

Maintaining Financial Records (International Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

INTERMEDIATE LEVEL

WEDNESDAY 7 DECEMBER 2005

QUESTION PAPER

Time allowed **2 hours**

This paper is divided into two sections

Section A ALL TWENTY questions are compulsory and
MUST be answered

Section B ALL FOUR 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 Which of the following is a bank overdraft an example of?

- A An asset
- B A liability
- C Revenue
- D Expense

2 Tony made one error when he posted the total value of invoices from the purchase daybook to the general ledger. He posted \$274,865 to the debit side of the purchases account. The correct total was \$274,685.

How is the trial balance affected by this error?

- A The total of the debit balances and the total of the credit balances will agree, but will be overstated
- B The total of the debit balances and the total of the credit balances will agree, but will be understated
- C The total of the debit balances will exceed the total of the credit balances
- D The total of the credit balances will exceed the total of the debit balances

3 What is the main purpose of a balance sheet?

- A To report the current value of the business
- B To indicate if the business is trading profitably
- C To report the assets and liabilities of the business
- D To report the personal assets of the business owner

The following information relates to questions 4 and 5:

Arnold bought a machine for use in his business on 1 November 2004. He gave the supplier a cheque for \$11,570 and traded in an old machine. The supplier allowed him \$4,430 in part exchange for the old machine. Arnold depreciates machinery on the reducing balance basis at a rate of 20% per annum. The old machine had cost \$12,000 and had been depreciated by \$5,856.

4 What is the depreciation charge on the new machine for the year to 31 October 2005?

- A \$886
- B \$1,428
- C \$2,314
- D \$3,200

5 What is the profit or loss on the trade in of the old machine?

- A a profit of \$1,426
- B a profit of \$1,714
- C a loss of \$1,426
- D a loss of \$1,714

- 6 Linda found the following when carrying out her bank reconciliation:
- (i) a cheque for \$7,523 has not been presented at the bank
 - (ii) a cheque for \$560 has been incorrectly recorded as \$650 in Linda's ledger

Which of these items will require an entry in Linda's general ledger?

- A (i) only
 - B (ii) only
 - C both (i) and (ii)
 - D neither (i) nor (ii)
- 7 Beth's draft accounts for the year to 31 October 2005 report a loss of \$1,486. When she prepared the accounts, Beth did not include an accrual of \$1,625 and a prepayment of \$834.

What is Beth's profit or loss for the year to 31 October 2005 following the inclusion of the accrual and prepayment?

- A a loss of \$695
 - B a loss of \$2,277
 - C a loss of \$3,945
 - D a profit of \$1,807
- 8 William's trial balance at 30 September 2005 includes the following balances:

Trade receivables	\$75,943
Receivables allowance	\$4,751

How should these balances be reported in William's balance sheet as at 30 September 2005?

- A An asset of \$71,192
 - B An asset of \$75,943 and a liability of \$4,751
 - C A liability of \$71,192
 - D A liability of \$75,943 and an asset of \$4,751
- 9 At 1 November 2004 Dorothy's receivables allowance was \$5,670. At 31 October 2005 she was owed \$275,600 by her customers. She has determined that based on past experience, an allowance equivalent to 2% of outstanding balances is required at 31 October 2005.

What should be reported in Dorothy's income statement for the year to 31 October 2005?

- A a credit of \$158
 - B a credit of \$5,512
 - C a charge of \$158
 - D a charge of \$5,512
- 10 Simon, who is a sole trader, made a profit of \$22,860 in the year to 30 November 2005. During the year his drawings were \$16,890. At 1 December 2004 the balance on his capital account was \$68,920.

What is the balance on Simon's capital account at 30 November 2005?

- A \$29,170
- B \$62,950
- C \$74,890
- D \$108,670

- 11 Priscilla is completing her extended trial balance, which includes balances for depreciation expense and accumulated depreciation.

Into which columns should these balances be extended?

	Depreciation expense	Accumulated depreciation
A	Income statement debit	Income statement credit
B	Balance sheet credit	Balance sheet debit
C	Income statement debit	Balance sheet credit
D	Balance sheet debit	Income statement credit

- 12 At 1 November 2004 Brian owed \$28,754 to his suppliers. During the year he paid his suppliers a total of \$185,844. At 31 October 2005 he owed \$26,189.

