Answers

Marks

Section A

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

Section B

1 (a) (i) Errors which will be detected by extracting a trial balance include:

Error of transposition
This occurs when the digits of one side of an entry are 'switched'. For example an entry for $370 is incorrectly posted as $730.

Error of partial omission (sometimes referred to as single entry)
This occurs when either the debit or credit side of any entry is omitted.

1 mark for each example to a MAXIMUM of 2

(ii) Errors which will NOT be detected by extracting a trial balance include:

Error of omission
In this case an entry is entirely omitted from the records. Consequently the debit and credit sides of the trial balance are understated by the same amount

Compensating error
When two separate errors are made and the effect of each of these is equal and opposite. For example if the debit side of an entry for $90 is omitted (error of partial omission) and a separate credit entry for $650 is made as $560 (error of transposition), both the debit and credit side of the trial balance will be understated by $90.

Error of principle
In this case, both the debit and credit entries are numerically correct, but one of the entries is made in the wrong class of account. For example the debit entry for motor expenses is made in the motor vehicles (non-current asset) account.

Error of commission
This is when an entry is made on the correct side of the wrong account. The difference between this error and an error of principle is that the wrong account is of the same class as the correct account. For example the debit entry for motor expenses is made in the stationery (expense) account.

1 mark for each example to a MAXIMUM of 2

(b) Although the balance on a partner's current account is part of the total amount of capital which is due to the partner, it is often convenient to maintain separate capital and current accounts.

By taking this approach, a partner's capital account will record the amount originally invested by the partner. This balance will remain fairly constant, and will usually be the basis for the calculation of any interest on capital due to the partner under the terms of the partnership agreement.

A partner's current account will have a fluctuating balance which will reflect the amounts which the partner has earned and the drawings made by the partner.

1 mark for each valid point to a MAXIMUM of 2

Transactions recorded in each type of account include:

Capital account — capital introduced

Current account — appropriations of profit, for example:
- interest on capital
- partner's salary
- share of residual profit

drawings

1 mark for each valid example to a MAXIMUM of 2

4

Marks

(c) The accounting principle under which it is necessary to include prepayments in final accounts is the accruals or matching concept.
This states that profit should be calculated by matching the costs which have been incurred in the accounting period (regardless of when payment is actually made) with the revenue earned in the same period.

1 mark for: correctly referring to accruals/matching
referring to costs incurred
noting that costs are not recognised on the basis of the timing of the payment 3

(d) Data recorded in a non-current asset register (and the reason for recording the data) normally includes:

Date of purchase	for calculation of depreciation
Cost of asset	for calculation of depreciation
Expected sale value	for calculation of depreciation
Invoice number	to provide audit trail
Internal reference number	to identify the specific asset
Description of asset	to identify the type of asset
Location of asset	to assist in finding the asset
Serial number	in case of a warranty claim

$^1/_2$ mark for each item to a maximum of four items	2
$^1/_2$ mark for each reason to a maximum of four reasons	2
	4
	15

2 (a)

Bank Account

	$		$
(i) Error in cheque	90	Opening balance	113
(vii) Cancelled cheque	625	(ii) Charges	428
Closing balance	146	(iii) Returned cheque	320
	861		861

Mark allocation 1 mark for each entry 6

(b)

	$	$	Marks
Balance per bank statement		228	1
(iv) Deposit account interest		(220)	1
(v) Outstanding lodgement		850	1
(vi) Outstanding cheques	(1,629)		
(vii) *less*: Cancelled cheque	625		1
		(1,004)	1
Revised balance		(146)	1
Agreed to ledger			1
			7

(c) As the corrected ledger balance is a credit balance, the bank account is overdrawn. This is confirmed by the reconciliation statement. Current liability 1
Therefore the bank balance will be reported as a current liability on the balance sheet. Balance sheet 1

