Answers

Section A

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

Workings

4

Cost =	Cheque £11,570 + Trade in £4,430	= £16,000
Depreciation	£16,000 at 20%	= £3,200

5

NBV of old machine =	£6,144 (Cost £12,000 less Depreciation £5,856)
Proceeds	£4,430
Difference	£1,714 = loss as proceeds less than NBV

7 Accrual increases expenses, and therefore loss. Prepayment reduces expenses and therefore loss. Thus:

Reported loss	£(1,486)	
Accrual	£(1,625)	
Prepayment	£834	= £(2,277)

9

Allowance required	£5,512	(£275,600 x 2%)
Allowance brought forward	£5,670	
Reduction in allowance	£158	credit to Profit and Loss

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Opening balance		£68,920	
Profit for year	+	£22,860	
Drawings	–	£16,890	= £74,890

12

Opening balance		£28,754	
Purchases	+	£183,279	(balancing figure)
Paid	–	£185,844	
Closing balance	=	£26,189	

13 Sales £91,800 = Cost + 20% i.e. 120% of cost of sales
Thus, cost of sales = £76,500 (£91,800 x 100/120)

Opening stock		£15,740	
Purchases	+	£75,550	
Closing stock	–	£14,790	(balancing figure)
Cost of sales		£76,500	

19

		£
Debit balances =	Opening stock	9,649
	Purchases	142,958
	Expenses	34,835
	Fixed assets	63,960
	Debtors	31,746
	Bank	1,783
	Total	284,931

Marks

Section B

1 **(a)** A liability is an amount which the business owes to a third party.

When preparing a balance sheet, we differentiate between liabilities which must be paid in the short term and those which must be paid in the long term. Liabilities which must be paid in the short term are referred to as current liabilities. It is accepted that 'short term' is within one year of the balance sheet date. It therefore follows that long term liabilities are those which will be paid more than one year after the balance sheet date.

Examples are:
Current liabilities
- Trade creditors
- Bank overdraft
- Loan repayments falling due within 12 months

Long term liabilities
- Loan repayments falling due in more than 12 months

Mark allocation:	current = short term/one year	1
	long term = more than one year	1
	1 mark for each example to a MAXIMUM of	2
		4

(b) It is important to differentiate between capital expenditure and revenue expenditure because the accounting treatment of each type of expenditure is different.

Capital expenditure will initially be reported on the balance sheet, while revenue expenditure will be written off in the profit and loss account.

It should be noted that capital expenditure is written off to the profit and loss account, but this takes place over a number of accounting periods.

Mark allocation:
1 mark for each valid point, for example:
- Accounting treatment is different
- Revenue expenditure to profit and loss immediately
- Capital expenditure to balance sheet initially
- Capital expenditure written off also
- But over a number of accounting periods

to a MAXIMUM of 4

(c) The depreciation charge spreads the cost of using fixed assets over the useful economic life of the asset. This reflects the value of economic benefits which have been consumed during the accounting period. This applies the accruals concept, by charging costs against profit in the period in which they are incurred.

Mark allocation: 1 mark per valid point, to a MAXIMUM of 2

(d) The following errors will not be revealed by extracting a trial balance:

an entry which has been completely omitted from the records (an error of complete omission).

a posting recorded in the wrong account. This can be of two types. An error of principle occurs when the incorrect entry is made in the wrong class of account. An error of commission is when the incorrect entry is made in the correct class of account, but the wrong account is used.

an incorrect value for a transaction entered in a daybook will lead to the debit and credit entries in the ledger being equal, but incorrect.

two errors which have the effect of cancelling each other out (compensating errors).

1 mark for each error correctly described, to a MAXIMUM of 3

		Marks
(e)	The business entity concept states that no matter what the legal status of the business, in accounting terms, we always keep the business and the owner separate.	

This means that when recording transactions we are only concerned with how the business is affected. For example, if the owner introduces capital, we are not concerned with the source of the capital, and apart from increasing the owner's capital balance, we do not record how the owner is affected by the transaction.

