

Answers

Preface to answers

This document contains suggested answers to the questions in the chapters of the Student Book. If there are questions where your answers are different to the solution given, you are advised to check the answers thoroughly and to reattempt the question at a later stage. It is only through practice that you can learn the methods of accounting and apply what you have read in the text. You need to be well prepared for your exams and this is only achieved by reading the chapters *and* working through all the questions.

Make sure you understand what is asked for in the exam questions. There are certain terms commonly used by examiners and to gain good marks you need to answer the question in response to what was asked and not what you think the examiner would like to hear. Also, you are reminded that workings are vital to all answers and should be shown. You can often gain additional marks by showing the workings even when the numeric answer is incorrect.

In these answers you will sometimes find reference to 'own figure'. This refers to your own figure from your workings.

1 Role and purpose of accounting

Activity 1: Principles of accounting

1

The six reasons are:

- to assess the trading activities of a business
- to enable external owners to see how managers are performing
- to control the activities of the business
- to plan future activities
- to assist in raising finance
- to report on the activities of the business to interested parties.

2

Any six from the following:

- shareholders
- owners
- trade payables
- employees
- bankers
- customers
- competitors
- journalists/analysts
- governments
- management
- the public.

Activity 2: Defining accounting

1

Three key words are:

- the **recording** function
- the ability to **measure**
- the **communication** of results.

2

Student's own answer. It should be similar to: the process of recording classifying, analysing and communicating financial information.

Activity 3: Financial and management accounting

1

| Financial accounting | Management accounting |
|---|--|
| Accounts relating to whole of the business | Accounts relating to whole of business, as well as parts of it |
| For use by people outside the business | For use by people inside the business |
| Regulated by law | Not regulated |
| Main objective is to give information to external users | Main objective is planning |
| Accounts may be out of date and backward looking | Accounts are up to date and usually forward looking |
| Only monetary information shown | Information is both financial and non-financial |

2

Common characteristics could include:

- both are quantitative
- both require a degree of expertise
- both are used as an aid to decision making
- both sets of information can be generated by an integrated system.

2 Double-entry system 1**Activity 1: Assets or liabilities?**

| | Asset | Liability |
|--------------------|-------|-----------|
| 1 Delivery vehicle | ✓ | |
| 2 Bank loan | | ✓ |
| 3 Inventory | ✓ | |
| 4 Cash on hand | ✓ | |
| 5 Trade payables | | ✓ |
| 6 Trade receivable | ✓ | |
| 7 Office equipment | ✓ | |
| 8 Cash at bank | ✓ | |

| | Expense | Income |
|---------------------|---------|--------|
| 1 Rent received | | ✓ |
| 2 Telephone charges | ✓ | |
| 3 Revenue | | ✓ |
| 4 Wages & salaries | ✓ | |
| 5 Commission paid | ✓ | |
| 6 Advertising costs | ✓ | |
| 7 Rent payable | ✓ | |
| 8 Purchases | ✓ | |

Activity 2: Debits or credits?

| Does a debit item: | Yes | No |
|-------------------------|-----|----|
| 1 decrease capital? | ✓ | |
| 2 decrease income? | ✓ | |
| 3 decrease liabilities? | ✓ | |
| 4 decrease assets? | | ✓ |
| 5 decrease expenses? | | ✓ |

| Does a credit item: | Yes | No |
|-------------------------|-----|----|
| 1 increase capital? | ✓ | |
| 2 increase income? | ✓ | |
| 3 increase liabilities? | ✓ | |
| 4 increase assets? | | ✓ |
| 5 increase expenses? | | ✓ |

Activity 3: Ledgers

1

| Transactions | General ledger | Trade receivables ledger | Trade payables ledger |
|------------------|----------------|--------------------------|-----------------------|
| Cash sales | ✓ | | |
| Rent | ✓ | | |
| Bank | ✓ | | |
| Credit purchases | ✓ | | ✓ |
| Credit sales | ✓ | ✓ | |
| Wages paid | ✓ | | |
| Rent received | ✓ | | |

