Answers

Section A

Question No	Solution
1	**D**
2	**A**
3	**D**
4	**C**
5	**A**
6	**C**
7	**C**
8	**B**
9	**D**
10	**C**
11	**B**
12	**A**
13	**A**
14	**D**
15	**C**
16	**A**
17	**A**
18	**C**
19	**C**
20	**D**

3

Year ended:	Depreciation	NBV c/f
31 October 2004	\$15,500 x 20% = \$3,100	\$15,500 – \$3,100 = \$12,400
31 October 2005	\$12,400 x 20% = \$2,480	\$12,400 – \$2,480 = \$9,920
31 October 2006	\$9,920 x 20% = \$1,984	

7 Rent of \$7,800 paid in advance, thus prepayment at year end. At 30 November, two months of the period for which rent has been paid is unexpired.
Rent for one month = \$7,800 ÷ 4 = \$1,950
Two months paid in advance = \$1,950 x 2 = \$3,900.

8

Receivables balances	\$37,890	
less: write off	\$1,570	
Revised receivables	\$36,320	Allowance at 2·5% = \$908
less: allowance	\$908	
Net receivables	\$35,412	

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Provision required	\$7,634	
Provision brought forward	\$6,548	
Increase in provision	\$1,086	increase in provision = charge

13

	\$	
Balance at 1 November 2005	24,800	credit
Salary	6,500	credit
Interest on drawings	1,800	debit
Share of profit	12,750	credit
Drawings	18,000	debit
Balance at 31 October 2006	24,250	credit

15 **Electricity account**

	$		$	
Paid in year	1,765	Opening balance	264	
Closing balance	312	Charge for year	1,813	(bal fig)
	2,077		2,077	

16 Current assets:

	$
Inventory	5,754
Trade receivables	11,745
Cash at bank	150
	17,649

Section B Marks

1 **(a)** Users of final accounts, and their needs, include:

USER	REASON
Owners	to assess the performance of managers
Managers	to understand the current position of the business, and to plan future actions
Customers	to assess the ability of the business to continue to supply goods or services
Suppliers	to assess the creditworthiness of the business
Lenders	to assess the ability of the business to make the required repayments
Employees	to assess career prospects and job security

Mark allocation	1 mark for each user to a maximum of	2	
	1 mark for each reason to a maximum of	2	4

(b) Control accounts are used for the following reasons:

to check the accuracy of entries in the personal ledgers

errors will lead to a difference between the balance on the control account and the total of the balances from the personal ledger.

to assist in the location of errors

a regular comparison of the balance on the control account with the total of the list of balances will mean that errors will be highlighted more quickly. This will mean that the volume of transactions to be checked will be lower, and this will make it easier to locate errors

to provide total values for inclusion in the final accounts

this can assist in speeding up the preparation of final accounts. If there is reasonable certainty that there are no material errors (usually as a result of the regular checking considered above), the balances from the control accounts can be used in the preparation of final accounts.

to calculate missing figures

if the accounting records are incomplete, control accounts can be used to calculate missing figures. For example, if we know the opening and closing values for payables, and the amount paid to suppliers in the accounting period, we can calculate the value of purchases.

Mark allocation	1 mark for each valid reason, to a maximum of	2	
	1 mark for each explanation to a maximum of	2	4

(c) A bank reconciliation is carried out to uncover and correct any errors in the recording of payments made from the bank account and amounts lodged to the bank account. It will also highlight any transactions initiated by the bank which have not yet been recorded in the entity's accounting records.

The reconciliation statement will include the balance on the bank statement, the balance on the ledger, the value of cheques issued but not yet presented at the bank and the value of lodgements which have not yet been processed by the bank.

Mark allocation	1 mark for each valid comment on the reasons for preparing a bank reconciliation to a maximum of	2	
	1 mark for each item on the reconciliation statement, to a maximum of	2	4

(d) Transactions are recorded by both a debit entry and a credit entry (also referred to as 'double entry') as this reflects the effects of the transaction on the entity. Every transaction affects the entity in two ways. This is usually referred to as the 'dual aspect'. The two effects mean that the accounting equation (assets – liabilities = capital) will apply consistently to the entity.

For example if expenses are paid in cash, the entity is affected by an increase in the expense and a reduction in cash. The increase in the expense will cause a reduction in profit, and therefore capital. Thus both assets and capital have reduced, and the accounting equation will continue to apply.

