

Certified Accounting Technician Examination
Intermediate Level

Maintaining Financial Records (International Stream)

Wednesday 5 December 2007

Time allowed: 2 hours

This paper is divided into two sections:

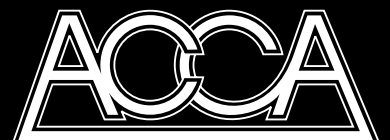
Section A – ALL 20 questions are compulsory and **MUST**
be attempted

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

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 20 questions are compulsory and MUST be attempted

Please use the Candidate Registration Sheet provided to indicate your chosen answer to each multiple choice question. Each question in this section is worth 2 marks.

1 Which of the following is the correct formula to calculate cost of sales?

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

2 Andrew's trial balance at 31 October 2007 includes the following balances:

| | \$ |
|---------------------------------------|--------|
| Machinery at cost | 85,800 |
| Accumulated depreciation on machinery | 21,750 |
| Trade receivables | 42,650 |
| Receivables allowance | 1,570 |
| Bank overdraft | 6,470 |
| Inventory at 1 November 2006 | 21,650 |

His inventory at 31 October 2007 is valued at \$22,300

What value should be reported for current assets in Andrew's balance sheet at 31 October 2007?

- A \$62,730
- B \$63,380
- C \$64,950
- D \$69,850

3 Joe has prepared the following journal entry:

| | | | |
|-------|--------|----------|-------|
| Debit | Cash | \$850 | |
| | Credit | T Sugden | \$850 |

Which of the following is the correct narrative for the journal entry?

- A Cash sale to T Sugden
- B Cash purchase from T Sugden
- C Cash payment to T Sugden
- D Cash receipt from T Sugden.

4 Jamie is preparing his trial balance at 31 October 2007. At 1 November 2006 he had an accrual of \$297 for telephone expenses. During the year to 31 October 2007 he paid invoices for telephone charges up to 31 October 2007 of \$4,570.

What balance should Jamie include in his initial trial balance at 31 October 2007 for telephone expenses?

- A \$4,273 debit
- B \$4,273 credit
- C \$4,867 debit
- D \$4,867 credit

- 5 Patrick is preparing a reconciliation between the total of the list of balances from his receivables ledger, which is \$37,552, and the balance on the receivables control account in his general ledger, which is \$38,842.

He has found that the following errors have been made:

a debit balance of \$1,200 was omitted from the list of balances;
a credit note for \$375 was recorded in the daybook as an invoice; and
the total of the sales invoices in the sales daybook was overstated by \$90.

What value should be reported on Patrick's balance sheet for receivables?

- A \$38,002
 - B \$38,377
 - C \$38,752
 - D \$38,842
- 6 Louise is completing her extended trial balance. In the income statement columns, the total of the debit column is greater than the total of the credit column.

Which of the following could explain this?

- A Louise has overstated the credit entry for closing inventory
 - B Louise has not made any entries for the post trial balance adjustments
 - C Louise has made a profit
 - D Louise has made a loss
- 7 Elaine is preparing her bank reconciliation. She has noted the following:
- (i) the bank has levied charges on her account
 - (ii) a cheque payable to S. Wright has not been presented at the bank

Which of the above errors require an entry in the bank account in her general ledger?

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

The following information relates to questions 8 and 9:

Vivienne and Robert are in partnership, sharing profits and losses in a ratio of 3:2. They maintain current accounts and fixed capital accounts. In the last year, their profit before appropriations was \$27,800. Robert is entitled to an annual salary of \$3,800.

During the year Vivienne and Robert made cash drawings of \$12,000 each.

8 What is Vivienne's share of the profit?

- A \$2,280
- B \$9,600
- C \$14,400
- D \$16,680

9 The correct entry for the partners' drawings has been made in the cash account.

What entry is needed to complete the posting for the partners' drawings?

- A a debit entry in the partners' capital accounts
- B a credit entry in the partners' capital accounts
- C a debit entry in the partners' current accounts
- D a credit entry in the partners' current accounts

10 Jean's electricity expense account has a debit balance of \$1,540. Jean had no opening accrual or prepayment for electricity. The last electricity invoice was for \$462 for the three months to 30 September 2007.

