

Maintaining Financial Records (International Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

INTERMEDIATE LEVEL

WEDNESDAY 6 DECEMBER 2006

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 Jody knows that a number of errors were made when her daybooks were posted to the general ledger.

Which of the following errors will be detected when a trial balance is extracted?

- (i) error of transposition
- (ii) error of commission
- (iii) error of complete omission
- (iv) error of single entry

- A** (i) and (ii)
- B** (ii) and (iii)
- C** (iii) and (iv)
- D** (i) and (iv)

2 When Michelle purchased a new car, she used her old car in part exchange. She has made the correct entry for the part exchange value of \$3,500 in the non-current asset disposal account.

What other entry is needed to complete the double entry for the part exchange value of \$3,500?

- A** a debit entry in the motor vehicles at cost account
- B** a credit entry in the motor vehicles at cost account
- C** a debit entry in the bank account
- D** a credit entry in the bank account

3 On 1 July 2004 Tom bought a machine for \$15,500. He depreciates machinery at a rate of 20% per annum on the reducing balance basis. A full year's depreciation is charged in the year an asset is purchased. His year end is 31 October.

What is the depreciation charge on the machine for the year to 31 October 2006?

- A** \$3,100
- B** \$2,480
- C** \$2,232
- D** \$1,984

4 A sales invoice for \$3,450 was recorded in Susan's general ledger as follows:

Debit		Sales	\$3,540	
	Credit	Trade receivables		\$3,540

If the errors are not corrected before the final accounts are drafted, how will Susan's net profit be affected?

- A** Understated by \$90
- B** Overstated by \$90
- C** Understated by \$6,990
- D** Overstated by \$6,990

5 In the year to 31 October 2006, Nadine recorded some revenue expenditure as capital expenditure.

What is the effect on her profit for the year to 31 October 2006 and her net assets at that date?

	Profit	Net assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

6 **What accounting principle is described by the following statement?**

'For accounting purposes, a business is separate from its owners.'

- A going concern
- B materiality
- C business entity
- D prudence

7 In September 2006 Alison paid \$7,800 for rent for the four months from 1 October 2006.

What should be reported on Alison's balance sheet at 30 November 2006?

- A an accrual of \$3,900
- B an accrual of \$1,950
- C a prepayment of \$3,900
- D a prepayment of \$1,950

8 At 30 November 2006 the balance on Claire's receivables ledger is \$37,890. Clare has decided to write off balances totalling \$1,570. She has also calculated that an allowance equivalent to $2\frac{1}{2}\%$ of the remaining balances is required.

What is the value of receivables which should be reported in Claire's balance sheet at 30 November 2006?

- A \$35,642
- B \$35,412
- C \$36,400
- D \$37,142

9 At 31 October 2006 Janine had an outstanding balance of \$24,000 on her bank loan account. The terms of the loan require her to repay \$400 on the first day of each month.

How should the loan be reported on Janine's balance sheet at 31 October 2006?

	Current Liability	Non-current liability
A	nil	\$24,000
B	\$24,000	nil
C	\$19,200	\$4,800
D	\$4,800	\$19,200

10 Owen allows customers to return faulty goods within 14 days of purchase. At 30 November 2005 he made a provision of \$6,548 for sales returns. At 30 November 2006 he has calculated that his provision should be \$7,634.

What should be reported in Owen's income statement for the year to 31 October 2006 in respect of the provision?

- A a charge of \$7,634
- B a credit of \$7,634
- C a charge of \$1,086
- D a credit of \$1,086

11 Heather is completing her extended trial balance.

Into which columns should she extend the balances for closing inventory?

	Income statement	Balance Sheet
A	debit	credit
B	credit	debit
C	debit	debit
D	credit	credit

12 **What entries should be made in a sole trader's capital account to record a loss for the period and drawings?**

	Loss	Drawings
A	debit	debit
B	credit	credit
C	credit	debit
D	debit	credit

13 Alex and Kim are in partnership. In the year to 31 October 2006, Alex's drawings were \$18,000 and the following entries have been made in the partnership appropriation account for Alex:

	\$
Salary	6,500
Interest on drawings	1,800
Share of profit	12,750

At 1 November 2005, the balance on Alex's current account was \$24,800 (credit).

