

# Maintaining Financial Records (International Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

INTERMEDIATE LEVEL

WEDNESDAY 9 JUNE 2004

## QUESTION PAPER

Time allowed **2 hours**

**This paper is divided into three sections**

**Section A** ALL TWENTY questions are compulsory and MUST be answered

**Section B** ALL FIVE questions are compulsory and MUST be answered

**Section C** ALL THREE questions are compulsory and MUST be answered

**Do not open this paper until instructed by the supervisor**

**This question paper must not be removed from the examination hall**

The Association of Chartered Certified Accountants

Paper T3(INT)



**Section A – ALL TWENTY questions are compulsory and MUST be attempted**

Each question in this section is worth 2 marks.

Please use the Candidate Registration Sheet provided to indicate your chosen answer to each multiple choice question.

1 Alec returned goods which were bought on credit from Peter for \$473.

**How will this be recorded in Alec's general ledger?**

**A** Dr Purchase returns \$473  
Cr Payables control account \$473

**B** Dr Payables control account \$473  
Cr Purchase returns \$473

**C** Dr Purchase returns \$473  
Cr Bank \$473

**D** Dr Bank \$473  
Cr Purchase returns \$473

2 Which one of the following correctly states the accounting equation?

- A Capital + Liabilities = Assets
- B Assets + Liabilities = Capital
- C Capital + Assets = Liabilities
- D Capital – Liabilities = Assets

3 Which one of the following costs is included in the calculation of gross profit?

- A depreciation of delivery vans
- B salaries of general office staff
- C carriage outwards
- D carriage inwards

4 Tania's year end trial balance includes the following balances:

	\$
Opening inventory	12,964
Trade receivables	43,728
Bank overdraft	5,872
Trade payables	28,627

Tania's closing inventory is valued at \$11,625

**Based on the above figures, what is the value of Tania's current assets?**

- A \$33,818
- B \$55,353
- C \$56,692
- D \$61,225

- 5 Sophie has the following information about a new non-current asset which was financed by taking out a loan:
- (i) serial number
  - (ii) cost
  - (iii) provider of loan
  - (iv) date of purchase

**What information will Sophie enter in the asset register?**

- A (i) (ii) and (iii)
  - B (ii) (iii) and (iv)
  - C (i) (ii) and (iv)
  - D (i) (iii) and (iv)
- 6 Terry bought a new car for \$12,750. He paid for the new car by taking out a loan of \$8,000 and trading in his old car. The old car originally cost \$8,500 and had been depreciated by \$4,148 at the time of the trade in.

**What is the gain on disposal of the old car?**

- A \$102
  - B \$398
  - C \$602
  - D \$500
- 7 When preparing the payables ledger reconciliation for a client, you noted the following errors:
- (i) an invoice for \$215 from a supplier was not entered in the accounting records
  - (ii) an invoice for \$465 was recorded as \$456 in the purchase day book

**Which of the errors will cause a difference between the balance on the control account in the nominal ledger and the total of the list of balances from the personal ledger?**

- A (i) only
  - B (ii) only
  - C both (i) and (ii)
  - D neither (i) or (ii)
- 8 Bruce prepared the following payables ledger reconciliation statement:

Balance on general ledger control account	\$46,865 credit
Payment entered twice in general ledger control account	\$573 credit
	\$47,438 credit
Purchase daybook overcast	\$900 debit
Total of list of balances	\$46,538 credit

**How should the payables ledger balance be reported on the balance sheet?**

- A \$46,538 as a current asset
- B \$46,538 as a current liability
- C \$46,865 as a current asset
- D \$46,865 as a current liability

**9 Which one of the following is a reason for preparing a receivables ledger reconciliation?**

- A to calculate discounts allowed
- B to identify overdue accounts
- C to check the calculation of gross profit
- D to confirm the accuracy of postings

**10** Eleanor prepared the following bank reconciliation statement:

	\$	
Balance per bank statement	12,548	(overdrawn)
Outstanding cheques	3,847	
	<hr/>	
	16,395	
Outstanding lodgements	5,424	
	<hr/>	
	10,971	
Bank charges	540	
	<hr/>	
Balance per general ledger	10,431	(overdrawn)
	<hr/> <hr/>	