What was the value of Brian's credit purchases in the year to 31 October 2005?

- A** \$130,901
- B** \$183,279
- C** \$188,409
- D** \$240,787

- 13 During the year to 30 November 2005, Amanda bought goods for resale at a cost of \$75,550. Her inventory at 1 December 2004 was valued at \$15,740. She did not count her inventory at 30 November 2005, but she knows that her sales for the year to 30 November 2005 were \$91,800. All sales were made at a mark up of 20%.

Based on the information above, what was the value of Amanda's inventory at 30 November 2005?

- A** \$13,630
- B** \$14,790
- C** \$16,690
- D** \$17,850

- 14 When Mervyn's trial balance was extracted, the total of the debit balances was \$500 more than the total of the credit balances.

Which of the following errors is a possible explanation for the difference?

- A** a cash sale for \$250 had not been recorded
- B** a cash sale for \$250 had been recorded twice
- C** a cash sale for \$250 had been posted to the credit side of both the sales account and the cash account
- D** a cash sale for \$250 had been posted to the debit side of both the sales account and the cash account

- 15 Trevor's trial balance includes a suspense account with a debit balance of \$900. He has discovered that:

- a supplier's invoice for \$16,700 was posted to the correct side of the purchases account as \$17,600 (the correct entry was posted to the payables control account); and
- a cheque for \$900 has not been recorded in his ledger.

What is the balance on the suspense account after these errors are corrected?

- A** nil
- B** \$900
- C** \$1,800
- D** \$2,700

16 Which of the following are desirable characteristics of financial information according to the Framework for the Preparation and Presentation of Financial Statements?

- (i) relevance
 - (ii) reliability
- A** (i) and (ii)
B (i) only
C neither (i) nor (ii)
D (ii) only

17 Which of the following is the correct journal entry to write off a bad debt?

- A** Debit Sales
Credit Bad debts
- B** Debit Bad debts
Credit Bank
- C** Debit Receivables
Credit Bad debts
- D** Debit Bad debts
Credit Receivables

18 At 30 November 2005 Jenny had a bank loan of \$8,500 and a balance of \$678 in hand in her bank account.

How should these amounts be recorded on Jenny's opening trial balance at 1 December 2005?

- A** Debit \$7,822
B Credit \$7,822
C Credit \$8,500 and Debit \$678
D Debit \$8,500 and Credit \$678

19 Bert has extracted the following list of balances from his general ledger at 31 October 2005:

	\$
Sales	258,542
Opening inventory	9,649
Purchases	142,958
Expenses	34,835
Non-current assets (NBV)	63,960
Receivables	31,746
Payables	13,864
Cash at bank	1,783
Capital	12,525

What is the total of the debit balances in Bert's trial balance at 31 October 2005?

- A** \$267,049
B \$275,282
C \$283,148
D \$284,931

20 Which of the following is/are correct?

- (i) the non-current asset register is part of the double entry system.
- (ii) a non-current asset register is required in every organisation's accounting system.
- (iii) assets should be removed from the non-current asset register when they have been fully depreciated.

- A** (i) only
- B** (ii) only
- C** (iii) only
- D** none of the statements

(40 marks)

Section B – ALL FOUR questions are compulsory and MUST be attempted

- 1 (a) Explain the difference between a current liability and a non-current liability and give one example of each. (4 marks)
- (b) State why it is important to differentiate between capital expenditure and revenue expenditure, and briefly explain the accounting treatment of each type of expenditure. (4 marks)
- (c) Briefly explain the purpose of the depreciation charge in the income statement. (2 marks)
- (d) Give THREE examples of errors which will NOT be revealed by extracting a trial balance. (3 marks)
- (e) Briefly explain the business entity concept and its impact on the recording of transactions. (2 marks)
- (15 marks)**

- 2 You work for a wholesale firm which distributes a single product. A trainee has prepared draft accounts for the month of October 2005. The accounts report a net loss of \$35,580 and total net assets of \$283,468. You have noted that:
- 1 the income statement does not report a figure for gross profit;
 - 2 the trainee has not included any value for closing inventory;
 - 3 the trainee has included \$57,600 for opening inventory. This was calculated on the first in, first out (FIFO) basis. There were 480 items, valued at \$120 per item.