What is the balance on Alex's current account at 31 October 2006?

- A \$24,250
- B \$27,850
- C \$42,250
- D \$45,850

14 **Which of the following are reasons for maintaining a non-current asset register?**

- (i) to calculate the total balance outstanding on loans raised to buy non-current assets
- (ii) to help in carrying out the physical verification of non-current assets
- (iii) to calculate the profit or loss on disposal of non-current assets

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

- 15 In the year to 30 November 2006 Norah paid \$1,765 for electricity. At 1 December 2005 she had an accrual of \$264 for electricity. At 30 November 2006 the accrual was \$312.

What is the charge for electricity in Norah's income statement for the year to 30 November 2006?

- A \$1,189
- B \$1,717
- C \$1,813
- D \$2,341

- 16 At 31 October 2006 Roger's trial balance included the following balances:

	\$
Machinery at cost	12,890
Accumulated depreciation	8,950
Inventory	5,754
Trade receivables	11,745
Trade payables	7,830
Bank overdraft	1,675
Cash at bank	150

What is the value of Roger's current assets at 31 October 2006?

- A \$17,649
- B \$17,499
- C \$15,974
- D \$13,734

- 17 When Jan's trial balance was extracted, the total of the debit balances was \$450 less than the total of the credit balances so a suspense account was opened.

When she checked, Jan found that:

- (i) a supplier's invoice for \$225 had been debited to both the expense account and the payables control account.
- (ii) a cash sale for \$900 had been omitted from the accounting records.

When these errors are corrected, what is the balance on the suspense account?

- A \$900 debit
- B \$900 credit
- C \$1,800 debit
- D \$1,800 credit

- 18 When carrying out the reconciliation of the balance on the receivables ledger control account with the list of balances from the receivables ledger, Tom found the following:

- (i) the total of the sales day book was overcast by \$90
- (ii) a sales invoice for T. Blair was posted to J. Blair's account
- (iii) an invoice to a customer for \$650 had been recorded as \$560 in the sales day book

Which of the errors will require an entry in the general ledger?

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

19 What general ledger entries are required to write off an irrecoverable balance due from a customer?

- A** Debit Sales
Credit Receivables expense
- B** Debit Receivables expense
Credit Sales
- C** Debit Receivables expense
Credit Trade receivables control
- D** Debit Trade receivables control
Credit Receivables expense

20 Which of the following statements about a trial balance is/are correct?

- (i) if the total of the debit balances equals the total of the credit balances, no errors have been made in posting to the general ledger
- (ii) the trial balance always records non-current assets at market value
- A** (i) only
- B** (ii) only
- C** both (i) and (ii)
- D** neither (i) nor (ii)

(40 marks)

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

Each question in this section is worth 15 marks.

- 1 (a) **Identify two users of the final accounts of a business, and a reason why each user is interested in the final accounts.** (4 marks)
- (b) **Identify and explain two reasons for using control accounts.** (4 marks)
- (c) **Explain two reasons for carrying out a bank reconciliation, and identify two items which may appear in the reconciliation statement.** (4 marks)
- (d) **Explain why every transaction is recorded using both a debit entry and a credit entry.** (3 marks)

(15 marks)

- 2 You are assisting in the preparation of the year end accounts of Rogers and Co. The balance on the trade payables control account in the general ledger is \$45,505. The total value of the list of balances on the suppliers' personal accounts is \$46,886.

You have noted the following:

- (i) an invoice from a supplier for \$739 has been entirely omitted from the accounting records;
- (ii) a credit note received from a supplier for \$266 was entered in the daybook as an invoice;
- (iii) no entries have been made in respect of an agreement to offset a credit balance of \$864 in the payables ledger against a debit balance in the receivables ledger;
- (iv) payments to a supplier totalling \$1,800 have been recorded in the general ledger, but no entries have been made in the supplier's personal account;
- (v) a payment of \$17,500 was made to settle a balance of \$17,585. The balance on the supplier's personal account was fully written off, but only the payment of \$17,500 was entered in the general ledger;
- (vi) a payment of \$340 to a supplier was recorded in the cheques issued daybook as \$430;
- (vii) a credit balance of \$167 on a supplier's account was listed as a debit balance.