Activity 4: Akshay's sports goods store

1

Bank account

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|---------------|-------------|---------------|---------------|
| 25 Mar 2019 | Capital | 30 000 | 25 Mar 2019 | Rent | 2 000 |
| 7 Apr 2019 | Cash | 600 | 25 Mar 2019 | Purchases | 7 100 |
| | | | 25 Mar 2019 | Fittings | 2 900 |
| | | | 25 Mar 2019 | Motor van | 7 400 |
| | | | 1 Apr 2019 | Advertisement | 150 |
| | | | 2 Apr 2019 | Rent | 2 000 |
| | | | 7 Apr 2019 | Balance c/d | 9 050 |
| | | <u>30 600</u> | | | <u>30 600</u> |
| 8 Apr 2019 | Balance b/d | 9 050 | | | |

Rent account

| | | |
|-------------|------|-------|
| 25 Mar 2019 | Bank | 2 000 |
| 2 Apr 2019 | Bank | 2 000 |

Shop fittings account

| | | |
|-------------|------|-------|
| 25 Mar 2019 | Bank | 2 900 |
|-------------|------|-------|

Purchases account

| | | | |
|-------------|------------|-------|--|
| 25 Mar 2019 | Bank | 7 100 | |
| 25 Mar 2019 | Tennis Ltd | 3 400 | |
| 6 Apr 2019 | Tennis Ltd | 1 500 | |

Motor van

| | | | |
|-------------|------|-------|--|
| 25 Mar 2019 | Bank | 7 400 | |
|-------------|------|-------|--|

Advertising

| | | | |
|------------|------|-----|--|
| 1 Apr 2019 | Bank | 150 | |
|------------|------|-----|--|

Revenue

| | | | | | |
|--|--|--|------------|------|-----|
| | | | 3 Apr 2019 | Cash | 150 |
| | | | 4 Apr 2019 | Cash | 210 |
| | | | 5 Apr 2019 | Cash | 80 |
| | | | 6 Apr 2019 | Cash | 153 |
| | | | 7 Apr 2019 | Cash | 197 |

Cash account

| | | | | | |
|------------|-------------|------------|------------|-------------|------------|
| 3 Apr 2019 | Revenue | 150 | 7 Apr 2019 | Bank | 600 |
| 4 Apr 2019 | Revenue | 210 | 7 Apr 2019 | Wages | 120 |
| 5 Apr 2019 | Revenue | 80 | 7 Apr 2019 | Balance c/d | 70 |
| 6 Apr 2019 | Revenue | 153 | | | |
| 7 Apr 2019 | Revenue | 197 | | | |
| | | <u>790</u> | | | <u>790</u> |
| 8 Apr 2019 | Balance b/d | <u>70</u> | | | |

Wages

| | | | |
|------------|------|-----|--|
| 7 Apr 2019 | Cash | 120 | |
|------------|------|-----|--|

Tennis Ltd

| | | | | | |
|--|--|--|-------------|-----------|-------|
| | | | 25 Mar 2019 | Purchases | 3 400 |
| | | | 6 Apr 2019 | Purchases | 1 500 |

Capital

| | | | | | |
|--|--|--|-------------|------|--------|
| | | | 25 Mar 2019 | Bank | 30 000 |
|--|--|--|-------------|------|--------|

To prove the duality of the transactions we would extract a trial balance. This would show that our total debits are equal to our total credits.

Activity 5: Larry's antiques

1

| Bank | | | | | |
|-------------------------|----------------|---------------|--------------|----------------|---------------|
| Date | Details | £ | Date | Details | £ |
| 1 Sept 2018 | Capital | 40 000 | 2 Sept 2018 | Purchases | 26 000 |
| 19 Sept 2018 | Acquire | 8 000 | 4 Sept 2018 | Insurance | 980 |
| | | | 27 Sept 2018 | Wages | 1 100 |
| | | | | Drawings | 2 000 |
| | | | 30 Sept 2018 | Balance c/d | 17 920 |
| | | <u>48 000</u> | | | <u>48 000</u> |
| 1 Oct 2018 | Balance b/d | 17 920 | | | |
| Capital | | | | | |
| | | | 1 Sept 2018 | Bank | 40 000 |
| Drawings | | | | | |
| 27 Sept 2018 | Bank | 2 000 | | | |
| Purchases | | | | | |
| 2 Sept 2018 | Bank | 26 000 | | | |
| Insurance | | | | | |
| 4 Sept 2018 | Bank | 980 | | | |
| Packing material | | | | | |
| 10 Sept 2018 | Upack | 1 200 | | | |
| Upack | | | | | |
| | | | 10 Sept 2018 | Packing | 1 200 |
| Wages | | | | | |
| 27 Sept 2018 | Bank | 1 100 | | | |
| Revenue | | | | | |
| 30 Sept 2018 | Balance c/d | 18 200 | 12 Sept 2018 | Acquire | 12 900 |
| | | | 25 Sept 2018 | Okay | 5 300 |
| | | <u>18 200</u> | | | <u>18 200</u> |
| | | | 1 Oct 2018 | Balance b/d | 18 200 |