**What is the correct value of the bank overdraft to be reported in the balance sheet?**

- A \$12,548
- B \$16,395
- C \$10,971
- D \$10,431

**11 Which of the following correctly describe(s) why a bank reconciliation is prepared?**

- (i) to identify entries which have been generated by the bank, but not recorded in the cash book
- (ii) to identify errors in the entries in the cash book

- A (i) only
- B (ii) only
- C both (i) and (ii)
- D neither (i) or (ii)

**12** Steve is preparing his accounts for the year to 31 May 2004. On 1 July 2003 he paid \$22,644 to rent a store for eighteen months from that date.

**What adjustment is required?**

- A a prepayment of \$8,806
- B an accrual of \$8,806
- C a prepayment of \$13,209
- D an accrual of \$13,209

**13 Which one of the following correctly describes the effect of adjusting draft accounts for a prepaid expense?**

- A net profit will be increased and current assets will be reduced
- B net profit will be reduced and current assets will be increased
- C both net profit and current assets will be increased
- D both net profit and current assets will be reduced

- 14** You are preparing the accounts for the year to 30 April 2004 for John Moore. In March 2004 John damaged a table belonging to one of his customers. The customer asked John to pay \$1,600 to replace the table. John offered \$400, which he thought was enough to pay for repairing the table. The customer refused this offer. John agrees that the damage is his fault, and he has now received a formal quotation for the repairs. The quote is for \$850.

**What amount should be provided in respect of the claim when preparing the accounts for the year to 30 April 2004?**

- A no provision is needed
- B \$400
- C \$850
- D \$1,600

- 15** On 1 March 2004 Andrew took out a loan for \$50,000. The loan is to be repaid in five equal annual instalments, with the first repayment falling due on 1 March 2006.

**How should the balance on the loan be reported on Andrew's year end balance sheet as at 30 April 2004?**

- A \$50,000 as a current liability
- B \$50,000 as a non-current liability
- C \$10,000 as a current liability and \$40,000 as a non-current liability
- D \$40,000 as a current liability and \$10,000 as a non-current liability

- 16** At the start of the financial year, Wilson had a prepayment of \$490 for telephone expenses. During the year he paid telephone bills with a total value of \$4,784. He also received a cheque for a rebate of \$215. At the end of the year he had accrued telephone expenses of \$270.

**What amount should be charged to the income statement for the year for telephone expenses?**

- A \$3,809
- B \$4,349
- C \$4,789
- D \$5,329

- 17** Edwin does not keep full accounting records, but has provided the following information:

- total value of sales during the year: \$167,580
- all sales were at a mark up of 20%

**What was Edwin's cost of sales for the year?**

- A \$27,930
- B \$33,516
- C \$134,064
- D \$139,650

- 18** At the beginning of the year a business had net assets of \$89,548. During the year, the owner withdrew \$17,500. At the end of the year, the net assets had a value of \$95,574.

**What was the net profit for the year?**

- A \$6,026
- B \$11,474
- C \$17,500
- D \$23,526

**19** When an extended trial balance is extended and completed and the result for the period is a profit, in which columns will the result be entered?

	Income statement columns	Balance sheet columns
<b>A</b>	debit	credit
<b>B</b>	credit	debit
<b>C</b>	debit	debit
<b>D</b>	credit	credit

**20** At the end of the financial year, Maud's non-current assets cost \$136,758 and had been depreciated by \$34,864.

**How will the non-current assets be recorded on the opening trial balance for the next financial year?**

- A** \$136,758 debit and \$34,864 credit
- B** \$136,758 credit and \$34,864 debit
- C** \$136,758 debit and \$34,864 debit
- D** \$136,758 credit and \$34,864 credit

**(40 marks)**

**Section B – ALL FIVE questions are compulsory and MUST be attempted**

- 1 Explain the difference between non-current assets and current assets.  

(4 marks)
  
- 2 Briefly explain the purpose of the depreciation charge in the income statement.  

(2 marks)
  
- 3 State two reasons why control accounts are maintained.  

(4 marks)
  
- 4 Explain the accruals concept.  

(3 marks)
  
- 5 State the main reason for preparing a balance sheet.  

