.

July 12 Paid Carston Garages their outstanding balance by cheque, deducting 3% cash discount
July 15 Purchased fuel for the motor van, on credit, from Carston Garages, $120
July 23 Paid motor van repairs by cheque, $200
July 26 Purchased new motor van tyres from Carston Garages on credit, $400, less 15% trade discount

Additional information

1 Krul Limited prepared financial statements on 31 July 2015.

2 Motor van expenses, $125, were accrued on 31 July 2015.

REQUIRED

(a) Prepare the Carston Garages account for the year ended 31 July 2015. Balance the account and bring down the balance on 1 August 2015.

Carston Garages account

Date	Details	$	Date	Details	$

[5]

3

(b) Prepare the motor van expenses account for the year ended 31 July 2015. Make the transfer to the income statement. Balance the account and bring down the balance on 1 August 2015.

Motor van expenses account

Date	Details	$	Date	Details	$

[5]

Abbie supplied the following information related to a credit customer, Izzat.

October	1	Balance owed by Izzat to Abbie $750
	5	Sold goods on credit to Izzat, $1800, less 20% trade discount
	6	Izzat returned goods, list price $350
	21	Received a cheque from Izzat, $800
	22	The remaining balance on Izzat's account was written off as irrecoverable.

REQUIRED

(c) **(i)** Name the subdivision of the ledger containing Izzat's account.

....[1]

(ii) Name the document issued by Abbie to Izzat on 5 October 2015.

....[1]

(d) Prepare the account of Izzat in the books of Abbie.

Izzat account

Date	Details	$	Date	Details	$

[5]

1 Gabi is in business buying and selling goods on credit. The following details relate to the account of her customer, Kacela, for the month of September 2016.

			$
September	1	Opening balance owed by Kacela to Gabi	900
	9	Invoice sent to Kacela	730
	14	Credit note sent to Kacela	25
	30	Cheque received and banked by Gabi	860
	30	Discount allowed by Gabi	40

REQUIRED

(a) Prepare the account of Kacela in the books of Gabi. Balance the account and bring down the balance on 1 October.

Kacela account

Date	Details	$	Date	Details	$

[6]

2 Lyana is preparing her financial statements. She provides the following information.

1 October 2015	Rent receivable account	$2500 Credit

The bank account contained the following entries.

Receipts
31 December 2015 Rent received by cheque $6700
30 April 2016 Rent received by cheque $3100

Payments
31 January 2016 Refund for overpayment of rent receivable $700

Additional information

The rent receivable amounts to $12 000 a year.

REQUIRED

(a) Prepare the rent receivable account for the year ended 30 September 2016. Make the transfer to the income statement and bring down the balance on 1 October 2016.

Rent receivable account

Date	Details	$	Date	Details	$

[5]

Amirtha commenced business on 1 January 2010.
The following information is available from the books of Amirtha.

	1 January 2011	31 December 2011
	$	$
Wages	2 040 accrued	2 130 accrued
Insurance	130 accrued	610 prepaid
Rent received	1 490 prepaid	1 320 prepaid

During the year ended 31 December 2011 the following transactions took place.

	$
Wages paid	24 100
Insurance paid	1 400
Rent received	14 000

All transactions are through the bank account.

REQUIRED
Prepare the following ledger accounts for the year ended 31 December 2011, showing the closing entry to the financial statements at the end of the year. Dates are not required.

(i) Wages account [3]
(ii) Insurance account [3]
(iii) Rent received account [4]