Returns inwards

| | | | | | |
|--------------|-------------|--------------|--------------|-------------|--------------|
| 28 Sept 2018 | Okay | 1 900 | 30 Sept 2018 | Balance c/d | 1 900 |
| | | <u>1 900</u> | | | <u>1 900</u> |
| 1 Oct 2018 | Balance b/d | 1 900 | | | |

Acquire

| | | | | | |
|--------------|-------------|---------------|--------------|-------------|---------------|
| 12 Sept 2018 | Revenue | 12 900 | 19 Sept 2018 | Bank | 8 000 |
| | | | 30 Sept 2018 | Balance c/d | 4 900 |
| | | <u>12 900</u> | | | <u>12 900</u> |
| 1 Oct 2018 | Balance b/d | 4 900 | | | |

Okay

| | | | | | |
|--------------|-------------|--------------|--------------|-------------|--------------|
| 25 Sept 2018 | Revenue | 5 300 | 25 Sept 2018 | Returns | 1 900 |
| | | | 30 Sept 2018 | Balance c/d | 3 400 |
| | | <u>5 300</u> | | | <u>5 300</u> |
| 1 Oct 2018 | Balance b/d | 3 400 | | | |

To prove the duality of the transactions we would extract a trial balance. This would show that our total debits are equal to our total credits.

Activity 6: Jack's cosmetics store

1

Capital: Jack

| Date | Details | £ | Date | Details | £ |
|------|---------|---|------------|---------|--------|
| | | | 1 Jul 2017 | Bank | 20 000 |

Drawings

| | | | | | |
|-------------|------|-------|--|--|--|
| 31 Jul 2017 | Bank | 1 500 | | | |
|-------------|------|-------|--|--|--|

Revenue

| | | | | | |
|--|--|--|-------------|------------------------------|-------|
| | | | 15 Jul 2017 | Bank | 1 200 |
| | | | 24 Jul 2017 | Trade receivable – Monica | 3 100 |

Wages

| | | | | | |
|--------------|------|-------|--|--|--|
| 17 Jul 2017 | Bank | 600 | | | |
| 31 July 2017 | Bank | 1 350 | | | |

Trade receivable: Monica

| | | | | | |
|-------------|---------|-------|-------------|------|-------|
| 24 Jul 2017 | Revenue | 3 100 | 28 Jul 2017 | Bank | 1 350 |
|-------------|---------|-------|-------------|------|-------|

Fixtures and fittings

| | | |
|-------------|------|-------|
| 12 Jul 2017 | Bank | 3 700 |
|-------------|------|-------|

Delivery truck

| | | |
|-------------|-----------|-------|
| 11 Jul 2017 | Bank | 7 000 |
| | MotoTrade | 8 000 |

Trade payables: Hilcom Cosmetics

| | | | | | |
|--|--|--|-------------|-----------|-------|
| | | | 16 Jul 2017 | Purchases | 1 240 |
|--|--|--|-------------|-----------|-------|

Insurance

| | | |
|-------------|------|-----|
| 14 Jul 2017 | Bank | 750 |
|-------------|------|-----|

Purchases

| | | |
|-------------|----------------|-------|
| 14 Jul 2017 | Bank | 885 |
| 16 Jul 2017 | Trade payables | 1 240 |

MotoTrade

| | | | | | |
|--|--|--|-------------|-----|-------|
| | | | 11 Jul 2017 | Van | 8 000 |
|--|--|--|-------------|-----|-------|

Telephone

| | | |
|-------------|------|-------|
| 27 Jul 2017 | Bank | 1 205 |
|-------------|------|-------|