- 4 Purchases during the month were:

Date	Number of items	Cost per item
		\$
9 October	1,140	145
15 October	1,310	150
24 October	620	155
	3,070	

- 5 Sales during the month were:

Date	Number of items	Selling price per item
		\$
12 October	1,040	205
21 October	1,840	220
	2,880	

- 6 As well as purchases, the other costs deducted from sales to calculate the net loss were:

	\$
Wages of staff	44,700
Premises expenses	42,750
Administrative expenses	13,620
Selling and marketing costs	17,890
Carriage inwards	3,750
Carriage outwards	4,120
Depreciation	11,250
	138,080

Required:

(a) Calculate:

- (i) the number of items in inventory at 31 October 2005; and (1 mark)
- (ii) the value of inventory at 31 October 2005 on the FIFO basis. (2 marks)

(b) Using the revised inventory value calculated in (a), calculate:

- (i) Cost of sales for October 2005; (4 marks)
- (ii) Gross profit for October 2005; (2 marks)
- (iii) Net profit for October 2005; and (2 marks)
- (iv) Net assets at 31 October 2005. (2 marks)

- (c) State the basic rule set out in IAS 2 which is to be applied to the valuation of inventory. (2 marks)**

(15 marks)

3 Ann and Jane have been trading as a partnership for several years, sharing profits and losses in the ratio 3:5. Their income statement for the year to 31 October 2005 reports a profit of \$126,842 before taking into account the following items:

- (i) Ann is paid a salary of \$22,000 per annum. Jane's salary is \$8,000 per annum;
- (ii) On 1 February 2005, each of the partners paid \$35,000 into the partnership bank account. Ann's payment is to be treated as capital, while Jane's is to be treated as a loan, with interest at 4% per annum to be credited to her current account;
- (iii) Partners are charged interest on drawings at a rate of 16% per annum. All drawings are assumed to have been made half way through the year. During the year, Ann's drawings were \$28,000 and Jane's were \$24,000.

At 1 November 2004, the balances on the partners' current accounts were:

Ann \$17,420 (debit) Jane \$9,547 (credit)

Required:

- (a) (i) **Calculate the amount of profit available for appropriation for the year to 31 October 2005;** (2 marks)
(ii) **Calculate the total amount of profit due to each of the partners for the year to 31 October 2005.**
(7 marks)

- (b) **Show the partners' current accounts, including the closing balances for the year ended 31 October 2005.**
(6 marks)

(15 marks)

- 4 You are employed as a Trainee Accountant in Jonty and Co. One of your tasks is to prepare the monthly reconciliation of the balance on the payables control account in the general ledger (\$98,524) to the list of balances from the payables ledger (\$97,264).

When preparing the reconciliation at 30 November 2005, you have noted the following:

- (i) One of the suppliers agreed to accept \$1,500 in payment of a balance of \$1,514. The full balance of \$1,514 was deducted from the supplier's personal account, but only the cheque issued was recorded in the general ledger.
- (ii) There is an ongoing agreement to offset balances with Tim Robinson, who is both a customer and a supplier. The amount for November is \$2,856. No entries have yet been made.
- (iii) A credit balance of \$623 on the account of Joe Coleman was listed as a debit balance.
- (iv) An invoice for \$462 received from Robin Wayne was incorrectly recorded in the purchase day book as a credit note.
- (v) Your company makes direct payments to Bruce Robbins. The payment of \$974 made in November has not been recorded.
- (vi) An invoice for \$760 from Hill's Haulage was entered in the purchase day book as \$670.

Required:

- (a) **Show the payables control account in the general ledger, including the necessary adjusting entries and the corrected balance.**

(NB You must present your answer in a format which clearly indicates whether each entry is a debit entry or a credit entry.)

(6 marks)

- (b) **Show the reconciliation of the list of balances to the corrected balance on the payables control account in the general ledger.**

(7 marks)

- (c) **State the correct payables balance for inclusion in the final accounts, and indicate where it should be reported on the balance sheet.**

(2 marks)

(15 marks)

End of Question Paper