Answers

Section A

Question	Answer	Question	Answer	Question	Answer	Question	Answer
1	B	6	B	11	C	16	D
2	A	7	D	12	A	17	D
3	D	8	B	13	C	18	D
4	B	9	D	14	C	19	A
5	C	10	C	15	B	20	A

Workings

4

	Trade receivables	$43,728	
add	Closing inventory	$11,625	= $55,353

6

	Cost of new car	$12,750		Cost of old car	$8,500
less	Loan	$8,000		*less* Depreciation	$4,148
=	Trade in value	$4,750	= proceeds	Net book value	$4,352
less	Net book value	$4,352	= $398		

12 Rent for 18 months = $22,644. Thus rent is $1,258 per month.
Seven months prepaid = $1,258 x 7 = $8,806

16 Amount paid $4,784 + opening prepayment $490 + closing accrual $270 – rebate $215

17 Sales of $167,580 = cost + 20%. Thus Cost of sales = Sales x 5/6 = $139,650

18 Increase in net assets $6,026 (closing $95,574 less opening $89,548)
add Drawings $17,500 = $23,526

Section B

Marks

1 Non-current assets are:
- held for the long term, and are not intended for conversion into cash in the short term
- used to carry out the activities of the business

Current assets are:
- held for the short term
- intended for conversion into cash in the short term

1 mark for each valid point to a maximum of 4

2 Depreciation is the method by which the cost of non-current assets is allocated to different accounting periods. In simple terms it could be considered as an estimated measure of the wearing out of non-current assets. However it should be noted that the depreciation charge is normally calculated on the basis of a predetermined policy, as it would be uneconomical to estimate the actual amount by which an asset has been worn out in an accounting period.
From this it follows that all non-current assets which wear out must be depreciated but those which do not wear out need not be depreciated.

1 mark for each valid point to a maximum of 2

3 Control accounts are maintained to:
- check the accuracy of postings
  (if the balance on the control account agrees with the total of the balances on the individual accounts in the personal ledger, we have some assurance that postings have been correctly completed)
- assist in locating errors
  (if the control account balance is compared to the total of the balances on the individual accounts in the personal ledger on a regular basis, there will be fewer transactions to be checked when errors have been made)
- provide an internal check/division of duties
  (responsibility for specific personal ledgers – or sections of such ledgers – as well as the posting of the control account can be allocated to different individuals. The posting of the control account then acts as a check on the postings to the personal ledgers.)

1 mark for each valid point to a maximum of 4

4 The accruals concept states that profit is calculated by matching revenue earned and costs incurred. This will almost certainly be different to the amounts paid and received, due to the granting and receiving of normal credit terms.
It would contravene the accruals concept to fail to include expenses incurred but unpaid when the revenue which has been earned has been included in sales.
Essentially this means that any costs which have been incurred must be included in the income statement, and a similar amount reported as a current liability on the balance sheet.

1 mark for each valid point to a maximum of 3

5 A balance sheet is prepared to provide a statement of the financial position of a business at a particular point in time. It reports the assets, liabilities and capital at a specified date, usually the end of an accounting period.

1 mark for each valid point to a maximum of 2

Section C

						Marks
1	(a)	Gross profit (no adjustment required)			$157,846	1
		Expenses ($157,846 – $51,024)	$106,822			
		Less Payments to partners	$30,000		$76,822	
		Thus Net Profit			$81,024	1

(b)		$	$	$		
	Net profit per accounts			81,024		1
		Orla	**Paula**			
	less: Salary	18,000	12,000			1
	Int. on capital (w)	10,000	5,600			2
		28,000	17,600	45,600		
	Residual profit			35,424		1
	Shared: Orla (2/3) Paula (1/3)	23,616	11,808			2
	Total share	51,616	29,408			1

Working:

Interest on capital	Orla $125,000 x 8% =	$10,000
	Paula $70,000 x 8% =	$5,600

(c)		**Orla**	**Paula**		
		$	$		
	Balances at 1 May 2003	34,568	(23,741)		1
	Salary	18,000	12,000	for total	
	Int. on capital	10,000	5,600	appropriation	1
	Residual profit	23,616	11,808		
		86,184	5,667		
	less Drawings	15,000	15,000		1
	Balances at 30 April 2004	71,184	(9,333)		1

(d) The value of total net assets equals the total value of the partners' investment (i.e. the total of the capital and current accounts). Thus:

	Orla	**Paula**		
	$	$		
Capital accounts	125,000	70,000		
Current accounts	71,184	(9,333)		
Total	196,184	60,667	= $256,851	1
				15

2	(a)	**Error**	**Net Profit affected?**	**Adjustment**
		(i) Cash sale not recorded	yes	+ $900
		(ii) Daybook undercast	yes	– $900
		(iii) Cheque incorrectly recorded	no	nil
		(iv) Discount not recorded	yes	– $90
		(v) Drawings treated as expense	yes	+ $405
			Total	+ $315
			Reported net profit	$75,886
			Corrected net profit	$76,201

Mark allocation:

(a)	Whether profit is affected:			
	1/2 mark for each item treated correctly		2·5	
	Adjustment to profit:			
	1 mark for each item treated correctly	5·0		
	revised profit	0·5	5·5	8

Marks

(b) Suspense account

Dr	$		Cr $
	$		$
Balance as given	90	Day book undercast	900
Cash sale	900	Error in cheque	90
	990		990

Mark allocation:
$1\frac{1}{2}$ marks for each correcting entry: $4\frac{1}{2}$
(1 for value, $\frac{1}{2}$ for descriptor)
Balance correctly brought to nil $\frac{1}{2}$ 5

(c)

Type of error:	**Example:**
Error of transposition	(iii) – cheque incorrectly recorded in personal account
Error of omission	(i) – cash sale not recorded or (iv) – discount not recorded
Arithmetical error	(ii) – daybook undercast
Error of principle	(v) – drawings treated as expense

Mark allocation
$\frac{1}{2}$ mark for each error correctly identified, to a maximum of 2

15

3 (a) (i) A bad debt is a debt which is considered to be irrecoverable and is therefore written off. 1
A doubtful debt is a debt about which there is a degree of uncertainty. This means that the debt may or may not be collected. 1

(ii) Allowance for doubtful debts:

	Balance	**Allowance required**		Marks
	$	%	$	
30 days – 59 days	18,700	6	1,122	
60 days and over	9,722			
less written off	3,574			
	6,148	50	3,074	
Closing allowance required			4,196	1
Allowance brought forward			4,516	
Decrease in allowance			320	1
Charge to income statement:			$	
Bad debt written off			3,574	1
Decrease in allowance			(320)	1
Total charge			3,254	
Balance sheet value:			$	
Receivables (before write off)			65,013	
less Bad debt written off			3,574	1
Revised receivables balance			61,439	
less Bad debt allowance			4,196	1
Reported			57,243	

(b) (i) The basic rule to be applied to the valuation of inventory is that it should be valued at the lower of cost or net realisable value. 2

(ii) Closing inventory

	Packing machine $	Industrial Press $	Fork lift Truck $	Marks
Cost	5,890	11,670	3,926	
Expected sale value	5,500	14,900	4,200	
Costs	200	475	720	
Net realisable value	5,300	14,425	3,480	$1\frac{1}{2}$
Inventory value (lower of cost/NRV)	5,300	11,670	3,480	3
	Total inventory value		20,450	$\frac{1}{2}$
				15