Gas

| | | |
|-------------|------|-----|
| 27 Jul 2017 | Bank | 173 |
|-------------|------|-----|

| Bank | | | | | |
|-------------|------------------------------|--------|-------------|----------------------|--------|
| 1 Jul 2017 | Capital | 20 000 | 10 Jul 2017 | Rent | 900 |
| 15 Jul 2017 | Revenue | 1 200 | 11 Jul 2017 | Truck – MotoTrade | 7 000 |
| 28 Jul 2017 | Trade receivable – Monica | 1 350 | 12 Jul 2017 | F&F | 3 700 |
| | | | 14 Jul 2017 | Purchases | 885 |
| | | | | Insurance | 750 |
| | | | 17 Jul 2017 | Wages | 600 |
| | | | 27 Jul 2017 | Phone | 1 205 |
| | | | | Gas | 173 |
| | | | 31 Jul 2017 | Wages | 1 350 |
| | | | | Drawings | 1 500 |
| | | | | Balance c/d | 4 487 |
| | | 22 550 | | | 22 550 |
| 1 Aug 2017 | Balance b/d | 4 487 | | | |
| Rent | | | | | |
| 10 Jul 2017 | Bank | 900 | | | |

Activity 7: Mei's clothing business

1

Capital: Mei

| Date | Details | £ | Date | Details | £ |
|------|---------|---|------------|---------|--------|
| | | | 5 Jun 2018 | Bank | 15 000 |

Drawings

| | | | | | |
|-------------|------|-----|--|--|--|
| 30 Jun 2018 | Bank | 500 | | | |
|-------------|------|-----|--|--|--|

Rent

| | | | | | |
|------------|------|-------|--|--|--|
| 5 Jun 2018 | Bank | 1 950 | | | |
|------------|------|-------|--|--|--|

NuVan Ltd

| | | | | | |
|-------------|-------------|--------------|-------------|-------------|--------------|
| 30 Jun 2018 | Balance c/d | 6 810 | 8 Jun 2018 | Motor car | 6 500 |
| | | | 24 Jun 2018 | Motor exp | 310 |
| | | <u>6 810</u> | | | <u>6 810</u> |
| | | | 1 Jul 2018 | Balance b/d | 6 810 |

Purchases

| | | | | | |
|-------------|-------------|--------------|-------------|-------------|--------------|
| 10 Jun 2018 | Bank | 725 | 30 Jun 2018 | Balance c/d | 1 315 |
| 28 Jun 2018 | Bank | 590 | | | |
| | | <u>1 315</u> | | | <u>1 315</u> |
| 1 Jul 2018 | Balance b/d | 1 315 | | | |

Insurance

| | | | | | |
|-------------|------|-----|--|--|--|
| 20 Jun 2018 | Bank | 725 | | | |
|-------------|------|-----|--|--|--|

A Lu (trade receivable)

| | | | | | |
|-------------|-------------|--------------|-------------|-------------|--------------|
| 22 Jun 2018 | Revenue | 1 950 | 30 Jun 2018 | Bank | 1 200 |
| | | | | Balance c/d | 750 |
| | | <u>1 950</u> | | | <u>1 950</u> |
| 1 Jul 2018 | Balance b/d | 750 | | | |

Motor expenses

| | | | | | |
|-------------|-----------|-----|--|--|--|
| 24 Jun 2018 | NuVan Ltd | 310 | | | |
|-------------|-----------|-----|--|--|--|

Other operating expenses

| | | | | | |
|-------------|------|-----|--|--|--|
| 29 Jun 2018 | Bank | 195 | | | |
|-------------|------|-----|--|--|--|

Gas and electricity

| | | | | | |
|-------------|------|-----|--|--|--|
| 29 Jun 2018 | Bank | 490 | | | |
|-------------|------|-----|--|--|--|

Motor car

| | | | | | |
|------------|-------------|---------------|-------------|-------------|---------------|
| 8 Jun 2018 | Bank | 9 500 | 30 Jun 2018 | Balance c/d | 16 000 |
| | NuVan | 6 500 | | | |
| | | <u>16 000</u> | | | <u>16 000</u> |
| 1 Jul 2018 | Balance b/d | 16 000 | | | |

Bank

| | | | | | |
|-------------|-------------|---------------|-------------|--------------------------|---------------|
| 5 Jun 2018 | Capital | 15 000 | 5 Jun 2018 | Rent | 1 950 |
| 12 Jun 2018 | Revenue | 1 600 | 8 Jun 2018 | Motor car | 9 500 |
| 26 Jun 2018 | Revenue | 1 650 | 10 Jun 2018 | Purchases | 725 |
| 30 Jun 2018 | A Lu | 1 200 | 15 Jun 2018 | Wages | 800 |
| | | | 20 Jun 2018 | Insurance | 725 |
| | | | 28 Jun 2018 | Purchases | 590 |
| | | | 29 Jun 2018 | Gas & electricity | 490 |
| | | | | Other operating expenses | 195 |
| | | | 30 Jun 2018 | Wages | 200 |
| | | | | File & Co. | 1 500 |
| | | | | Drawings | 500 |
| | | | 30 Jun 2018 | Balance c/d | 2 275 |
| | | | | | <u>19 450</u> |
| | | <u>19 450</u> | | | <u>19 450</u> |
| 1 July | Balance b/d | 2 275 | | | |

