

## Section A

Question	Correct Answer			Marks
1	Dr	Cash and cash equivalents		2
		Cr	Revenue	
	<p>Cash and cash equivalents are assets and are, therefore, debit in nature. We must debit to create or increase this balance for the cash received.</p> <p>Cash sales are income and, specifically, revenue. Revenue is credit in nature so we must credit to create or increase revenue.</p>			
2	<p><b>2 only</b></p> <p>The existence of a suspense account indicates that there are errors in the financial statements – it is not an asset to the business. Any outstanding balance at the year-end needs to be investigated and corrected before the financial statements are finalised.</p> <p>A suspense account does not identify all types of error in an accounting system. For example, a transposition error on input to the sales or purchases system will not create a suspense account.</p> <p>A suspense account's primary function is not to eliminate fraudulent transactions, whereas it may mitigate some fraud risk, the risk cannot be eliminated.</p>			2
3	<p><b>A cash purchase processed by debiting purchases by \$900 and crediting cash and cash equivalents by \$90 will create a suspense account</b></p> <p>This is the only example of an imbalanced manual journal entry. Therefore, a suspense account is automatically created by the computerised accounting system.</p>			2
4	<p><b>Both 1 and 2</b></p> <p>Increases in deferred income will decrease profit for the year. Revenue must be removed as it has been invoiced but has not been earned and, instead, will be recognised in a future accounting period.</p> <p>A new accrued income balance increases net assets. Accrued income is recognised if income has been earned but not invoiced. Revenue is recognised and an asset is recognised for the amounts owed to a business.</p>			2

5	<p><b>\$11,000</b></p> <p>Closing balance = \$14,000 + \$7,000 - \$2,000 - \$8,000 = <b>\$11,000</b></p> <table><tr><th colspan="4">Trade receivables general ledger account</th></tr><tr><th colspan="2">Debit</th><th colspan="2">Credit</th></tr><tr><th></th><th>\$</th><th></th><th>\$</th></tr><tr><td>Opening</td><td>14,000</td><td></td><td></td></tr><tr><td>Credit sales</td><td>7,000</td><td></td><td></td></tr><tr><td></td><td></td><td>Irrecoverable debt</td><td>2,000</td></tr><tr><td></td><td></td><td>Cash received</td><td>8,000</td></tr><tr><td></td><td></td><td><b>Carried forward</b></td><td><b>11,000</b></td></tr><tr><td></td><td></td><td></td><td></td></tr><tr><td></td><td><b>21,000</b></td><td></td><td><b>21,000</b></td></tr></table> <p>Note: the figure which should be inserted into the answer area is <div>11</div></p>	Trade receivables general ledger account				Debit		Credit			\$		\$	Opening	14,000			Credit sales	7,000					Irrecoverable debt	2,000			Cash received	8,000			<b>Carried forward</b>	<b>11,000</b>						<b>21,000</b>		<b>21,000</b>	2
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6	<p><b>Duality</b></p> <p><b>Historical cost</b></p> <p>Duality and historical cost are both key principles/concepts in Accounting.</p> <p>Local laws are specific to local jurisdictions and are not accounting principles/concepts.</p> <p>Consistency, rather than variability, is a key accounting principle/concept.</p>	2																																								
7	<p><b>\$1,280</b></p> <p>Cost of inventories = \$1,200 net price of inventories + \$80 delivery costs = <b>\$1,280</b></p>	2																																								
8	<p><b>2 only</b></p> <p>Trade payables are current liabilities on the statement of financial position.</p> <p>It is not a legal requirement to perform reconciliations for either trade receivables or trade payables. Reconciliations are controls put in place by a business to mitigate the risk of fraud and/or error.</p> <p>Trade receivables only arise as a result of credit sales.</p>	2																																								

