

Maintaining Financial Records (UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

INTERMEDIATE LEVEL

WEDNESDAY 8 JUNE 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(GBR)



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 Jenny has recorded the following journal entry:

Debit	Purchases	£1,500
Credit	Stationery	£1,500

What is the correct narrative for Jenny's journal entry?

- A Being cash purchase of stationery
- B Being credit purchase of stationery
- C Being correction of error – purchases originally recorded as stationery
- D Being correction of error – stationery originally recorded as purchases

2 **Which of the following items should be included in the calculation of gross profit?**

- A Carriage inwards
- B Carriage outwards
- C Early settlement discount allowed
- D Early settlement discount received

3 **Which of the following correctly calculates cost of sales?**

- A Purchases + Opening stock + Closing stock
- B Purchases – Opening stock + Closing stock
- C Purchases – Opening stock – Closing stock
- D Purchases + Opening stock – Closing stock

4 Esther is recording the invoice for the purchase of a new fixed asset. As well as the basic cost of the asset, the invoice shows the following items:

Delivery
Installation
Maintenance

Which of the costs should be treated as revenue expenditure?

- A Delivery only
- B Installation only
- C Maintenance only
- D All of the costs

5 **Which of the following items should be included in current assets?**

- (i) assets which are not intended to be converted into cash
- (ii) assets which will be converted into cash in the long term
- (iii) assets which will be converted into cash in the near future

- A (i) only
- B (ii) only
- C (iii) only
- D (ii) and (iii)

- 6 When entering invoices in the purchase day book, Elaine recorded an invoice for £126 for motor expenses as £162. The day book has been posted to the nominal ledger.

What entry will correct the error?

A	Debit	Motor expenses	£36	
		Credit	Creditors control	£36
B	Debit	Creditors control	£36	
		Credit	Motor expenses	£36
C	Debit	Motor expenses	£288	
		Credit	Creditors control	£288
D	Debit	Creditors control	£288	
		Credit	Motor expenses	£288

- 7 Consider the following statements about control accounts:
- (i) control accounts can help to speed up the preparation of draft accounts by providing the balance sheet values for debtors and creditors
 - (ii) control accounts are always used in double entry bookkeeping

Which of the following combinations is correct?

	(i)	(ii)
A	True	False
B	True	True
C	False	True
D	False	False

The following information relates to questions 8 and 9:

Tony sold a fixed asset with a net book value of £1,500 for £1,600. The cash received was correctly recorded in the bank account, but was credited to the sales account. Tony made no entries in the fixed asset accounts in the nominal ledger in respect of the sale.

- 8 **What action should be taken to ensure that the debit and credit totals of the trial balance agree?**

- A** open a suspense account with a debit balance of £1,500
- B** open a suspense account with a debit balance of £1,600
- C** open a suspense account with a debit balance of £3,100
- D** a suspense account is not needed as the totals will agree

- 9 **If the error is not corrected before the final accounts are prepared, how will the net profit be affected?**

- A** net profit will be correct
- B** net profit will be overstated by £100
- C** net profit will be overstated by £1,500
- D** net profit will be overstated by £1,600

The following information relates to questions 10 and 11:

Jamie is preparing a reconciliation of the balance on the purchase ledger control account in the nominal ledger to the total of the list of balances on the accounts in the purchase ledger. He has discovered the following:

- (i) a debit balance on a supplier's account was listed as a credit balance;
- (ii) an invoice for £378 was entered in the purchase day book as £387.

10 Which of the errors will require an adjustment to the purchase ledger control account in the nominal ledger?

- A neither (i) nor (ii)
- B (i) only
- C (ii) only
- D both (i) and (ii)

11 Which of the errors will require an adjustment to the list of balances?

- A neither (i) nor (ii)
- B (i) only
- C (ii) only
- D both (i) and (ii)

12 Shirley has prepared the following reconciliation of the balance on the sales ledger control account in her nominal ledger to the total of the list of balances on customers' personal accounts:

	£
Balance on nominal ledger control account	35,776
less: Balance omitted from list of balances	452
	<hr/>
	35,324
add: Sales day book undercast	900
	<hr/>
Total of list of balances	36,224
	<hr/> <hr/>

What is the correct balance of debtors to be reported on the balance sheet?

- A £35,324
- B £35,776
- C £36,224
- D £36,676

13 At 31 March Sally was owed £47,744 by her customers. At the same date her provision for doubtful debts was £3,500.

How should these balances be reported on Sally's balance sheet at 31 March?

