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# Answers

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Section A

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

Workings

<b>4</b>		<b>£</b>
	Cost	14,900
	<i>less</i> Accumulated depreciation	<u>8,940</u>
	= Net book value	5,960
	Proceeds	<u>7,455</u>
	= Profit	<u><u>1,495</u></u>

**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

<b>8</b>		<b>£</b>
	Allowance required	890
	Allowance brought forward	<u>770</u>
	Increase	<u><u>120</u></u>

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.

**13** 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.

<b>20</b> Current liabilities are:	
Trade creditors	£32,165
Bank overdraft	<u>£5,855</u>
	<u>£38,020</u>



<b>2 (a) Accrual</b>					
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>(b) Prepayment</b>					
Rent of £36,000 per annum = £3,000 per month. Paid to July = two months (June and July) prepaid = £6,000.					1
<b>(c) Depreciation</b>					
Machinery	Cost	<u>£124,500</u>	x 20%	=	£24,900
					1
Vehicles	Cost	£38,672			
	Acc. depn.	<u>£22,352</u>			
	Net book value	<u>£16,320</u>	x 25%	=	<u>£4,080</u>
					1
Total charge					<u>£28,980</u>
					2
<b>(d) Closing stock</b>	£	£			
Cost of items in stock		38,670			
less: Cost of damaged items		<u>6,850</u>			1
		31,820			
Expected sale value	4,200				
less: Cost of repairs	<u>1,285</u>				
thus Net realisable value		<u>2,915</u>			1
Stock value		<u>34,735</u>			2
<b>(e) Cost of sales</b>	£	£			
Opening stock		29,664			1/2
Purchases per TB	486,463				1/2
Purchases returns	<u>(6,528)</u>				1/2
		479,935			
Carriage inwards		<u>10,644</u>			1
		520,243			
Closing stock (per (c))		<u>(34,735)</u>			1/2
Cost of sales		<u>485,508</u>			3
<b>(f) Gross profit</b>		£			
Sales per TB		729,542			1/2
less: Returns		<u>5,728</u>			1
		723,814			
less: Cost of sales		<u>485,508</u>			1/2
Gross profit		<u>238,306</u>			2

					Marks
<b>(g) Net profit</b>	<b>£</b>	<b>£</b>			
Gross Profit		238,306			1/2
<i>less:</i> Expenses					
Electricity (W1)	11,040				1
Rent (per Q)	36,000				1/2
Wages	120,800				1/2
Vehicle expenses	11,858				1/2
General expenses	5,843				1/2
Depreciation	<u>28,980</u>				1/2
		214,521			
Net profit		<u><u>23,785</u></u>			4
					<u>15</u>

<b>Working 1 Electricity</b>		<b>£</b>
Balance per TB		9,200
<i>add</i> Accrual (part a)		1,840
Charge to profit and loss		<u><u>11,040</u></u>

<b>NB Rent</b>		<b>£</b>	
Balance per TB		42,000	
<i>less</i> Prepayment (part (b))		<u>6,000</u>	
Charge to profit and loss		<u><u>36,000</u></u>	as per information given in question

<b>3 (a)</b>				<b>£</b>	
Profit per profit and loss account				52,956	
		<b>Eleanor</b>	<b>Steve</b>		
		<b>£</b>	<b>£</b>		
Salary		(32,000)	(26,000)	(58,000)	1
Interest on capital (W1)		(3,800)	(2,784)	(6,584)	2
Interest on drawings (W2)		2,736	3,072	5,808	2
Loss for appropriation				<u>(5,820)</u>	1
Share	(2/5)	2,328	(3/5) 3,492		2
Total profit attributable to each partner		<u><u>30,736</u></u>	<u><u>22,220</u></u>	<u><u>52,956</u></u>	1
					<u>9</u>

Working 1	Interest on capital			Working 2	Interest on drawings		
E	£47,500 x 8%	=	£3,800	E	£22,800 x 12%	=	£2,736
S	£34,800 x 8%	=	£2,784	S	£25,600 x 12%	=	£3,072

(b) Current Accounts					
	<b>E</b>	<b>S</b>		<b>E</b>	<b>S</b>
	<b>£</b>	<b>£</b>		<b>£</b>	<b>£</b>
Opening balance	1,680		Opening balance		6,750
Interest on drawings	2,736	3,072	Salary	32,000	26,000
Share of loss	2,328	3,492	Interest on capital	3,800	2,784
Drawings	22,800	25,600			
Closing balance	<u>6,256</u>	<u>3,370</u>			
	<u><u>35,800</u></u>	<u><u>35,534</u></u>		<u><u>35,800</u></u>	<u><u>35,534</u></u>

Mark allocation					
		Opening balances			1
		Salary			1
		Interest on capital			1
		Interest on drawings			1
		Share of loss			1
		Drawings			1
					<u>6</u>
					<u>15</u>

4 (a)

Bank Account

	£		£
(ii) Transfer	2,500		Balance as given 2,759
(viii) Cancelled cheque	276	(i) Charges	129
		(iii) Cash withdrawal	100
Balance (corrected)	302	(iv) Corrected cheque	90
	<u>3,078</u>		<u>3,078</u>

Mark allocation 1 mark for each entry 7

(b) Bank reconciliation statement

	£		
Balance per statement	131		1
(v) Outstanding lodgement	457		1
(vi) Interest	52		1
(vii) Outstanding cheques	<u>(942)</u>		1
Adjusted balance (overdrawn)	<u>(302)</u>		<u>1</u> 5

(c) The bank balance should be reported on the balance sheet. 1  
 The corrected ledger balance of £302 should be reported. 1  
 As it is overdrawn, it should be reported as a current liability. 1

3  
**15**