

# Maintaining Financial Records (UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

INTERMEDIATE LEVEL

WEDNESDAY 6 JUNE 2007

## 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(GBR)



**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 A trial balance is made up of a list of debit balances and credit balances.

**Which of the following statements is correct?**

- A every debit balance represents an expense
- B assets are represented by debit balances
- C liabilities are represented by debit balances
- D income is included in the list of debit balances

- 2 Which of the following errors should be detected by preparing a trial balance?

- A a credit entry made on the debit side of the correct account
- B a credit entry made on the credit side of the wrong account
- C a transaction for which no entries were made
- D a transaction entered in the nominal ledger twice

- 3 After Toni prepared her draft accounts she discovered that she had incorrectly classified an item of revenue expenditure as capital expenditure.

**When the error is corrected, how will her net profit and capital be affected?**

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

- 4 Jimi sold a machine which originally cost £14,900. At the date of the sale the accumulated depreciation on the machine was £8,940. The sale proceeds were £7,455.

**What is the profit or loss on the sale of the machine?**

- A a profit of £1,485
- B a loss of £1,485
- C a loss of £1,495
- D a profit of £1,495

**The following information relates to questions 5 and 6:**

While carrying out the reconciliation of the balance on the creditors control account in the nominal ledger with the list of balances from the creditors ledger, Celine discovered the following errors:

- (i) a payment of £1,700 in full settlement of a balance of £1,714 was correctly recorded on the supplier's account, but only £1,700 was posted to the control account.
- (ii) the total of the purchase day book was understated by £900.
- (iii) a supplier's credit note was incorrectly recorded in the daybook as an invoice.
- (iv) no entries were made to record an arrangement to offset a balance of £620 against a balance in the debtors ledger.

**5 Which of the above errors require a correcting entry in the nominal ledger?**

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

**6 Which of the above errors should be dealt with as an adjustment to the list of balances from the creditors ledger?**

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

**7** When Nicola extracted her trial balance, the total of the debit balances exceeded the total of the credit balances by £1,000. She opened a suspense account to make the two totals equal.

She then discovered that an invoice received for property repairs for £1,500 was entered as £500 on the credit side of the property repairs account.

**What is the revised balance on the suspense account when Nicola corrects this error?**

- A** nil
- B** £2,000 debit
- C** £2,000 credit
- D** £3,000 credit

**8** Minnie calculated that her debtors allowance at 30 April 2007 should be £890. At 30 April 2006, her debtors allowance was £770.

**How should the movement in the debtors allowance be recorded in Minnie's profit and loss account?**

- A** a charge of £890
- B** a credit of £890
- C** a charge of £120
- D** a credit of £120

- 9 Daniel made an error when he calculated the value of his closing stock, which means that the stock is overvalued.

**How are his net profit for the year and net assets at the end of the year affected by this error?**

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

- 10 At 31 May 2007 Katie had a loan with an outstanding balance of £30,000. She is required to repay £500 on the 10th of each month.

**How should the loan be reported on her balance sheet at 31 May 2007?**

- A as a current liability of £30,000
- B as a current liability of £24,000 and a long term liability of £6,000
- C as a current liability of £6,000 and a long term liability of £24,000
- D as a long term liability of £30,000

- 11 Chris is completing his extended trial balance. The value of closing stock has been recorded in the adjustment columns.

**Into which columns should the entries for closing stock be extended?**

- A Profit and loss debit and profit and loss credit
- B Balance sheet debit and balance sheet credit
- C Profit and loss debit and balance sheet credit
- D Profit and loss credit and balance sheet debit

- 12 When he closed his ledger accounts at 30 April 2007 Luther's wages expense account had a debit balance of £87,963. Luther also had to make an accrual of £1,268 for outstanding wages.

**What is Luther's opening balance for wages at 1 May 2007?**

- A £1,268 debit
- B £1,268 credit
- C £87,963 debit
- D £87,963 credit

- 13 During May 2007, Sarah's purchases were £126,500, and her sales were £150,000. Sarah's gross profit is 20% of sales. The value of her stock at 1 May 2007 was £12,500.

