Answers

Section A

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

Workings

		£
	Cost	14,900
<i>l</i> ess	Accumulated depreciation	8,940
=	Net book value	5,960
	Proceeds	7,455
=	Profit	1,495

7	Suspense account opened with an entry of		£1,000 credit.
	Correct entry for invoice is	£1,500 debit	
	Entry made was	£500 credit	
	Correcting entry in property repairs account	£2,000 debit	
	Entry required in suspense account		£2,000 credit
	Revised balance on suspense account		£3,000 credit

8	£
Allowance required	890
Allowance brought forward	770
Increase	120

As the allowance has increased, a charge will be made in the profit and loss account.

- 12 The opening balance will represent the accrual of £1,268. As this is an accrual (or liability) the opening trial balance will record a credit balance.
- Sales of £150,000 at a margin of 20% = a gross profit of £30,000. Thus cost of sales is £120,000 (£150,000 £30,000) Cost of sales = Opening stock + purchases closing stock, thus: £120,000 = £12,500 + £126,500 £19,000 (balancing figure)
- 14 Increase in capital is £8,286. This represents profit less drawings. Thus, profit is £8,286 + £25,764 = £34,050.

20 Current liabilities are:

 $\begin{array}{ccc} \text{Trade creditors} & £32,165 \\ \text{Bank overdraft} & £5,855 \\ \hline £38,020 \\ \end{array}$

Section B

1 (a) A fixed asset register is maintained for the following reasons:

To provide a record of all assets owned by the business.

To provide information on the depreciation charges for posting to the nominal ledger.

To facilitate physical verification of the existence of assets.

To assist in checking the information in the nominal ledger. This can be done by carrying out a reconciliation between the register and the ledger.

To allow the profit or loss on disposal of an asset to be calculated. This can be done by extracting the details of the cost of the asset and the accumulated depreciation of the asset from the register.

Mark allocation

1 mark for each valid reason to a maximum of

3

(b) Relevance

Information is relevant if:

it will influence the economic decisions of users; and

it is provided on a timely basis.

Reliability

Reliable information will be free from material error.

It will also be free from bias.

Where there is any conflict between the nature (or substance) of a transaction and the legal form of the transaction, information will be reliable if it reflects the economic substance of the transaction.

If there is any uncertainty, the application of prudence will render information reliable.

Comparability

This means that information can be compared, either with previous periods for the same business, or with other businesses.

This is usually achieved by the consistent application of accounting policies from one period to the next, and by disclosure of those policies.

Understandability

This term means that financial information should be capable of being understood. It should be noted that this test is applied in the context of the users having a reasonable knowledge of accounting and business. Effectively this means that the formats and disclosures laid down by the regulatory framework should be considered to be minimum requirements, and additional information should be provided as necessary.

Mark allocation

1 mark for each valid comment on two objectives to a maximum of

4

(c) Gross profit margin

The term gross profit margin is used to describe gross profit expressed as a percentage of sales value.

Mark up

This term is used to describe gross profit expressed as a percentage of cost.

For example, if a business has £1,000 of sales and a cost of sales of £800, the gross profit will be £200.

The gross profit margin will be (£200/£1,000) x 100 = 20% and the mark up will be (£200/£800) x 100 = 25%

Mark allocation

2 marks for each valid explanation or example to a maximum of

4

(d) Control accounts are maintained for the following reasons:

Check on accuracy

By comparing the balance on the control account with the total of the balances on the individual accounts, errors can be highlighted.

Locating errors

If an error is made, it will be easier to locate if a regular reconciliation is carried out as there will be fewer transactions to be checked than would be the case if such a reconciliation was not carried out.

Assist in preparation of final accounts

As the control account provides a total figure, there is no need to collate the individual balances. This means that the preparation of the final accounts is speeded up.