Revenue

| | | | | | |
|-------------|-------------|--------------|-------------|-------------|--------------|
| 30 Jun 2018 | Balance c/d | 5 200 | 12 Jun 2018 | Bank | 1 600 |
| | | | 22 Jun 2018 | A Lu | 1 950 |
| | | | 26 Jun 2018 | Bank | 1 650 |
| | | | | | <u>5 200</u> |
| | | <u>5 200</u> | 1 Jul 2018 | Balance b/d | 5 200 |

Office equipment

| | | | | | |
|------------|------------|-------|--|--|--|
| 7 Jun 2018 | File & Co. | 6 250 | | | |
|------------|------------|-------|--|--|--|

Wages

| | | | | | |
|-------------|-------------|--------------|-------------|-------------|--------------|
| 15 Jun 2018 | Bank | 800 | 30 Jun 2018 | Balance c/d | 1 000 |
| 30 Jun 2018 | Bank | 200 | | | |
| | | | | | <u>1 000</u> |
| | | <u>1 000</u> | | | <u>1 000</u> |
| 1 Jul 2018 | Balance b/d | 1 000 | | | |

File & Co. (trade payable)

| | | | | | |
|-------------|-------------|--------------|------------|------------------|--------------|
| 30 Jun 2018 | Bank | 1 500 | 7 Jun 2018 | Office equipment | 6 250 |
| | Balance c/d | <u>4 750</u> | | | |
| | | <u>6 250</u> | | | <u>6 250</u> |
| | | | 1 Jul 2018 | Balance b/d | 4 750 |

To prove the duality of the transactions we would extract a trial balance. This would show that our total debits are equal to our total credits.

Activity 8: Debits or credits?

1

| Ledger account title | Debit | Credit |
|----------------------|-------|--------|
| Trade payables | | ✓ |
| Capital | | ✓ |
| Loan from bank | | ✓ |
| Postages | ✓ | |
| Drawings | ✓ | |
| Liability | | ✓ |
| Revenue | | ✓ |
| Non-current asset | ✓ | |
| Purchases | ✓ | |
| Trade receivables | ✓ | |

Activity 9: Olivier

1 & 2

Bank

| Details | £ | Details | £ |
|-------------------|---------------|----------------|---------------|
| Capital | 11 000 | Drawings | 9 000 |
| A Turner – loan | 7 000 | Trade payables | 15 300 |
| Trade receivables | 12 500 | Expenses | 7 900 |
| Revenue | 9 400 | Purchases | 21 900 |
| Balance c/d | 32 200 | Motor vehicle | 18 000 |
| | <u>72 100</u> | | <u>72 100</u> |
| | | Balance b/d | 32 200 |

Trade receivables

| | | | |
|-------------|---------------|-------------|---------------|
| Revenue | 32 000 | Bank | 12 500 |
| | | Returns | 325 |
| | | Balance c/d | 19 175 |
| | <u>32 000</u> | | <u>32 000</u> |
| Balance b/d | 19 175 | | |

Trade payables

| | | | |
|-------------|---------------|-------------|---------------|
| Bank | 15 300 | Purchases | 34 200 |
| Return | 197 | | |
| Balance c/d | 18 703 | | |
| | <u>34 200</u> | | <u>34 200</u> |
| | | Balance b/d | 18 703 |

Purchases

| | | | |
|----------------|---------------|-------------|---------------|
| Bank | 21 900 | | |
| Trade payables | 34 200 | Balance c/d | 56 100 |
| | <u>56 100</u> | | <u>56 100</u> |
| Balance b/d | 56 100 | | |

Returns outward

| | | | |
|-------------|------------|----------------|------------|
| Balance c/d | 197 | Trade payables | 197 |
| | <u>197</u> | | <u>197</u> |
| | | Balance b/d | 197 |

Returns inward

| | | | |
|-------------------|------------|-------------|------------|
| Trade receivables | 325 | Balance c/d | 325 |
| | <u>325</u> | | <u>325</u> |
| Balance b/d | 325 | | |