- A £44,244 as a current asset
- B £3,500 as a current asset and £47,744 as a current liability
- C £47,744 as a current asset and £3,500 as a current liability
- D £51,244 as a current asset

- 14 Colin made a mistake in his calculations which resulted in the value of his closing stock at 30 April 2004 being overstated by £900. The value was calculated correctly at 30 April 2005.

What was the effect of the error on the profit reported in Colin's accounts for each of the two years?

	2004	2005
A	overstated by £900	not affected
B	overstated by £900	understated by £900
C	understated by £900	not affected
D	understated by £900	overstated by £900

- 15 Kieron is an antiques dealer. His stock includes a clock which cost £15,800. Kieron expects to spend £700 on repairing the clock which will mean that he will be able to sell it for £26,000.

At what value should the clock be included in Kieron's stock?

- A £15,100
- B £15,800
- C £25,300
- D £26,000

- 16 On 1 November 2004 Leah took out a business development loan of £30,000. The loan is to be repaid in 10 equal six monthly instalments. Leah made the first repayment of £3,000 on 1 May 2005.

How should the outstanding balance of £27,000 be reported on Leah's balance sheet at 31 May 2005?

	Current liability	Long term liability
A	nil	£27,000
B	£6,000	£21,000
C	£21,000	£6,000
D	£27,000	nil

- 17 Darren is a second hand car dealer. If a car develops a fault within 30 days of the sale, Darren will repair it free of charge. At 30 April 2004 Darren had made a provision for repairs of £2,500. At 30 April 2005 he calculated that his provision should be £2,000.

What entry should be made for the provision in Darren's profit and loss account for the year to 30 April 2005?

- A a charge of £500
- B a credit of £500
- C a charge of £2,000
- D a credit of £2,000

- 18 Ossie is completing his extended trial balance.

Into which columns should he extend the entries for closing stock?

	Profit and loss columns	Balance sheet columns
A	debit	debit
B	debit	credit
C	credit	debit
D	credit	credit

19 When Ossie completed his extended trial balance the totals were:

Profit and loss columns		Balance sheet columns	
Debit	Credit	Debit	Credit
£	£	£	£
129,685	136,894	149,212	142,003

What is Ossie's profit or loss for the period?

- A a loss of £7,209
- B a loss of £12,318
- C a profit of £7,209
- D a profit of £12,318

20 Consider the following statements:

- (i) 'Double entry bookkeeping' means that two sets of records are maintained.
- (ii) In double entry bookkeeping we have a basic check on the accuracy of the entries as the total value of the debit entries and the total value of the credit entries should be equal.

Are the statements true or false?

	Statement (i)	Statement (ii)
A	True	True
B	True	False
C	False	True
D	False	False

(40 marks)

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

- 1 (a) Give two examples of each of the following:
- (i) errors which will be detected by extracting a trial balance; and (2 marks)
 - (ii) errors which will NOT be detected by extracting a trial balance. (2 marks)
- (b) Briefly describe a partner's capital account and a partner's current account, and identify one transaction which would be recorded in the capital account and one transaction which would be recorded in the current account. (4 marks)
- (c) Identify, and briefly explain, the basic accounting principle which requires prepayments to be included in final accounts. (3 marks)
- (d) Identify four items of data that would normally be recorded in a fixed asset register and state why each item is required. (4 marks)
- (15 marks)**

2 Wilson is preparing his bank reconciliation at 31 May 2005. His bank statement shows a balance of £228 cash at the bank. The balance on the bank account in his nominal ledger is £113 (credit). He has noted the following reasons for the difference:

- (i) Cheque number 958602 was incorrectly recorded in Wilson's cash book as £760. The cheque was correctly debited on the bank statement on 2 May as £670.
- (ii) Bank charges of £428 were debited by the bank on 4 May.
- (iii) A customer's cheque for £320 was returned by Wilson's bank in May as the customer had insufficient funds in his account. Wilson has not recorded the return of the cheque in his records.
- (iv) The bank has incorrectly credited Wilson's account with interest of £220. This is interest on a deposit account held by Wilson personally. The bank had not corrected the error by 31 May.
- (v) A lodgement of £850 entered in Wilson's cash book on 31 May was credited on the bank statement on 3 June.
- (vi) Five cheques have not yet been presented at the bank. These are:

Cheque No.	£	
956784	625	see note (vii)
956892	326	
958452	469	
958541	122	
958668	87	
	<u>1,629</u>	

- (vii) Cheque number 956784 was lost in the post and was cancelled. Wilson has not recorded the cancellation of the cheque.