Mark allocation

1 mark for each valid reason to a maximum of

1 mark for each valid comment to a maximum of

2

15

								Marks
(a)	Accrual Electricity paid to 31 March 2007. Thus accrual for two months (April and May) required. Last invoice £2,760 = £920 per month. Thus accrual = £920 x 2 = £1,840.							1
	Alternative calculation: Balance per trial balance £9,200 to 31 March. This represents 10 months at £920 per month. Thus accrual for two months is £920 x $2 = £1,840$.							
(b)	Rent of £36,0	00 per annum = £3,0 two months (June an						1
(c)	Depreciation Machinery	Cost	£124,500	x 20%	=	£24,900	1	
	Vehicles	Cost Acc. depn.	£38,672 £22,352					
	Total charge	Net book value	£16,320	x 25%	=	£4,080 £28,980	1_	2
(d)	Closing stock Cost of items i less: Cost of da Expected sale	amaged items	£ 38,670 6,850 31,820				1	
	less: Cost of re thus Net realis Stock value	epairs 1,285	2,915 34,735				1	2
(e)	Cost of sales Opening stock Purchases per Purchases retu	TB 486,463	£ 29,664				1/ ₂ 1/ ₂ 1/ ₂	
	Carriage inwar	ds	479,935 10,644 520,243				1	
	Closing stock (Cost of sales	(per (c))	(34,735)				1/2	3
(f)	Gross profit Sales per TB <i>less:</i> Returns		£ 729,542 5,728 723,814				1/ ₂ 1	
	less: Cost of sa Gross profit	ales	485,508 238,306				1/2	2

(g)	Net profit Gross Profit Jess: Exper Electricity (Rent (per C Wages Vehicle exp General ex Depreciation	nses W1) Q) penses penses	£ 11,040 36,000 120,800 11,858 5,843 28,980	£ 238,306					1/ ₂ 1 1/ ₂ 4
	Net profit			214,521 23,785					15
	add Acci Cha NB Bala less Prep	Electricity ance per TB rual (part a) rge to profit an Rent ance per TB bayment (part	nd loss (b))	£ 9,200 1,840 11,040 £ 42,000 6,000	os par informa	tion given in	question		15
	Cha	rge to profit a	nd loss	36,000	as per informa	tion given in	question		
3 (a)	Profit per p	profit and loss	account	Ele	eanor		eve	£ 52,956	
		capital (W1) drawings (W2	2)	(3	£ ,000) ,800) ,736	(26, (2,	£ 000) 784) 072	(58,000) (6,584) 5,808	1 2 2
	Loss for ap	propriation						(5,820)	1
	Share				,328		492		2
	Total profit attributable to each partner			30,736 22,220			<u>===</u>	52,956	1 9
	Working 1 E S	Interest on a £47,500 x £34,800 x	8% =	£3,800 £2,784	Work E S	£22,	est on drawings 800 x 12% 600 x 12%	= £2,7 = £3,0	36
(b)				Current Accounts					
	Opening ba Interest on Share of lo Drawings Closing bal	drawings ss	E £ 1,680 2,736 2,328 22,800 6,256	\$ £ 3,072 3,492 25,600 3,370	Opening Salary Interest o		E £ 32,000 3,800	\$ £ 6,750 26,000 2,784	
			35,800	35,534			35,800	35,534	
	Mark alloca	ation	S Ir Ir S	pening balar alary nterest on ca nterest on dra hare of loss rawings	pital				1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1

Marks

Marks 4 **Bank Account** (a) £ £ 2,500 2,759 (ii) Transfer Balance as given (viii) Cancelled cheque 276 (i) Charges 129 (iii) Cash withdrawal 100 Balance (corrected) 302 (iv) Corrected cheque 90 3,078 3,078 7 Mark allocation 1 mark for each entry (b) Bank reconciliation statement £ Balance per statement 131 1 (v) Outstanding lodgement 457 1 (vi) Interest 52 1 (942)(vii) Outstanding cheques 1 Adjusted balance (overdrawn) (302)1 5

1

1

1

3 **15**

(c) The bank balance should be reported on the balance sheet.

The corrected ledger balance of £302 should be reported.

As it is overdrawn, it should be reported as a current liability.