Revenue

| | | | |
|-------------|---------------|-------------------|---------------|
| Balance c/d | 41 400 | Bank | 9 400 |
| | | Trade receivables | 32 000 |
| | <u>41 400</u> | | <u>41 400</u> |
| | | Balance b/d | 41 400 |

Activity 10: Ann

1

Bank

| Date | Details | £ | Date | Details | £ |
|-------------|------------------|---------------|-------------|-------------|---------------|
| 1 Jul 2019 | Capital | 40 000 | 10 Jul 2019 | Rent | 1 900 |
| 15 Jul 2019 | Revenue | 3 587 | 11 Jul 2019 | Computer | 2 100 |
| 28 Jul 2019 | Trade receivable | 2 984 | 12 Jul 2019 | Phone | 156 |
| 31 Jul 2019 | Interest | 143 | 14 Jul 2019 | Purchases | 1 123 |
| | Revenue | 1 988 | | Drawings | 1 200 |
| | | | 17 Jul 2019 | Wages | 950 |
| | | | 27 Jul 2019 | Printer | 287 |
| | | | | Electricity | 342 |
| | | | 31 Jul 2019 | Wages | 1 980 |
| | | | | Insurance | 3 500 |
| | | | | Balance c/d | <u>35 164</u> |
| | | <u>48 702</u> | | | <u>48 702</u> |
| 1 Aug 2019 | Balance b/d | 35 164 | | | |

Activity 11: Cash account

1 & 2

Cash account

| Date | Details | £ | Date | Details | £ |
|------------------|-------------|--------------|--------------|-------------|--------------|
| 1 Sept 2018 | Loan | 4 000 | 10 Sept 2018 | Wages | 1 000 |
| 15 Sept 2018 | Revenue | 2 000 | 11 Sept 2018 | Rent | 2 000 |
| | | | 30 Sept 2018 | Balance c/d | 3 000 |
| | | <u>6 000</u> | | | <u>6 000</u> |
| 1 Oct 2018 | Balance b/d | 3 000 | 12 Oct 2018 | Postage | 100 |
| 28 Oct 2018 | Commission | 500 | 31 Oct 2018 | Balance c/d | 4 250 |
| 31 Oct 2018 | Interest | 850 | | | |
| | | <u>4 350</u> | | | <u>4 350</u> |
| 1 Nov 2018 | Balance b/d | 4 250 | 14 Nov 2018 | Purchases | 2 300 |
| 11 Nov 2018 | Revenue | 2 300 | 19 Nov 2018 | Wages | 500 |
| | | | 24 Nov 2018 | Purchases | 900 |
| | | | 27 Nov 2018 | Rent | 1 000 |
| | | | | Balance c/d | 1 850 |
| | | <u>6 550</u> | | | <u>6 550</u> |
| 1 Dec 2018 | Balance b/d | 1 850 | | | |
| Purchases | | | | | |
| 14 Nov 2018 | Cash book | 2 300 | 30 Nov 2018 | Balance c/d | 3 200 |
| 24 Nov 2018 | Cash book | 900 | | | |
| | | <u>3 200</u> | | | <u>3 200</u> |
| 1 Dec 2018 | Balance c/d | 3 200 | | | |
| Wages | | | | | |
| 10 Sept 2018 | Cash book | 1 000 | 30 Nov 2018 | Balance c/d | 1 500 |
| 19 Nov 2018 | Cash book | 500 | | | |
| 1 Dec 2018 | Balance c/d | <u>1 500</u> | | | <u>1 500</u> |
| | | 1 500 | | | |

Activity 12: Maria's gift shop

1

Bank

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|---------------|-------------|--------------------------|---------------|
| 1 Mar 2019 | Capital | 10 000 | 1 Mar 2019 | Rent | 500 |
| 11 Mar 2019 | Revenue | 21 500 | 8 Mar 2019 | Gift wholesaler | 1 000 |
| | | | 29 Mar 2019 | Drawings | 1 000 |
| | | | 30 Mar 2019 | Motor expenses | 1 900 |
| | | | | Other operating expenses | 1 050 |
| | | | | Salaries | 4 000 |
| | | | 31 Mar 2019 | Balance c/d | 22 050 |
| | | <u>31 500</u> | | | <u>31 500</u> |
| 1 Apr 2019 | Balance b/d | 22 050 | | | |