9	Dr	Staff costs	\$38,800		2
		Cr	Bank	\$28,000	
		Cr	Other payables	\$10,800	
	Staff costs = \$36,000 + \$2,800 = <b>\$38,800</b>  Net wages and salaries paid from the bank = \$36,000 - \$2,400 - \$5,600 = <b>\$28,000</b>  Tax and social security contributions liability = \$2,400 + \$2,800 + \$5,600 = <b>\$10,800</b>				
10	A credit note received  Remittance advice sent  A credit note is received from a supplier when goods have been returned to a supplier. Remittance advice is a notification of payment, sent to a supplier. Therefore, these are part of the purchases process.  Delivery notes and customer invoices are documents sent to customers. Therefore, these are part of the sales process.				2
11	\$4,850  Using the general ledger account's unreconciled balance = \$4,500 - \$150 interest expenses + \$500 error = <b>\$4,850</b>  Using the bank statement's unreconciled balance = \$4,650 + \$200 deposit = <b>\$4,850</b>  Note: the figure which should be inserted into the answer area is <div>4850</div>				2

12	<p><b>Deferred income of \$4,000</b></p> <p>The invoice has been issued and, therefore, revenue has been recognised before the income related to the final two months' IT services are earned.</p> <p>This means that deferred income must be recognised.</p> <p>Deferred income = 2/3 months × \$6,000 = <b>\$4,000</b></p>	2
13	<p><b>The residual interest in the assets of Erin's sole trade after deducting all its liabilities</b></p> <p>For a sole trader, "equity" is "capital": the assets the owner has invested in the business and its retained profits (or losses), less any drawings.</p> <p>In the accounting equation, Capital = Assets - Liabilities.</p>	2
14	<p><b>It depicts the effects of transactions in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period</b></p> <p>Accrual accounting is where income and expenses are recognised as transactions occur.</p> <p>The date on which cash is received or paid is often not the same as the date that the transaction took place, but this should not delay the transaction being recorded.</p>	2
15	<p><b>\$2,058</b></p> <p>Carrying amount = 70% × (\$6,000 - \$3,060) = <b>\$2,058</b></p> <p>Note: the figure which should be inserted into the answer area is <u>2058</u></p>	2

16	<table><tr><td>Dr</td><td>Cash and cash equivalents</td><td>\$20,000</td><td></td></tr><tr><td></td><td>Cr</td><td>Capital introduced</td><td>\$20,000</td></tr></table> <table><tr><td>Dr</td><td>Cash and cash equivalents</td><td>\$30,000</td><td></td></tr><tr><td></td><td>Cr</td><td>Loan payable</td><td>\$30,000</td></tr></table> <p>Cash introduced by the owner of a business and cash received from a bank loan will both increase 'Cash and cash equivalents'. This is an asset account and so must be debited to increase it.</p> <p>Capital introduced represents capital and the loan payable is a liability. Both are increased by crediting those accounts.</p>	Dr	Cash and cash equivalents	\$20,000			Cr	Capital introduced	\$20,000	Dr	Cash and cash equivalents	\$30,000			Cr	Loan payable	\$30,000	2
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17	<p><b>If income and expense general ledger accounts are not reduced to \$0, Qasim's statement of profit or loss for the year ended 31 March 20X4 will be incorrect</b></p> <p><b>A trial balance allows for the efficient preparation of Qasim's financial statements</b></p> <p>The statement of profit or loss is for the period and so must start again at \$0. If this does not happen, then the next period will include the results from the previous period.</p> <p>The trial balance allows transactions and balances (at their final amounts) to be identified quickly. This makes the preparation of financial statements more efficient than identifying the amounts from more detailed general ledger accounts.</p>	2																
18	<p><b>\$700 loss</b></p> <p>Carrying amount = 7/10 years × \$10,000 = \$7,000</p> <p>Loss on disposal = \$6,300 proceeds - \$7,000 carrying amount = <b>\$700 loss</b></p>	2																
19	<p><b>Dr Drawings</b> <b>Cr Cash</b></p> <p>Drawings is a reduction in the capital section – assets removed from the business rather than invested in the business. They are, therefore, debit in nature. To create or increase drawings, we must debit them.</p> <p>Cash is an asset and, therefore, debit in nature. To remove or reduce cash, we must credit it.</p>	2																