Mark allocation	1 mark for each valid point to a maximum of		3
			15

Marks

2 (a) Payables control account

	$		$
(ii) Credit note	532	Balance as given	45,505
(iii) Offset	864	(i) Invoice omitted	739
(v) Discount	85	(vi) Payment overstated	90
Corrected balance	44,853		
	46,334		46,334

		Marks
Mark allocation:	Correcting entries 1 each	5
	Balance as given/corrected balance $^1/_2$ each	1

(b)

	$	Marks
Total as given	46,886	
(i) Invoice omitted	739	1
(ii) Credit note	(532)	1
(iii) Offset	(864)	1
(iv) Payment omitted	(1,800)	1
(vi) Payment overstated	90	1
(vii) Balance incorrectly listed	334	1
Corrected total	44,853	1

(c) The corrected ledger balance of $44,853 should be reported on the balance sheet as a current liability.

		Marks
1 mark each for any two of:	corrected ledger balance	
	reported on balance sheet	2
	current liability	
		15

3 (a)

Triumph	Cost			
	Purchase price	$4,800		
	Completed repairs	$750		
	Cost at 30 November 2006	$5,550	1	
	Net Realisable value			
	Expected selling price	$7,500		
	Costs of selling	$400		
	Net realisable value	$7,100	1	
	Inventory value (lower)	$5,550	1	
Ducati	Cost			
	Purchase price	$6,800		
	Actual cost of repairs	$1,800		
	Cost at 30 November 2006	$8,600	1	
	Net realisable value	$8,000	1	
	Inventory value (lower)	$8,000	1	
Norton	Cost (purchase price)	$8,500	1	
	Net realisable value			
	Expected selling price	$11,500		
	Repairs required	$1,200		
	Net realisable value	$10,300	1	
	Inventory value (lower)	$8,500	1	9

				Marks
(b) Purchases:				
500 units at $21·55 each	=	$10,775		
420 units at $22·90 each	=	$9,618		
640 units at $23·05 each	=	$14,752		
Total cost of purchases		$35,145	1	
Cost per unit	$35,145 ÷ (500 + 420 + 640)			
=	$22·53 per unit (rounded)		1	
Thus inventory value 320 units at $22·53 = $7,210			1	3

(c) **(i)** The under-valuation of the inventory at 30 November 2005 will have reduced the profit for the year ended on that date. 1

(ii) This will mean that the opening inventory for the year to 30 November 2006 will be under-valued leading to an overstatement of the profit for the year ended on that date. 1

(iii) The balance on Tony's capital account at 30 November 2006 is unaffected by the error as it has been corrected by that date. 1
(Effectively the reduction of the profit for the 2005 year and the overstatement of the profit for the 2006 year cancel one another out.)

15

4 **(a)** **(i)**

		$			
Opening bank balance		(1,240)		1/2	
Lodged		76,846		1	
Payments made		(75,040)	balancing figure		
Closing bank balance		566		1/2	2

(ii)

		$			
Total lodged		76,846		1/2	
add: Expenses		5,700		1/2	
Drawings		7,800		1/2	
		90,346			
less: Gift		6,000		1/2	2
Received from customers		84,346			

(iii)

		$			
Opening balance		1,676		1/2	
add: Sales		84,030	balancing figure		
		85,706			
less: Cash received		84,346		1	
Closing balance		1,360		1/2	2

(iv)

		$			
Payments made (i)		75,040		1	
less: Expenses	$3,400				
Drawings	$2,000	5,400		1	2
Paid to suppliers		69,640	= purchases as no credit		

(v)

	$	$		
Sales		84,030	1/2	
Opening inventory	5,250		1/2	
Purchases	69,640		1/2	
	74,890			
Closing inventory	4,190		1/2	2
Cost of sales		70,700		
Gross Profit		13,330		

				Marks
(vi)	$	$		
Gross profit		13,330		
Expenses (cash)	5,700		1	
(bank)	3,400	9,100	1	2
Net profit		4,230		

(b) Cost of sales + 20% = Value of sales at 'normal' price

Cost of sales	$70,700		
Mark up (20%)	$14,140		
Sales at 'Normal' price	$84,840	1	
Actual Sales	$84,030	1	
Thus reduction	$810	1	3
			15