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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

4		\$
	Cost	14,900
	/less 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

8		\$
	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 income statement.

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 inventory + purchases – closing inventory, 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:

Trade payables	\$32,165
Bank overdraft	<u>\$5,855</u>
	<u>\$38,020</u>

## Section B

- 1 (a)** A non-current 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 general ledger.
  - To facilitate physical verification of the existence of assets.
  - To assist in checking the information in the general 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  $(\$200/\$1,000) \times 100 = 20\%$  and the mark up will be  $(\$200/\$800) \times 100 = 25\%$ .
- 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                                      2  
1 mark for each valid comment to a maximum of                                      2

<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 inventory</b>	\$	\$			
Cost of items in inventory		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
Inventory value		<u>34,735</u>			2
<b>(e) Cost of sales</b>	\$	\$			
Opening inventory		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 inventory (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>	\$	\$		
Gross Profit		238,306		1/2
<i>less: Expenses</i>				
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>	\$
Balance per TB	9,200
<i>add</i> Accrual (part a)	1,840
Charge to income statement	<u><u>11,040</u></u>

<b>NB Rent</b>	\$	
Balance per TB	42,000	
<i>less</i> Prepayment (part (b))	<u>6,000</u>	
Charge to income statement	<u><u>36,000</u></u>	as per information given in question

<b>3 (a)</b>			\$	
Profit per income statement			52,956	
	<b>Eleanor</b>	<b>Steve</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					
E	S		E	S	
\$	\$		\$	\$	
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		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

1  
1  
1 3  
**15**