20	<b>\$39,000</b>  Capital introduced + (Income - Expenses) - Drawings = Assets - Liabilities  $\therefore \$100,000 + \$28,000 - \$22,000 \neq \$100,000 - \$33,000$ $\therefore \$106,000 \neq \$67,000$ $\therefore$ Increase in assets = <b>\$39,000</b>				2													
21	<b>1 only</b>  A trial balance produces a summary of final amounts for transactions and balances in the general ledger accounts.  A trial balance may assist the discovery of some types of fraud and error but cannot ensure this.				2													
22	<table><tr><td><b>Dr</b></td><td><b>Irrecoverable debt expense</b></td><td><b>\$2,000</b></td><td></td></tr><tr><td></td><td><b>Cr</b></td><td><b>Allowance for irrecoverable debts</b></td><td><b>\$2,000</b></td></tr></table>	<b>Dr</b>	<b>Irrecoverable debt expense</b>	<b>\$2,000</b>			<b>Cr</b>	<b>Allowance for irrecoverable debts</b>	<b>\$2,000</b>	Increase in allowance for irrecoverable debts = \$5,000 - \$3,000 = \$2,000  An increase in the allowance for irrecoverable debts requires a debit to the irrecoverable debt expense and a credit to the allowance for irrecoverable debts.			2					
<b>Dr</b>	<b>Irrecoverable debt expense</b>	<b>\$2,000</b>																
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23	<b>\$18,300</b>  <table><tr><td><b>Payroll information</b></td><td><b>\$</b></td></tr><tr><td>Gross wages and salaries</td><td>24,000</td></tr><tr><td>Employees' social security contributions</td><td>(1,900)</td></tr><tr><td>Taxes on employees' personal income</td><td>(3,800)</td></tr><tr><td><b>Net wages and salaries</b></td><td><b>18,300</b></td></tr></table>				<b>Payroll information</b>	<b>\$</b>	Gross wages and salaries	24,000	Employees' social security contributions	(1,900)	Taxes on employees' personal income	(3,800)	<b>Net wages and salaries</b>	<b>18,300</b>				2
<b>Payroll information</b>	<b>\$</b>																	
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<b>Net wages and salaries</b>	<b>18,300</b>																	

24	Dr	Purchases	2
	Cr	Trade payables	
	<p>Purchases are recognised, initially, as an expense. At period end, cost of sales and closing inventories will be calculated separately.</p> <p>As purchases are an expense, they are debit in nature; therefore, we must debit to create or increase purchases.</p> <p>As purchases on credit are not immediately paid for, we must recognise a liability for the amount owed to suppliers.</p> <p>Trade payables are that liability and are credit in nature. We must credit to create or increase trade payables.</p>		
25	<p><b>\$5,960</b></p> <p>The lower of cost and net realisable value (NRV) must be used when calculating the carrying amount of inventories.</p> <p>Carrying amount  <math>= (200 \text{ units} \times \\$8.00 \text{ NRV}) + (240 \text{ units} \times \\$13.50 \text{ NRV}) + (70 \text{ units} \times \\$16.00 \text{ cost})</math>  <math>= \\$1,600 + \\$3,240 + \\$1,120</math>  <math>= \textbf{\\$5,960}</math></p> <p>Note: the figure which should be inserted into the answer area is <span style="border: 1px solid black; padding: 2px;">5960</span></p>		2
26	<p><b>To record the financial information processed by journal entries</b></p> <p>General ledger accounts are a financial record of the period's accounting transactions. These are created and updated using journal entries.</p>		2
27	<p><b>1 only</b></p> <p><b>A reconciliation helps identify timing differences due to cash or goods in transit at the period end</b></p> <p>Dealing with an error discovered during a reconciliation cannot ensure that it will not happen again in future periods but may mitigate the risk of reoccurrence.</p> <p>Performing a reconciliation may identify fraud and error but it is not a guarantee (e.g., because of human error). Furthermore, fraud or error may not appear in a reconciliation at all, no matter how accurate that reconciliation is.</p>		2