Drawings

| | | | | | |
|-------------|------|-------|--|--|--|
| 29 Mar 2019 | Bank | 1 000 | | | |
|-------------|------|-------|--|--|--|

Capital

| | | | | | |
|--|--|--|------------|------|--------|
| | | | 1 Mar 2019 | Bank | 10 000 |
|--|--|--|------------|------|--------|

Rent

| | | | | | |
|------------|------|-----|--|--|--|
| 1 Mar 2019 | Bank | 500 | | | |
|------------|------|-----|--|--|--|

Purchases

| | | | | | |
|------------|-----------------|-------|--|--|--|
| 3 Mar 2019 | Gift wholesaler | 2 900 | | | |
|------------|-----------------|-------|--|--|--|

Gift wholesaler

| | | | | | |
|-------------|-------------|--------------|------------|-------------|--------------|
| 8 Mar 2019 | Bank | 1 000 | 3 Mar 2019 | Purchases | 2 900 |
| 31 Mar 2019 | Balance c/d | 1 900 | | | |
| | | <u>2 900</u> | | | <u>2 900</u> |
| | | | 1 Apr 2019 | Balance b/d | 1 900 |

Revenue

| | | | | | |
|--|--|--|-------------|------|--------|
| | | | 11 Mar 2019 | Bank | 21 500 |
|--|--|--|-------------|------|--------|

Motor expenses

| | | | | | |
|-------------|------|-------|--|--|--|
| 30 Mar 2019 | Bank | 1 900 | | | |
|-------------|------|-------|--|--|--|

Salaries

| | | |
|-------------|------|-------|
| 30 Mar 2019 | Bank | 4 000 |
|-------------|------|-------|

Other operating expenses

| | | |
|-------------|------|-------|
| 30 Mar 2019 | Bank | 1 050 |
|-------------|------|-------|

2The total revenue recorded = **£21 500****3**Total expenses = 500 + 2 900 + 1 900 + 4 000 + 1 050 = **£10 350****4**Net income = 21 500 – 10 350 = **£11 150****Exam practice: Fran's candle shop****1**

Bank account

| Details | £ | Details | £ |
|-------------|---------------|---------------|---------------|
| Balance b/d | 225 | Computer | 1 500 |
| Capital | 20 000 | Drawings | 2 000 |
| Revenue | 3 500 | Electricity | 415 |
| Balance c/d | 1 545 | Insurance | 1 200 |
| | | Interest paid | 55 |
| | | Purchases | 4 000 |
| | | Rent | 15 000 |
| | | Wages | 1 100 |
| 1 Sept 2018 | <u>25 270</u> | 1 Sept 2018 | <u>25 270</u> |
| | | Balance b/d | 1 545 |

2

The credit balance on the bank account represents an overdraft. Fran has withdrawn more money from her account than she has funds for. The balance represents a liability for the business, she owes the bank the sum of £1 545. This would not have happened if she had reduced her drawings.

3

Drawings are withdrawals of profit from the business by the owner for their own personal use and as such are not an expense of the business. Expenses are costs incurred in the running of a business. The rent and insurance need to be paid in order that the business can continue on a day-to-day basis. They are the operating costs of the business.

3 Double-entry system 2

Activity 1: Boris

1

Purchases day book

| Date | Supplier | Net amount £ |
|--------------|-------------|--------------|
| 5 Jul 2018 | Jay & Co. | 260 |
| 8 July 2018 | T Williams | 660 |
| 21 July 2018 | H Henry | 540 |
| 26 July 2018 | J Jones | 200 |
| 29 July 2018 | Green & Co. | <u>900</u> |
| | | <u>2 560</u> |

Each supplier will be credited with the total invoiced amount. Purchases will be debited with £2 560.

Purchases returns day book

| Date | Supplier | Net amount £ |
|-------------|----------|--------------|
| 2 Jul 2018 | H Henry | 140 |
| 23 Jul 2018 | J Jones | <u>80</u> |
| | | <u>220</u> |

Each supplier will be debited with the total of the credit note. Returns outwards will be credited with £220.

