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# Answers

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Section A

Question No	Solution	Question No	Solution
1	D	11	A
2	B	12	C
3	C	13	C
4	C	14	A
5	A	15	D
6	D	16	D
7	C	17	D
8	D	18	B
9	D	19	A
10	A	20	A

Workings

- 5 Depreciation has been charged for three years at the date of disposal. Thus the book value at the date of disposal was \$5,906.25, say \$5,906. The sale proceeds were \$5,600, resulting in a loss of \$306.

- 7 The cash sale requires a debit entry in the cash account, and thus a credit entry in the suspense account.

The credit balance on the sales account, is understated. Thus a credit entry is required in the sales account, with a corresponding debit entry in the suspense account.

Thus	\$
Opening balance	99 Debit
Cash sale	9 Credit
Under-cast	90 Debit
Closing balance	<u>180 Debit</u>

9	\$
Corrected balance	4,782 Credit
Outstanding lodgement	(1,519)
Outstanding cheques	1,745
Fees	(365)
Balance on statement	<u>4,921 Credit</u>

11	\$
Irrecoverable debt	320
Reduction in allowance	(121)
	<u>199</u>

13	\$
Opening accrual	855 Credit
Invoices	11,874 Debit
Closing accrual	962 Debit
	<u>11,981 Debit</u>

17	\$
Inventory (closing value)	18,736
Trade receivables	31,005
Prepayments	3,629
	<u>53,370</u>

## Section B

## Marks

- 1 (a) (i) Assets represent future benefits, and expenses represent benefits which have already been consumed.

Mark allocation: 1 mark per valid point, for example:  
 assets = future benefit  
 expenses = benefit consumed  
 to a maximum of 2

- (ii) Assets are reported in the statement of financial position, while expenses are charges in the income statement.

Mark allocation: 1 mark for each valid statement, to a maximum of 2 4

- (b) A non-current asset register is maintained as part of the system of internal control. By providing a record of the non-current assets owned by the business, it facilitates control through periodic checks to ensure that all assets listed in the register physically exist.

It also summarises key information about each asset so that it is not necessary to consult a number of sources. This makes it easier to carry out certain tasks.

Information recorded includes:

- (i) The cost of the asset and its useful economic life. This allows the depreciation charge to be calculated.  
 (ii) The carrying value of an asset – so that any profit or loss on disposal can be calculated.  
 (iii) A brief description and a serial number. This can assist in identifying an asset during a check on the physical existence of assets.

Mark allocation: 1 mark for each valid reason for maintaining a register, to a maximum of 2  
 1 mark for each valid item of information  
 to a maximum of 3 5

- (c) (i) As FIFO values inventory at the cost of the most recently purchased items, using this method of valuation will result in inventory having a higher value than would have been the case if periodic weighted average had been used.

As closing inventory is a credit entry in the income statement, the lower value using periodic weighted average will result in profit for 2008 being lower than it should be.

As closing inventory is an asset, the lower value will lead to a reduction in net assets.

Mark allocation: profit lower 1  
 net assets lower 1 2

- (ii) If the correct method of valuation is used in 2009, there will be no effect on net assets, as assets will now be correctly valued.

However, profit will be affected, as the lower value attributed to opening inventory will lead to profit for the year being increased. This increase will compensate for the reduction in the previous year, so that the total profit for the two years will be correct. The incorrect valuation of inventory has effectively shifted profit from one year to the other.

Mark allocation: profit increased 1  
 net assets unaffected 1 2 4

- (d) The trial balance acts as an initial check on the accuracy of the information in the general ledger. Although a trial balance in which the total of the debit balances is equal to the total of the credit balances may still contain errors, it provides a certain level of assurance that the transactions have been recorded correctly.

It also acts as a starting point for the preparation of financial statements, by providing a summary of the results of transactions in the form of assets and expenses (debit balances) and liabilities and income (credit balances).