28	<p><b>Competitors wish to compare performance against it</b></p> <p>An entity does not maintain financial records so that it can aid its competitors in performing analysis.</p>	2
29	<p><b>Depreciation charge on vehicles – expense</b></p> <p><b>Insurance for vehicles – expense</b></p> <p>Depreciation is an application of accrual accounting, recognising the expense of property, plant and equipment over its useful life.</p> <p>Insuring an asset does not enhance its economic benefit, it merely maintains it and is also an expense.</p>	2
30	<p><b>Duality</b></p> <p>The accounting equation supports double-entry bookkeeping; therefore, <b>duality</b> is the most relevant key principle or concept of accounting.</p>	2
31	<p><b>Possible reason</b></p> <p><b>Interest expenses charged by the bank and not communicated to Vivian</b> – may lead to the omission of an item from the general ledger.</p> <p><b>Payments instructed to the bank but not processed</b> – may lead to the omission of an item from the bank statement.</p> <p><b>Deposits made by Vivian into the bank that are yet to be processed</b> – these are a timing difference between the general ledger and the bank statement (outstanding lodgements).</p> <p><b>NOT a possible reason</b></p> <p><b>The incorrect expense account debited for cash purchases</b> – this will lead to an error in both expense general ledger accounts but will not be detected as part of a bank reconciliation. Only the ‘bank’ element of a transaction is considered in a bank reconciliation.</p>	2



32	<p><b>A country's laws in relation to sales tax will specify which goods or services are subject to sales tax and the frequency of sales tax returns</b></p> <p>A country's laws in relation to sales tax will specify which goods or services are subject to sales tax, the level of taxable sales above which it is necessary for a business to register for sales tax and the frequency of sales tax returns.</p> <p>A business registers with the tax authorities in their country to operate as a sales tax collecting agent for the government, they do not gain financially from the sales tax collected.</p> <p>Non-registered businesses are not allowed to collect or reclaim sales tax.</p> <p>Most countries stipulate which businesses are required to be sales tax-registered, but, in some countries, businesses may voluntarily apply for a sales tax registration.</p>				2
33	<b>Dr</b>	<b>Purchases</b>	<b>\$950</b>		2
		<b>Cr    Trade payables</b>		<b>\$950</b>	
	<p>Unlike settlement discounts, trade discounts are unconditional and are applied at the date of the transaction. Trade discounts are applied to the list price; therefore, we recognise only \$950 (\$1,000 - [5% × \$1,000]).</p>				
34	<p><b>\$6,900</b></p> <p>Using the general ledger account's unreconciled balance = \$5,600 + \$4,800 invoices - \$3,500 credit notes = <b>\$6,900</b></p> <p>Using the supplier statements' total unreconciled balance = \$9,900 - \$3,000 uncleared payments = <b>\$6,900</b></p>				2
35	<p><b>The issue of a customer invoice</b></p> <p><b>The receipt of cash from a customer</b></p> <p>In the credit sales process, a customer invoice is issued and cash is received at a later date (e.g. within 30 days of the invoice date).</p> <p>The receipt of a supplier invoice and the payment of cash to a supplier are both part of the credit purchases process.</p>				2