What are the correct amounts to be charged to Jean's income statement for the year to 30 November 2007 and reported as an accrual on her balance sheet at 30 November 2007 for electricity?

| | Charge to income statement | Accrual |
|---|----------------------------|---------|
| A | \$1,694 | \$154 |
| B | \$1,694 | \$308 |
| C | \$1,848 | \$154 |
| D | \$1,848 | \$308 |

The following information relates to questions 11 and 12:

The total amount owed to Robert by his customers at 30 November 2007 was \$78,600. Robert has decided that a balance of \$600 should be written off as it is irrecoverable, and that, based on past experience, an allowance equal to $1\frac{1}{2}\%$ of the remaining receivables balance should be made. His receivables allowance at 1 December 2006 was \$1,200.

11 Robert has made the entry in the receivables expense account to write off the irrecoverable balance.

What other entry does he need to make?

- A a debit entry in the sales account
- B a credit entry in the sales account
- C a debit entry in the receivables account
- D a credit entry in the receivables account

12 How should the movement in the receivables allowance be reflected in the income statement?

- A a credit of \$21
- B a charge of \$21
- C a credit of \$30
- D a charge of \$30

13 Tim has recently commenced trading. The materials he uses in his business are subject to regular price rises. He is unsure how to value his inventory and is trying to decide whether to use First In First Out (FIFO), or continuous weighted average.

Which of the following statements is correct?

- A Tim's profit will be unaffected by the method of inventory valuation
- B FIFO will lead to the higher reported profit
- C Continuous weighted average will lead to the higher reported profit
- D The profit will be more accurate if FIFO is used

14 You are preparing the final accounts for a business. The cost of the items in closing inventory is \$41,875. This includes some items which cost \$1,960 and which were damaged in transit. You have estimated that it will cost \$360 to repair the items, and they can then be sold for \$1,200.

What is the correct inventory valuation for inclusion in the final accounts?

- A \$39,915
- B \$40,755
- C \$41,515
- D \$42,995

15 On 1 December 2006 Pat borrowed \$40,000 at a fixed rate of interest. A single capital repayment is due on 1 December 2009. During the year to 30 November 2007 the interest of \$300 per month has been paid on the last day of each month.

How should the loan be reported on Pat's Balance Sheet at 30 November 2007?

| | Current liability | Non-current liability |
|---|-------------------|-----------------------|
| A | \$3,600 | \$40,000 |
| B | \$40,000 | \$3,600 |
| C | nil | \$40,000 |
| D | \$40,000 | nil |

16 After completing his final accounts, Kevin found that he had understated a prepayment.

How are Kevin's net profit and capital affected by the correction of the error?

| | Net profit | Capital |
|---|------------|-----------|
| A | increased | increased |
| B | increased | decreased |
| C | decreased | increased |
| D | decreased | decreased |

- 17 Changes may be made in:
- (i) a measurement basis
 - (ii) an accounting estimate

Which of these is/are a change in accounting policy?

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

- 18 Into which income statement columns of the extended trial balance should the balances for sales returns and purchases returns be extended?

| | Sales returns | Purchases returns |
|---|---------------|-------------------|
| A | debit | debit |
| B | debit | credit |
| C | credit | debit |
| D | credit | credit |

- 19 At 31 October 2006 Gina Dobbs owed her suppliers \$13,856. During the year to 31 October 2007, her payments to suppliers totalled \$95,886, and at 31 October 2007 she owed \$11,552.

What is the value of Gina's credit purchases for the year to 31 October 2007?

- A \$70,478
- B \$93,582
- C \$98,190
- D \$121,294

- 20 In the year to 30 November 2007, Grace Smith obtained a 25% mark up on all her sales.

Her sales for the year totalled \$120,600. Her opening inventory was valued at \$9,340 and her closing inventory was valued at \$11,855.

What was the value of Grace's purchases for the year to 30 November 2007?

- A \$87,935
- B \$92,965
- C \$93,965
- D \$98,995

(40 marks)

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

- 1 (a) Define the terms 'asset' and 'liability', and provide one example of each. (4 marks)
- (b) State TWO reasons why suspense accounts may be used. (2 marks)
- (c) Describe THREE types of error which will NOT be revealed by extracting a trial balance. (3 marks)
- (d) Indicate how classifying capital expenditure as revenue expenditure will affect the net profit for both the year in which the error is made and the following year if the error is not corrected. (2 marks)
- (e) Explain how the principle of materiality affects the preparation of financial statements. (4 marks)

(15 marks)

- 2 You are employed in the accounting department of a transport company. One of your tasks is to maintain the accounting records relating to non-current assets.