**What is the value of Sarah's stock at 31 May 2007?**

- A £6,000
- B £11,000
- C £14,000
- D £19,000

- 14 At 31 May 2006 Dave's capital balance was £96,578. During the year to 31 May 2007, his drawings were £25,764. At 31 May 2007 his capital balance was £104,864.

**What was Dave's profit for the year to 31 May 2007?**

- A £8,286
- B £17,478
- C £34,050
- D £70,814

- 15 Carol has prepared the following reconciliation of the balance on the creditors ledger control account in her nominal ledger with the list of balances on the creditors ledger:

	£
Total of list of balances	86,579
Balance omitted from list	1,385
Balance on control account	<u>87,964</u>

**What should be reported in Carol's balance sheet for trade creditors?**

- A a current asset of £86,579
- B a current liability of £86,579
- C a current asset of £87,964
- D a current liability of £87,964

- 16 George is preparing the nominal ledger journal entry to write off an irrecoverable debt. He knows that the debit entry should be made in the debtors expense account.

**In which nominal ledger account should the credit entry be made?**

- A Sales account
- B Bank account
- C Debtors account
- D Debtors allowance account

- 17 On 23 May 2007, Julie used cash to pay the rent on her business premises for the three months to 31 August 2007 in advance.

**On 23 May, how is Julie's accounting equation affected by this transaction?**

	Assets	Liabilities	Capital
A	unchanged	unchanged	unchanged
B	unchanged	reduced	reduced
C	reduced	unchanged	unchanged
D	reduced	unchanged	reduced

- 18 Which method of stock valuation is used when issues are assumed to be taken from stock in the order in which they were received?

- A Net realisable value
- B First in first out
- C Periodic weighted average
- D Continuous weighted average

- 19** At 30 April 2007 the total amount owed to James by his customers was £54,864. At the same date, James calculated that his debtors allowance is £3,775.

**How should these balances be reported in James' balance sheet?**

- A** £51,089 as a current asset
- B** £51,089 as a current liability
- C** £54,864 as a current asset, and £3,775 as a current liability
- D** £54,864 as a current liability, and £3,775 as a current asset

- 20** At 31 May 2007 Roberta's trial balance included the following items:

	£
Stock at 1 June 2006	23,856
Trade debtors	55,742
Trade creditors	32,165
Bank overdraft	5,855
Loan due for repayment in 2009	15,000

**What is the value of Roberta's current liabilities at 31 May 2007?**

- A** £38,020
- B** £53,020
- C** £61,597
- D** £76,597

**(40 marks)**

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

- 1 (a) State three reasons for maintaining a fixed asset register.** (3 marks)
- (b)** The Statement of principles for financial reporting states that in order to be useful, financial information should meet four objectives. These are:
- (i) relevance;
  - (ii) reliability;
  - (iii) comparability; and
  - (iv) understandability.
- Briefly explain any TWO of these objectives.** (4 marks)
- (c) Explain the terms 'gross profit margin' and 'mark up'.** (4 marks)
- (d) Identify and explain TWO reasons for maintaining control accounts.** (4 marks)
- (15 marks)**

- 2 Ron Green would like to know how his business has performed for the year to 31 May 2007. His trial balance at that date, as well as the other information he has given you, is shown below:

	Debit £	Credit £
Sales		729,542
Purchases	486,463	
Electricity	9,200	
Rent	42,000	
Wages	120,800	
Vehicle expenses	11,858	
General expenses	5,843	
Carriage inwards	10,644	
Sales returns	5,728	
Purchases returns		6,528
Machinery at cost	124,500	
Vehicles at cost	38,672	
Accumulated depreciation at 31 May 2006:		
Machinery		18,600
Vehicles		22,352
Stock at 31 May 2006	29,664	
Trade debtors	77,920	
Trade creditors		44,568
Bank account		5,702
Drawings	15,000	
Capital account		151,000
	<u>978,292</u>	<u>978,292</u>