36	<b>Retained losses will reduce the overall capital section on the statement of financial position</b>				2
	<b>Future profits in the statement of profit or loss will reduce the retained losses on the statement of financial position</b>				
	Losses are debit in their nature whereas the capital section is credit in nature. Losses, therefore, reduce the capital section.				
	Profits, the opposite of losses, are credit in nature and so will reduce losses.				
37	<b>Dr</b>	<b>Interest expenses</b>	<b>\$2,000</b>		2
		<b>Cr    Cash</b>		<b>\$2,000</b>	
	Overdraft charges are an interest expense and, therefore, are debit in nature. We must debit to create or increase interest expenses.				
	Cash is an asset and, therefore, is debit in nature. We must credit to remove or decrease cash paid.				
38	<b>Dr</b>	<b>Cash</b>	<b>\$3,000</b>		2
		<b>Cr    Revenue</b>		<b>\$3,000</b>	
	A sale of goods for cash requires an increase to an asset account (debit) – ‘Cash’.				
	It also requires an increase to an income account (credit) – ‘Revenue’.				
39	<b>Dr</b>	<b>Purchases</b>	<b>\$2,000</b>		2
		<b>Cr    Trade payables</b>		<b>\$2,000</b>	
	Goods received and invoiced but not yet recorded means that \$5,000 of credit purchases have not been processed in the general ledger.				
	Settlement discounts recorded in the general ledger but omitted from the supplier statements mean that the supplier statement is incorrect. No adjustment is required to the general ledger.				
	Credit notes received but not yet recorded means that \$3,000 of credit notes have not been processed in the general ledger.				
	Net increase in both purchases and trade payables = \$5,000 invoice - \$3,000 credit notes = <b>\$2,000</b>				

40	<p><b>When a customer invoice is issued, the system automatically updates the general ledger accounts</b></p> <p><b>When a customer invoice is issued, the system automatically updates the balance on the individual customer's account</b></p> <p>Identifying and accounting for irrecoverable debts is a manual process and, therefore, a manual journal entry is prepared. As the banking system is not integrated, all cash transactions are manual journal entries also.</p>	2												
41	<p><b>Trade receivables = Asset</b> <b>Loan payable = Liability</b> <b>Plant and equipment = Asset</b> <b>Bank overdraft = Liability</b></p> <p>Trade receivables represent cash owed to the business, whereas plant and equipment are used by the business to generate income. Both, therefore, represent a future inflow of economic resource and are assets.</p> <p>Both the loan payable and the bank overdraft are obligations of the business to pay cash in the future. Both, therefore, represent a future outflow of economic resource and are liabilities.</p>	2												
42	<p><b>\$13</b></p> <p>Petty cash balance at 30 April 20X8 = \$400 imprest - (\$45 + \$10 + \$3) expenses + \$365 receipts – \$320 deposit = \$387</p> <p>Cash amount to reimburse the imprest balance = \$400 - \$387 = <b>\$13</b></p> <p>Note: the figure which should be inserted into the answer area is <table border="1"><tr><td>13</td></tr></table></p>	13	2											
13														
43	<table border="1"><tr><td>Dr</td><td>Cost of sales</td><td>\$28,000</td><td></td></tr><tr><td>Dr</td><td>Inventories</td><td>\$7,000</td><td></td></tr><tr><td></td><td>Cr</td><td>Purchases</td><td>\$35,000</td></tr></table> <p>Cost of sales = Opening inventories + Purchases - Closing inventories = \$12,000 + <b>\$35,000</b> - \$19,000 = <b>\$28,000</b></p> <p><b>Increase</b> in inventories = \$19,000 - \$12,000 = <b>\$7,000</b></p>	Dr	Cost of sales	\$28,000		Dr	Inventories	\$7,000			Cr	Purchases	\$35,000	2
Dr	Cost of sales	\$28,000												
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	Cr	Purchases	\$35,000											

44	<p><b>1, 2 and 3 only</b></p> <p>In a fully functioning computerised accounting system, it would not be possible to cast the figures in a general ledger account incorrectly as this simple addition and subtraction will be performed by the accounting system.</p> <p>All other errors could still be made in a computerised accounting system as they are human input errors.</p>	2												
45	<p><b>\$24,960</b></p> <table border="1" data-bbox="368 622 1177 763"> <thead> <tr> <th></th><th>%</th><th>\$</th></tr> </thead> <tbody> <tr> <td>Revenue</td><td>130</td><td></td></tr> <tr> <td>Cost of sales</td><td>100</td><td>19,200</td></tr> <tr> <td><b>Gross profit (markup)</b></td><td><b>30</b></td><td></td></tr> </tbody> </table> <p>Revenue  = (\$19,200 ÷ 100%) x 130%  = <b>\$24,960</b></p> <p>Note: the figure which should be inserted into the answer area is  <div style="border: 1px solid black; padding: 2px; display: inline-block;">24960</div></p>		%	\$	Revenue	130		Cost of sales	100	19,200	<b>Gross profit (markup)</b>	<b>30</b>		2
	%	\$												
Revenue	130													
Cost of sales	100	19,200												
<b>Gross profit (markup)</b>	<b>30</b>													