Required:

- (a) Show Wilson's nominal ledger bank account including the necessary correcting entries. (NB You MUST present your answer in a format which clearly indicates whether each entry is a debit or a credit) (6 marks)
- (b) Prepare a reconciliation of the bank statement balance to the corrected nominal ledger balance. (7 marks)
- (c) Indicate how the bank balance will be reported in Wilson's final accounts. (2 marks)
- (15 marks)**

- 3 A trainee in your office has prepared draft accounts for a client for the year to 31 March 2005, but has not dealt with the adjustments for accrued expenses, prepaid expenses, bad and doubtful debts and depreciation.

Following the preparation of the profit and loss account, the trainee prepared the balance sheet shown below. You have been asked to complete the final accounts.

Draft Balance Sheet as at 31 March 2005 (before adjustments)

	£	£
Fixed assets		
Equipment at cost	175,000	
Accumulated Depreciation (at 31 March 2004)	(85,400)	89,600
	<hr/>	
Current assets		
Stock	42,339	
Debtors	149,411	
Bank account	6,280	
	<hr/>	
	198,030	
Current liabilities		
Creditors	(86,560)	111,470
	<hr/>	<hr/>
Total net assets		201,070
		<hr/> <hr/>
Capital		201,070
		<hr/> <hr/>

The trainee has given you the following information about the remaining adjustments:

- (i) The last invoice received for electricity covered the three month period to 31 January 2005. The invoice was for £6,870.
- (ii) Rent of £28,500 for the six months to 30 June 2005 was paid in January.
- (iii) The debtors figure of £149,411 is stated after deducting the existing doubtful debts provision of £7,900 from the total debtors balance of £157,311.
- (iv) The total debtors balance of £157,311 includes a balance of £660 which has been outstanding for eight months. The client has decided to write off this balance.
- (v) The client's policy is to provide for doubtful debts on the basis of the length of time the debt has been outstanding. The aged analysis of trade debtors at 31 March 2005 and the required provision is shown below:

Age of debt	Balance £	Provision required
0 – 30 days	125,275	nil
31 – 60 days	27,200	20% of balances
over 60 days	4,836	75% of balances
	<hr/>	
	157,311	
	<hr/> <hr/>	

- (vi) Depreciation is to be provided at a rate of 20% per annum on the reducing balance basis.

Required:

- (a) Calculate the correct balance at 31 March 2005 for each of the following:
- (i) accrued expenses; (2 marks)
 - (ii) prepaid expenses; (2 marks)
 - (iii) doubtful debts provision; and (3 marks)
 - (iv) accumulated depreciation. (2 marks)
- (b) Prepare the corrected balance sheet as at 31 March 2005. (6 marks)
- (15 marks)**

- 4 One of your clients, Steve Fletcher who does not keep full accounting records has asked you to calculate his profit for the year to 30 April 2005 and his bank balance at that date. Your file on last year's accounts shows that his assets and liabilities at 30 April 2004 included the following:

	£
Stock	15,800
Debtors	23,750
Creditors	16,800
Cash at bank	7,500
Capital	42,900

In the year to 30 April 2005, Steve received £204,800 from his customers. Before banking the cash he used £2,900 to pay business expenses and took cash drawings of £17,900. He also banked £3,000 from the sale of some personal assets.

He wrote cheques totalling £191,650. Of this amount, £3,100 was drawings and £22,800 was for business expenses. The rest of the cheques were paid to suppliers.

At 30 April 2005 his stock was valued at £16,200. At that date he was owed £25,400 by his customers and he owed £17,900 to his suppliers. You estimate that your fee for this work will be £150.

You have already calculated that the depreciation charge on Steve's fixed assets for the year to 30 April 2005 is £2,450.

Required:

- (a) Calculate Steve's bank balance at 30 April 2005. (3 marks)
- (b) For the year to 30 April 2005, calculate Steve's:
- (i) Sales; (2 marks)
 - (ii) Purchases; and (4 marks)
 - (iii) Gross Profit. (3 marks)
- (c) Based on the gross profit you have calculated in (b) above, calculate Steve's net profit for the year to 30 April 2005. (3 marks)

(15 marks)

End of Question Paper