(2 marks)

**Section C – ALL THREE questions are compulsory and MUST be attempted**

- 6 A trainee in your office prepared draft accounts for the year ended 30 April 2004 for Orla Hughes and Paula Jones who are in partnership. The draft accounts report a gross profit of \$157,846 and a net profit of \$51,024. Cash payments of \$15,000 to each partner have been included in expenses.

At 1 May 2003 the balances on the partners' capital and current accounts were:

	<b>Orla</b>	<b>Paula</b>
Capital account	\$125,000 (credit)	\$70,000 (credit)
Current account	\$34,568 (credit)	\$23,741 (debit)

The partnership agreement includes the following terms:

	<b>Orla</b>	<b>Paula</b>
Share of profits and losses	2/3	1/3
Salary	\$18,000	\$12,000
Interest on capital (per annum)	8%	8%

The partnership agreement also states that the partners' capital account balances will remain fixed, and that the balances on the partners' current accounts should not be included in the calculation of interest on capital.

**Required:**

**Calculate:**

- (a) **the correct gross profit and net profit to be reported in the partnership income statement for the year to 30 April 2004;** (2 marks)
- (b) **the amount of profit which will be credited to each partner's current account for the year to 30 April 2004;** (8 marks)
- (c) **the balance on each partner's current account at 30 April 2004;** (4 marks)
- (d) **the total net assets of the partnership at 30 April 2004.** (1 mark)

**(15 marks)**



- 7** Howard calculated his net profit for the year as \$75,886, but is not sure how to treat the \$90 (debit) balance on the suspense account. Control accounts are not maintained.

On reviewing Howard's records you note that:

- (i) a cash sale for \$900 was recorded in the cash book, but no other entry was made
- (ii) the purchase daybook was undercast by \$900
- (iii) a cheque paid to a supplier was correctly entered in the cash book as \$540, but \$450 was posted to the supplier's account
- (iv) a cheque received from a customer for \$11,700 was accepted in full settlement of a balance of \$11,790. No entries were made for the discount.
- (v) travel expenses include a payment of \$405 for Howard's holiday

**Required:**

- (a) Indicate whether or not Howard's calculation of net profit was affected by each of the errors, and calculate his corrected net profit for the year.** (8 marks)
  
- (b) Show Howard's suspense account including the correction of the errors.**  
(NB You MUST present your answer in a format which clearly indicates a brief narrative for each entry, and whether each entry is a debit or a credit) (5 marks)
  
- (c) Indicate which of the errors are an example of:**  
**error of transposition;**  
**error of omission;**  
**arithmetical error;**  
**error of principle.** (2 marks)

**(15 marks)**

8 You are preparing the year end accounts for a client who buys and sells industrial machinery. You are dealing with bad debts and closing inventory:

**(a) Bad and doubtful debts**

Included in the trade receivables balance is an amount of \$3,574 which has been outstanding for just over a year. Your client has decided to write this balance off.

The allowance for doubtful debts is to be calculated as follows:

6% of balances which have been outstanding for between 30 and 59 days;

50% of balances which have been outstanding for 60 days or more.

At the end of the previous year the allowance for doubtful debts was \$4,516.

The trade receivables balances, including the irrecoverable balance of \$3,574, have been analysed as follows:

Age of debt	Balance
	\$
less than 30 days	36,591
30 days to 59 days	18,700
60 days and over	9,722
Total receivables	<u>65,013</u>

**Required:**

(i) Briefly explain the difference between a bad debt and a doubtful debt. (2 marks)

(ii) Calculate the total charge to the income statement for the year in respect of bad and doubtful debts and the value to be reported in the balance sheet for trade receivables. (6 marks)

**(b) Closing inventory**

At the year end, your client had three machines in inventory. Details of the machines are:

Machine type	Packing machine	Industrial press	Fork lift truck
	\$	\$	\$
Cost	5,890	11,670	3,926
Expected sales value	5,500	14,900	4,200
Expenses of sale	200	475	720

**Required:**

(i) Briefly state the basic rule to be applied to the valuation of inventory. (2 marks)

(ii) Calculate the value of closing inventory to be reported in the balance sheet. (5 marks)

**(15 marks)**

**End of Question Paper**