## Section B

Question	Correct Answer
46	<p><b>(10 marks)</b></p> <p><b>Statement of profit or loss</b></p> <p>Revenue - <b>\$39,250 (0.5 mark)</b>  This figure can be included directly from the trial balance.</p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="39250"/></p> <p>Cost of sales - <b>\$25,000 (1 mark)</b>  <math>\\$14,000 + \\$30,000 - \\$19,000 = \\$25,000</math>  The opening inventories plus purchases (from the trial balance) less the closing inventories given in (2) under Additional Information gives the cost of sales figure to be included in the statement of profit or loss.</p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="25000"/></p> <p>General and administrative expenses - <b>\$8,300 (1.5 marks)</b>  <math>\\$6,200 + (30\% \times [\\$10,000 - \\$3,000]) = \\$6,200 + \\$2,100 = \\$8,300</math>  Depreciation charges are recorded in general and administrative expenses ((1) under Additional Information) and so an adjustment for the depreciation on motor vehicles needs to be added to the \$6,200 already recorded in the trial balance. Depreciation is 30% of the carrying amount of the motor vehicles (cost less accumulated depreciation).</p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="8300"/></p> <p>Selling expenses - <b>\$4,100 (1 mark)</b>  <math>\\$3,900 + (\\$400/2 \text{ months}) = \\$3,900 + \\$200 = \\$4,100</math>  The suspense account relates to selling expenses (3) under Additional Information but only the expenses for August should be added to the amount for selling expenses in the trial balance and included in the statement of profit or loss.</p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="4100"/></p> <p>Interest expenses - <b>\$100 (0.5 mark)</b>  This figure can be included directly from the trial balance.</p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="100"/></p>

**Statement of financial position****Motor vehicles - \$4,900 (1 mark)**

$(\$10,000 - \$3,000) - \$2,100 = \$7,000 - \$2,100 = \$4,900$

The motor vehicles figure to be included in the statement of financial position is the carrying amount of the motor vehicles less this year's depreciation charge.

Note: the figure which should be inserted into the answer area is

**Inventories - \$19,000 (0.5 mark)**

The value of closing inventories is given in (2) under Additional Information and can be included directly in the statement of financial position.

Note: the figure which should be inserted into the answer area is

**Trade receivables - \$1,800 (1 mark)**

$\$2,000 - \$200 = \$1,800$

The amount for trade receivables to be recorded is the trade receivables figure from the trial balance less the allowance for irrecoverable debts from the trial balance.

Note: the figure which should be inserted into the answer area is

**Prepaid expenses - \$200 (1 mark)**

$\$400/2 \text{ months} = \$200$

The \$400 on the suspense account includes \$200 for selling expenses which relate to September 20X7 so these have been prepaid.

Note: the figure which should be inserted into the answer area is

**Cash and cash equivalents - \$650 (0.5 mark)**

This figure can be included directly from the trial balance.

Note: the figure which should be inserted into the answer area is

**Trade payables - \$8,000 (0.5 mark)**

This figure can be included directly from the trial balance.

Note: the figure which should be inserted into the answer area is

**Capital introduced - \$10,000 (0.5 mark)**

This figure can be included directly from the trial balance.

Note: the figure which should be inserted into the answer area is

	<p>Drawings - <b>\$12,200 (0.5 mark)</b></p> <p>This figure can be included directly from the trial balance.</p> <p>Note: the figure which should be inserted into the answer area is <span style="border: 1px solid black; padding: 0 5px;">12200</span></p>
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