Answers

Section A

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

Workings

11 Allowance required:

$56,800	x	1%	=	$ 568
$37,700	x	20%	=	$ 7,540
$14,900	x	75%	=	$11,175
				$19,283

Allowance brought forward	$18,765
Increase in allowance = charge to profit and loss	$ 518

18 *Dr* *Car expenses* *Cr*

	$		$
Bank account	2,500	Opening accrual	329
Capital introduced	350	Income statement	2,985
Closing accrual	464		
	3,314		3,314

19

Closing capital =	Non-current assets	$41,700	
	Inventory	$ 9,860	
	receivables	$ 7,695	$59,255
less:	Payables	$ 4,174	
	Bank overdraft	$ 5,537	
	Accruals	$ 258	$ 9,969
			$49,286

20

Growth in capital	$ 6,798	
Plus drawings	$14,600	
Less Introduced	$ 2,900	= $18,498 profit

Section B			**Marks**

1 An asset is an item of value which the business owns or controls. A liability is a requirement to transfer value to another party.

Assets include	items such as buildings, or machinery used to carry on the business			
	items held for resale, with the aim of realising a profit			
	amounts owed by customers			
	expenditure on items which have not yet been consumed by the business			
Liabilities include	amounts owed to suppliers and other parties			
	the cost of items and services which have been consumed, but are unpaid			
	(Note: only ONE example of each was required)			
		explanation of	asset	1
			liability	1
		example of	asset	0·5
			liability	0·5
				3

2 The going concern basis means that the business can be reasonably expected to continue to operate for the foreseeable future 1
without any significant reduction in the scale of its operations. 2

3

3 The accruals principle means that:

- profit is calculated by deducting the costs incurred in an accounting period from the revenue earned in that period; 2
- costs are recognised on the basis of consumption, rather than cash flow, while revenue is considered to be earned when 1
  goods are sold rather than when payment is received. 1

4

4 The users of financial statements and their respective needs include:

User	*Need*
Investors	Investors will use financial statements to track the return on their investment, and to assess the likely future trend. They will be particularly concerned with measures of profitability and long term performance.
Lenders	Lenders will be primarily concerned with ensuring that the entity will be able to continue meeting its obligations under the lending arrangements. They will focus their attention on measures of liquidity and cash flow.
Suppliers	Suppliers will be interested to know if the entity is likely to continue to trade and provide a source of continuing business. They will be most concerned about measures of liquidity and cash flow.
Customers	Customers may use financial statements to ascertain whether there are any indications that the entity may cease to trade, thus leading to an interruption in the supply of goods or services. They will pay most attention to measures of liquidity and cash flow.
Employees	Employees will wish to assess the prospects for continuing job security and wage levels. Their main focus will be on solvency (job security) and profitability and cash flow (wage levels).
Tax authorities	Tax authorities will use the financial statements as the basis for calculating amounts due from the entity.

For each user correctly identified	0·5
For each need correctly identified	1
1½ x 2 =	3

NB The question only required TWO users be identified.

5 International Accounting Standards / International Financial Reporting Standards set out the manner in which accounts should be prepared. 2
They also give guidance on how certain items should be presented in the accounts. 1

Available	3
Maximum	2

Section C **Marks**

1 (a)

		Land $	*Building* $	*Machinery* $	*Total* $	Marks
(i)	Cost brought forward	85,000	120,500	74,800	280,300	0·5
	Additions at cost		6,800	14,500	21,300	1·5
	Disposals at cost			(11,000)	(11,000)	0·5
		110,000	127,300	78,300	315,600	0·5
						3
(ii)	Opening depreciation	nil	28,920	35,600	64,520	0·5
	Eliminated on disposal (w)			(5,368)	(5,368)	1
	Charge for year (w)	nil	5,092	9,614	14,706	2
	Closing depreciation	nil	34,012	39,846	73,858	0·5
						4
(iii)	Net book value	110,000	93,288	38,454	241,742	1

Workings:

Depreciation eliminated:

Machine bought in January 2000. Thus depreciation for years ended 30 September 2000, 2001 and 2002 = 3 years.

2000	Cost $11,000 x 20%	=	$2,200 depreciation for year.
	Thus NBV c/f = $8,800		
2001	b/f $8,800 x 20%	=	$1,760 depreciation for year.
	Thus NBV c/f = $7,040		
2002	b/f $7,040 x 20%	=	$1,408 depreciation for year.
	Thus NBV c/f = $5,632		
	Total depreciation	=	$5,368

Depreciation charge:

Buildings Cost $127,300 + 25 years = $5,092 per annum

Machinery	Cost	$ 78,300	
	Depn	$ 30,232	
	NBV	$ 48,068 x 20%	= $9,614 for year (to nearest $1)

(b)

		Marks
Cost of machine	$11,000	
Depreciation to date of disposal	$ 5,368	
NBV at disposal	$ 5,632	1
Proceeds	$ 5,500	1
Loss	$ 132	1
		3

(c) Depreciation is required to reflect the economic benefits relating to a non-current asset which have been consumed during the period.

The provision for depreciation is required under the accruals (or matching) concept, as this will match the cost of economic benefits with the revenue generated. This means that for all assets which are consumed, depreciation must be provided. Freehold land is therefore an exception to the rule that non-current assets must be depreciated, as it is not consumed. It should be noted that this is entirely separate to the issue of any increase in valuation.

1 mark for each valid point, to a maximum of 4

15

2 (a) Payables ledger control **Mark**

		$			$	
(i)	Discount omitted	20		Balance as stated	48,395	
(ii)	Daybook overcast	90	(iii)	Cheques issued	9	
	Corrected balance	48,753	(iv)	Invoice omitted	459	
		48,863			48,863	

Each balance ½ x 2	1
Other entries 1 mark per entry	4
	5

(b)

		$		
Total of listing as stated		46,644		0·5
(iv)	Invoice omitted	459	+	1
(v)	Elimination of incorrect balance	780	+	1
(v)	Include correct balance	870	+	1
	Restated listing	48,753		0·5
	Listing agreed to balance on nominal ledger			1
				5

(c) The balance to be reported on Tina's balance sheet is the corrected payables ledger control account balance of $48,753. 1
This will be reported as a current liability. 1

2

(d) A payables ledger reconciliation is carried out for the following reasons:
– to identify errors in the accounting records
– to provide a corrected figure for inclusion in the final accounts
– to calculate missing data if incomplete records are maintained

1 mark for each valid point, to a maximum of 3

15

3 (a)

	$	$	
Inventory – valued at cost		45,864	0·5
less: Cost of damaged items		5,748	0·5
		40,116	
Expected selling price	6,700		
Costs of repairs	1,475		
Net realisable value		5,225	0·5
Inventory value		45,341	0·5
Reported net profit		37,458	
Inventory write down ($45,864 – $45,341)		523	1
Revised net profit		36,935	1
			4

(b)

	John	Darryl	$		
Revised net profit			36,935		
	$	$			
Salary	13,000	5,000	(18,000)	0·5	0·5
Interest on capital	5,500	2,500	(8,000)	1	1
Residual profit			10,935		
Split	6,561	4,374		1	1
Total share	25,061	11,874		0·5	0·5
				6	

Working: Interest on capital

		$	$
John			
$60,000 at 5% for 2 months	=	500	
$120,000 at 5% for 10 months	=	5,000	5,500
Darryl			
$50,000 at 5% for 12 months	=		2,500

(c) Current account – John **Mark**

	$		$
Drawings	18,000	Opening balance	43,250
Closing balance	50,311	Share of profit	25,061
	68,311		68,311

1 mark per entry	4
Closing balance correct	1
	5
	15