- (i) The last electricity invoice received was for £2,760. This was for the three months to 31 March 2007.
- (ii) Ron has paid his rent up to 31 July 2007. His annual rent is £36,000.
- (iii) Ron depreciates his fixed assets on the following bases:
- |           |                                 |
|-----------|---------------------------------|
| Machinery | 20% per annum, straight line    |
| Vehicles  | 25% per annum, reducing balance |
- (iv) Ron's stock at 31 May 2007 cost £38,670. This includes some damaged items, which had cost £6,850. Ron has arranged for these to be repaired at a cost of £1,285. He will then be able to sell the items for £4,200.

**Required:**

**Calculate the amounts to be included in Ron's final accounts for the year to 31 May 2007 for:**

- |                       |           |
|-----------------------|-----------|
| (a) accruals;         | (1 mark)  |
| (b) prepayments;      | (1 mark)  |
| (c) depreciation;     | (2 marks) |
| (d) closing stock;    | (2 marks) |
| (e) cost of sales;    | (3 marks) |
| (f) gross profit; and | (2 marks) |
| (g) net profit.       | (4 marks) |

**(15 marks)**



**3** Eleanor and Steve are in partnership, sharing profits and losses in the ratio 2:3.

The partnership agreement provides for the following:

Eleanor is entitled to a salary of £32,000;

Steve is entitled to a salary of £26,000;

Interest is paid at a rate of 8% per annum on the partners' capital balances at the start of the financial year; and

Interest is charged at a rate of 12% per annum on the partners' drawings.

At 1 May 2006, the partners' capital and current account balances were:

	<b>Eleanor</b>	<b>Steve</b>
Capital	£47,500 (credit)	£34,800 (credit)
Current	£1,680 (debit)	£6,750 (credit)

During the year to 30 April 2007:

Eleanor's drawings were £22,800;

Steve's drawings were £25,600; and

the net profit for the year was £52,956.

**Required:**

**(a) Calculate the profit attributable to each partner for the year to 30 April 2007.**

(9 marks)

**(b) Prepare the partners' current accounts for the year to 30 April 2007.**

(6 marks)

**(15 marks)**

- 4 Sarah prepares a bank reconciliation statement for her business bank account at the end of each month. At 31 May 2007 her ledger balance was £2,759 (credit) and her bank statement showed that she had funds of £131 at the bank. She has the following information:
- (i) The bank debited Sarah's account with charges of £129 during May. Sarah has not recorded the charges.
  - (ii) Sarah arranged for £2,500 to be transferred from her personal bank account into the business bank account. The bank made the transfer on 30 May, but Sarah has not made any entry for it in her records.
  - (iii) On 22 May Sarah withdrew £100 cash which she did not record.
  - (iv) Cheque number 543987 which Sarah issued to a supplier appears on the bank statement as £650. Sarah incorrectly recorded the cheque as £560.
  - (v) On 31 May, Sarah lodged £457. This amount appears on the bank statement dated 3 June.
  - (vi) Sarah was advised by the bank that she earned £52 interest for the period in May that her account was in credit. Sarah recorded this in May, but the bank did not credit her account until June.
  - (vii) Three of the cheques issued in May, with a total value of £942, were not debited on the bank statement until after 31 May.
  - (viii) A cheque for £276, issued to a supplier was cancelled, but Sarah has not recorded the cancellation of the cheque.

**Required:**

- (a) **Show the bank account in Sarah's nominal ledger, including any adjusting entries required due to the information in (i) to (viii) above.**

Note: You MUST present your answer in a format which clearly indicates whether each entry is a debit or a credit. (7 marks)

- (b) **Prepare a reconciliation of the bank statement balance to the corrected balance on the bank account in Sarah's nominal ledger.** (5 marks)

- (c) **Indicate how the bank balance will be reported in Sarah's final accounts, and the value to be reported.** (3 marks)

**(15 marks)**

**End of Question Paper**