During the year to 30 November 2007, a new lorry was purchased. The invoice includes the following information:

Date of invoice – 1 January 2007

| | |
|--|---------------|
| | \$ |
| Volvo model S557 | 24,000 |
| Customisation with company logo | 1,000 |
| Insurance for year to 31 December 2007 | 5,000 |
| Fuel supplied | 400 |
| Total cost | <u>30,400</u> |

The information you are required to record in the non-current asset register includes:

- (i) Internal reference number
- (ii) Manufacturer's serial number
- (iii) Depreciation charge for year
- (iv) Cost
- (v) Supplier
- (vi) Description

At 30 November 2006, the total cost of the company's lorries was \$242,000, and the accumulated depreciation was \$166,736. During the year to 30 November 2007 a lorry which cost \$22,000 and which had a net book value of \$11,264 was sold.

Your company's policy is to depreciate lorries on the reducing balance basis at a rate of 20% per annum. It is anticipated that lorries will be sold after three years of use. The expected sale proceeds are 50% of the cost capitalised on acquisition. A full year's depreciation is charged in the year of acquisition, and no depreciation is charged in the year of disposal.

Required:

- (a) Calculate the cost of the new lorry to be capitalised on acquisition as a non-current asset. (2 marks)
- (b) Assuming that the new lorry is sold on 31 December 2009, calculate the anticipated profit or loss on disposal. (3 marks)
- (c) Prepare the following ledger accounts for the year to 30 November 2007:
Lorries at cost;
Accumulated depreciation on lorries.

Note: you must present your answer in a format which clearly indicates whether each entry is a debit entry or a credit entry. (7 marks)
- (d) For any THREE of the items (i)–(vi), state one reason for recording each item in the non-current asset register. (3 marks)

(15 marks)

- 3** Toni Pedlow is carrying out a reconciliation between the balance on the trade payables control account in her general ledger, which is \$128,593 and the total of the list of balances on the suppliers' personal accounts, which is \$128,929.

She has discovered that:

- (i) an invoice from a supplier for \$263 has been entirely omitted from her accounting records;
- (ii) an invoice from a supplier for \$67 was entered in her daybook as a credit note;
- (iii) a payment of \$430 to a supplier has not been recorded in the supplier's personal account;
- (iv) no entries have been made in respect of an agreement to offset a credit balance of \$570 in the payables ledger against a debit balance in the receivables ledger;
- (v) a supplier's account with a credit balance of \$71 was omitted from the list of balances;
- (vi) a balance of \$24,823 was settled by a payment of \$24,800. The settlement of the balance was correctly recorded on the supplier's personal account, but the discount was not entered in the general ledger;
- (vii) a cheque for \$460 paid to a supplier was recorded in Toni's cash book as \$640.

Required:

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

Note: 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) Prepare the reconciliation of the list of balances to the corrected balance on the payables control account in Toni's general ledger.** (7 marks)

- (c) State how the payables balance should be reported in Toni's final accounts.** (2 marks)

(15 marks)

4 Tanya Joyce has extracted the following trial balance at 30 November 2007:

| | Debit \$ | Credit \$ |
|---|-------------|--------------|
| Sales | | 205,117 |
| Purchases | 108,539 | |
| Wages | 33,552 | |
| Electricity | 9,526 | |
| Rent | 7,200 | |
| General expenses | 4,788 | |
| Non-current assets at cost | 125,980 | |
| Accumulated depreciation at 1 December 2006 | | 74,812 |
| Inventory at 1 December 2006 | 11,629 | |
| Trade receivables | 19,885 | |
| Receivables allowance | | 1,442 |
| Cash at bank | 1,731 | |
| Trade payables | | 11,954 |
| Capital at 1 December 2006 | | 34,305 |
| Loan (due for repayment in 2012) | | 25,000 |
| Drawings | 29,800 | |
| | 352,630 | 352,630 |

Tanya also has the following additional information:

- (i) Depreciation for the year has been calculated as \$25,196
- (ii) Electricity accrued at 30 November 2007 is \$940
- (iii) Rent was prepaid by \$1,200 at 30 November 2007
- (iv) Inventory at 30 November 2007 was valued at \$13,664
- (v) The receivables allowance is to be revised to \$1,620

Required:

- (a) Prepare Tanya's income statement for the year to 30 November 2007. (8 marks)
- (b) Calculate the following figures for inclusion in Tanya's balance sheet at 30 November 2007:
 - (i) current assets; (4 marks)
 - (ii) capital balance. (3 marks)

(15 marks)

End of Question Paper