2

15

Marks

3 (a) (i) Accrued expense – Electricity
An accrual is required for 2 months, as the last invoice includes the charge to the end of January, and the accounts are being prepared to the end of March. 1
Invoice for 3 months to 31 January $6,870 = $2,290 month
Two months accrued = $4,580 1

(ii) Prepaid expense – Rent
Rent has been prepaid by three months, as payment has been made up to the end of June, and the accounts cover the period to the end of March. 1
$28,500 paid for 6 months to 30 June = $4,750 per month
Three months prepaid = $14,250 1

(iii) Allowance for doubtful debts required:

	$		$	Marks
31 – 60 days	27,200	x 20%	5,440	1
over 60 days	4,836			
less Balance written off	(660)			1
	4,176	x 75%	3,132	1
			8,572	

(iv) Depreciation

	$		$	Marks
Cost	175,000			
Depreciation b/f	85,400			
Net book value	89,600	x 20%	17,920 (charge for year)	1
Balance at 31.3.04			85,400	
Balance at 31.3.05			103,320	1

(b) Corrected Balance Sheet as at 31 March 2005

	$	$	Marks
Non-current assets			
Equipment at cost	175,000		
Accumulated Deprecation	(103,320)	71,680	1
Current assets			
Inventory	42,339		
Trade receivables (working 1)	148,079		2
Prepaid expense	14,250		1
Bank account	6,280	210,948	
		282,628	
Proprietor's capital		191,488	
Current liabilities			
Trade payables	86,560		
Accrued expense	4,580	91,140	1
		282,628	

Balances from original balance sheet (inventory, bank, payables) 1

15

Working 1 Trade receivables

	$	Marks
Per note (v)	157,311	
Less balance written off	660	1
	156,651	
Less doubtful debt allowance	8,572	1
	148,079	

			Marks
Proof of Capital balance:		$	
per question		201,070	
accrual		(4,580)	
prepayment		14,250	
Bad debt write off		(660)	
Movement in doubtful debts allowance		(672)	
Depreciation charge		(17,920)	
		191,488	

4 (a)

		$		Marks
Bank balance		$		
Opening balance		7,500		
Lodged	(W1)	187,000		2
		194,500		
Cheques issued		191,650		$^1/_2$
		2,850		$^1/_2$
				3

	$	$	Marks
(W1) Lodged to bank	$	$	
Cash received		204,800	
less: Expenses	2,900		
Drawings	17,900	20,800	1
		184,000	
add: Capital		3,000	1
Total lodged		187,000	

(b) (i)

		$	Marks
Sales		$	
Opening receivables		23,750	$^1/_2$
+ Sales (balancing figure)		206,450	$^1/_2$
		230,200	
– Cash Received		204,800	$^1/_2$
= Closing receivables		25,400	$^1/_2$
			2

(ii)

		$	Marks
Purchases		$	
Opening payables		16,800	$^1/_2$
+ Purchases (balancing figure)		166,850	1
		183,650	
– Paid	(W2)	165,750	2
= Closing payables		17,900	$^1/_2$
			4

	$	$	Marks
(W2)	$	$	
Total cheques		191,650	$^1/_2$
less: Expenses	(22,800)		
Drawings	(3,100)	(25,900)	1
Paid to suppliers		165,750	$^1/_2$

		$	$	Marks
(iii)	Gross profit	$	$	
	Sales		206,450	1
	Opening inventory	15,800		
	Purchases	166,850		
	Closing inventory	(16,200)		
	Cost of sales		(166,450)	1
	Gross profit		40,000	1
				3

		$	$	
(c)	Net Profit	$	$	
	Gross profit		40,000	$^1/_2$
	Less: Expenses			
	Paid in cash	2,900		$^1/_2$
	Paid by cheque	22,800		$^1/_2$
	Outstanding fee	150		$^1/_2$
	Depreciation	2,450		$^1/_2$
	Total expenses		28,300	
			11,700	$^1/_2$
				3
				15