Mark allocation: 1 mark for each valid reason, to a maximum of 2

15

2 (a)

## Payables Ledger Control Account

	\$		\$
(i) Credit note	438	Balance as given	80,130
(iv) Offset	700	(vi) Undercast	900
(vii) Treated as drawings	320		
Corrected balance	<u>79,572</u>		
	<u>81,030</u>		<u>81,030</u>

Mark allocation:

Opening and closing balances  $\frac{1}{2}$  mark each

1 mark for each correct adjustment

1
<u>4</u>

5

(b)

	\$
Total of listing as given	80,441
(i) Credit note	(438)
(ii) Error in invoice	27
(iii) Discount	(12)
(v) Debit balance	(126)
(vii) Treated as drawings	(320)
Corrected total	<u>79,572</u>

Mark allocation:

Totals  $\frac{1}{2}$  each

1 mark for each correct adjustment

1
<u>5</u>

6

(c) Entry General ledger account

- (i) Purchases (or goods for resale/purchase returns)
- (iv) Receivables ledger control account
- (vi) Purchases (or goods for resale/purchase returns)
- (vii) Drawings

Mark allocation:

1 mark for each correct account

4
<u>15</u>

3 (a)

	\$	\$
Profit as reported		27,850
Salary – Adnan	13,000	
Drawings	<u>44,000</u>	<u>57,000</u>
		<u>84,850</u>

Mark allocation:

1 mark for each correct adjustment

2

(b)

	\$ Adnan	\$ Boris	\$
Corrected profit			84,850
less: Salary	13,000		(13,000)
Interest on capital	1,881	2,079	<u>(3,960)</u>
Available for sharing			<u>67,890</u>

Working – Interest on capital

Adnan	\$20,900 x 9%	\$1,881
Boris	\$23,100 x 9%	\$2,079

Mark allocation:

Adjustment for salary

Calculation of interest

Adjustment for interest

Correct calculation of amount to be shared

1
1
1
<u>1</u>

4

**Marks**

		<b>Adnan</b>		<b>Boris</b>
		<b>\$</b>		<b>\$</b>
\$67,890 shared:	(2/5)	27,156	(3/5)	40,734
Salary		13,000		
Interest on capital		1,881		2,079
Total		<u>42,037</u>		<u>42,813</u>

Mark allocation:

Calculation of share of \$67,890  
Adjustments for salary  
interest on capital  
Correct calculation of totals

1  
1  
1  
1 4

		<b>Adnan</b>		<b>Boris</b>
		<b>\$</b>		<b>\$</b>
Opening balance		(5,359)		(7,956)
Share of total profit		42,037		42,813
Drawings		(22,000)		(22,000)
Closing balance		<u>14,678</u>		<u>12,857</u>

Mark allocation:

Correct treatment of share of total profit  
Inclusion of drawings  
Correct calculation

1  
1  
1 3

		<b>\$</b>
Capital balances	Adnan	20,900
	Boris	23,100
Current account	Adnan	14,678
	Boris	12,857
		<u>71,535</u>

Mark allocation:

½ for each balance

2

15

**4 (a) Payables Ledger Control Account**

	<b>\$</b>		<b>\$</b>
Payments made	165,570	Opening balance	15,847
Closing balance	17,855	Purchases (bal. figure)	167,578
	<u>183,425</u>		<u>183,425</u>

Mark allocation:

½ for each entry

2

	<b>\$</b>
Opening inventory	6,958
Purchases	167,578
Closing inventory	(7,246)
Cost of sales	<u>167,290</u>

Mark up (30%) = gross profit \$50,187

Mark allocation:

Correct calculation of cost of sales  
Correct calculation of gross profit

2  
1 3

				Marks
(c)	Sales	\$217,477	(\$167,290 + \$50,187)	1
	Cash lodged	\$215,850	(\$255,850 – \$40,000)	1
	Shortfall	\$1,627	i.e. amount stolen	1
				<u>3</u>
(d)		\$	\$	
	Gross profit		50,187	
	Expenses (W1)	36,880		5
	Depreciation	11,800	48,680	1
	Net profit		1,507	1
				<u>7</u>
	Working 1 – Expenses			
		\$	\$	
	Cheques		34,815	
	add: Closing accrual	1,044		1
	Opening p/payment	519	1,563	1
			36,378	
	less: Opening accrual	752		1
	Closing p/payment	373	1,125	1
			35,253	
	Cash stolen		1,627	1
	Total expenses		36,880	5
				<u>15</u>