Required:

- (a) **Prepare the payables control account including the necessary adjusting entries and the corrected balance.** (6 marks)
- (NB You must present your answer in a format which clearly indicates whether each entry is a debit entry or a credit entry.)
- (b) **Prepare the reconciliation of the list of balances to the corrected balance on the payables control account.** (7 marks)
- (c) **State the correct payables balance for inclusion in the final accounts and where it should be reported.** (2 marks)

(15 marks)

- 3 (a) Tony Dunlop restores and sells vintage motorcycles. At 30 November 2006 he had three motorcycles in inventory. Details of these were:

Model	Details
Triumph	This item cost \$4,800, and at 30 November 2006 Tony had also spent \$750 on repairs. He has not yet sold it but is confident that he will be able to sell it at a motorcycle event in January 2007 for at least \$7,500. It will cost Tony \$400 to transport the motorcycle to the event.
Ducati	Tony bought this item for \$6,800. When he bought it, he estimated that repairs would cost \$1,100. By 30 November 2006 he had spent \$1,800 on repairs, and he sold it on 2 December 2006 for \$8,000.
Norton	Tony bought this item for \$8,500. He estimates that he will have to spend \$1,200 on repairs, after which he will be able to sell it for \$11,500.

Required:

For each of the three motorcycles, calculate the following values at 30 November 2006:

- (i) **Cost;** (3 marks)
- (ii) **Net Realisable Value; and** (3 marks)
- (iii) **Inventory value.** (3 marks)
- (b) Tony also holds an inventory of parts, which he values on the periodic weighted average basis. During the year, his purchases of parts were:

Date	Quantity (units)	Cost per unit \$
February	500	21·55
June	420	22·90
September	640	23·05

At 30 November 2006 he had 320 units in inventory. At 1 December 2005 he had no parts in inventory.

Required:

Calculate the value of Tony's inventory of parts at 30 November 2006 to the nearest \$. (3 marks)

- (c) Tony has discovered that his inventory of motorcycles at 30 November 2005 had been under-valued. He wishes to know how this error will affect his results for the two years to 30 November 2006, and the closing balance on his capital account.

Required:

Indicate how the undervaluation of Tony's inventory at 30 November 2005 has affected:

- (i) **his profit for the year to 30 November 2005;**
- (ii) **his profit for the year to 30 November 2006;**
- (iii) **the balance on his capital account at 30 November 2006.** (3 marks)

(15 marks)

4 (a) Jim McAvoy owns a small business. He has provided you with the following information about the business for the year to 30 November 2006:

- (i) During the year \$76,846 was paid into the business bank account. This included a gift of \$6,000 received from a relative, with the balance being receipts from customers.
- (ii) Before banking the cash Jim paid business expenses of \$5,700 in cash and took cash drawings of \$7,800.
- (iii) Jim does not hold a balance of cash on hand.
- (iv) As well as payments to suppliers, payments out of the bank account included business expenses of \$3,400 and drawings of \$2,000.
- (v) Jim does not receive any credit from his suppliers.
- (vi) Jim's current assets and liabilities were:

	1 December 2005	30 November 2006
	\$	\$
Inventory	5,250	4,190
Trade receivables	1,676	1,360
Cash at bank	nil	566
Bank overdraft	1,240	nil

Required:

For the year to 30 November 2006, calculate Jim's:

- (i) **total payments made from the bank account;** (2 marks)
 - (ii) **payments received from customers;** (2 marks)
 - (iii) **sales;** (2 marks)
 - (iv) **purchases;** (2 marks)
 - (v) **gross profit;** (2 marks)
 - (vi) **net profit.** (2 marks)
- (b) Following your calculations in (a), Jim tells you that he normally adds a mark up of 20% to calculate his selling price, but on some occasions he reduced his selling price in order to make a sale. He would like to know how much this has cost him.

Required:

Calculate the reduction in Jim's sales for the year to 30 November 2006 as a result of the occasional reduction in his selling price. (3 marks)

(15 marks)

End of Question Paper