Mark allocation: 1 mark for each valid point, for example:
- legal status not relevant
- business and owner separate
- no record of effect of transactions on owner

to a MAXIMUM of — 2

15

2 (a) (i) The closing stock is 670 items, calculated as follows:

			Marks
Opening stock volume	480	items	
Purchased	3,070	items	
	3,550		
Sold	2,880	items	
Closing stock	670	items	1

(ii) Applying the FIFO basis of valuation, the stock at 31 October is taken to comprise all of the units in the last delivery (24 October) and the balance is from the previous delivery (15 October).

Thus closing stock value is:

	£	Marks
620 items at £155	96,100	1
50 items at £150	7,500	1
Total value	103,600	2

(b) (i)

Cost of sales	£	Marks
Opening stock	57,600	1
Purchases (W1)	457,900	1
Carriage inwards	3,750	1
	519,250	
Closing stock (a)	(103,600)	1
	415,650	4

(ii)

Gross profit	£	Marks
Sales (W2)	618,000	1
Cost of sales	415,650	
	202,350	1
		2

(iii)

Net profit	£	Marks
Loss as reported	(35,580)	
add Closing stock (a)	103,600	1
	68,020	1
		2

alternative calculation:	£	Marks
Gross profit	202,350	
less Expenses	134,330	1
	68,020	1
		2

			Marks
(iv)	Net assets	**£**	
	as reported	283,468	
	add Closing stock (a)	103,600	1
		387,068	1
			2

Workings

W1 Purchases:

Date	**Items**	**at**	**Total**
		£	**£**
9 October	1,140	145	165,300
15 October	1,310	150	196,500
24 October	620	155	96,100
			457,900

W2 Sales:

Date	**Items**	**at**	**Total**
		£	**£**
12 October	1,040	205	213,200
21 October	1,840	220	404,800
			618,000

(c) SSAP 9 states that stock should be valued at the lower of cost or net realisable value. 1 1

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3 (a)

		Ann	**Jane**		
		£	**£**	**£**	
(i)	Profit as reported			126,842	
	Interest on loan (w1)		1,050	(1,050)	1
	Revised profit			125,792	1
					2
(ii)	Revised profit			125,792	1
	Salary	22,000	8,000	(30,000)	1
	Interest on drawings (w2)	(2,240)	(1,920)	4,160	2
	Residual Profit			99,952	
	Share Ann 3/8	37,482			1
	Jane 5/8		62,470		1
	Total share of profit	57,242	68,550	125,792	

Working 1			
Interest on loan	£35,000 x 4% x 9/12 =	£1,050	
	for time apportionment		$^{1}/_{2}$
Working 2			
Interest on drawings			
Ann	£28,000 x 16% x 6/12 =	£2,240	
Jane	£24,000 x 16% x 6/12 =	£1,920	
	for time apportionment		$^{1}/_{2}$
			7

						Marks
(b)		**Current account**				
	Ann	**Jane**		**Ann**	**Jane**	
	£	**£**		**£**	**£**	
Opening balance	17,420				9,547	
Int. on drawings	2,240	1,920	Salary	22,000	8,000	
Drawings	28,000	24,000	Int. on loan		1,050	
Closing balance	11,822	55,147	Residual profit	37,482	62,470	
	59,482	81,067		59,482	81,067	

Mark allocation:	Opening balances	1
	Salary, Interest on loan, Residual profit	2
	Interest on drawings	1
	Drawings	1
	Closing balances	1
		6
		15

4 (a) **Creditors control account**

		£			£
Discount received	(i)	14	Balance as given		98,524
Offset	(ii)	2,856	Invoice	(iv)	924
Direct payment	(v)	974	Error in invoice	(vi)	90
Corrected balance		95,694			
		99,538			99,538

Mark allocation:	Correcting entries 1 each	5
	Debit total = credit total	1

(b)

		£	
	Total as given	97,264	
(ii)	Offset	(2,856)	1
(iii)	Credit balance listed as debit	1,246	1
(iv)	Invoice treated as credit note	924	1
(v)	Direct payment	(974)	1
(vi)	Invoice error	90	1
	Corrected total	95,694	1
	Balance agreed to ledger balance		1

(c) The corrected balance of £95,694 should be reported on the balance sheet (1)
as a current liability. (1)

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