Activity 2: Leon

1

Purchases day book

| Date | Supplier | Net amount £ |
|-------------|------------------|--------------|
| 3 Mar 2019 | Jay | 914 |
| 6 Mar 2019 | Emma | 432 |
| 8 Mar 2019 | Jay | 317 |
| 18 Mar 2019 | Jay | 204 |
| 22 Mar 2019 | Emma | 543 |
| 25 Mar 2019 | Zane | 802 |
| 31 Mar 2019 | Jay | <u>167</u> |
| | Total March 2019 | <u>3 379</u> |

Purchases returns day book

| Date | Supplier | Net amount £ |
|-------------|------------------|--------------|
| 6 Mar 2019 | Jay | 106 |
| 31 Mar 2019 | Jay | <u>198</u> |
| | Total March 2019 | <u>304</u> |

2

Purchases

| Date | Details | £ | Date | Details | £ |
|--------------|------------------|--------------|-------------|-------------|--------------|
| 18 Mar 2019 | Cash | 123 | 31 Mar 2019 | Balance c/d | 3 502 |
| 31 Mar 2019 | Purchase journal | 3 379 | | | |
| | | <u>3 502</u> | | | <u>3 502</u> |
| 1 April 2019 | Balance b/d | 3 502 | | | |

Purchase returns

| | | | | |
|-------------|-------------|------------|---------------------------------------|------------|
| 31 Mar 2019 | Balance c/d | 409 | 31 Mar 2019 Purchase returns day book | 304 |
| | | | 31 Mar 2019 Cash | 105 |
| | | <u>409</u> | | <u>409</u> |
| | | | 1 April 2019 Balance b/d | 409 |

Activity 3: Bella

1

Purchases day book

| Date | Supplier | Net amount £ |
|-------------|--------------|---------------------|
| 3 Aug 2018 | Jay & Co. | 1 200 |
| 6 Aug 2018 | T Singh | 1 400 |
| 8 Aug 2018 | Green & Co. | 1 000 |
| 18 Aug 2018 | Jay & Co. | 400 |
| 22 Aug 2018 | Jay & Co. | 500 |
| 25 Aug 2018 | H Henry | 800 |
| 31 Aug 2018 | T Singh | <u>1 800</u> |
| | Total | <u><u>7 100</u></u> |

Purchases returns day book

| Date | Supplier | Net amount £ |
|-------------|--------------|-------------------|
| 6 Aug 2018 | Jay & Co. | 400 |
| 31 Aug 2018 | Jay & Co. | <u>120</u> |
| | Total | <u><u>520</u></u> |

Activity 4: Shay

1

Revenue day book

| Date | Customer | Net amount £ |
|-------------|------------------|---------------------|
| 6 Mar 2019 | Dee | 375 |
| 11 Mar 2019 | Gert | 192 |
| 12 Mar 2019 | Henry | 109 |
| 26 Mar 2019 | Gert | 147 |
| 29 Mar 2019 | Gert | 314 |
| 31 Mar 2019 | Henry | <u>719</u> |
| | Total March 2019 | <u><u>1 856</u></u> |

No revenue returns book is needed as the returns were from cash sales.

2

As there is no cashbook ledger, all that is needed are the transactions for the revenue and the revenue returns.

Revenue

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|--------------|--------------|---------------|--------------|
| 31 Mar 2019 | Balance c/d | 2 730 | 6 Mar 2019 | Cash sales | 874 |
| | | | 31 Mar 2019 | Sales journal | <u>1 856</u> |
| | | <u>2 730</u> | | | <u>2 730</u> |
| | | | 1 April 2019 | Balance b/d | 2 730 |

Revenue returns

| Date | Details | £ | Date | Details | £ |
|------------|-------------|------------|-------------|-------------|------------|
| 6 Mar 2019 | Cash | <u>114</u> | 31 Mar 2019 | Balance c/d | <u>114</u> |
| | | <u>114</u> | | | <u>114</u> |
| 1 Apr 2019 | Balance b/d | 114 | | | |

Activity 5: Jason

1

Revenue day book

| Date | Invoice No. | Customer | Total amount £ |
|-------------|-------------|--------------|---------------------|
| 5 Aug 2019 | | Jacques | 2 400 |
| 11 Aug 2019 | | Ari | 1 600 |
| 12 Aug 2019 | | Sophia | 440 |
| 26 Aug 2019 | | Sophia | 1 440 |
| 29 Aug 2019 | | Christelle | 860 |
| 31 Aug 2019 | | Ari | <u>640</u> |
| | | Total | <u><u>7 380</u></u> |

Revenue returns day book

| Date | Credit Note No. | Customer | Total amount £ |
|-------------|-----------------|--------------|-------------------|
| 18 Aug 2019 | | Sophia | 240 |
| 26 Aug 2019 | | Ari | <u>480</u> |
| | | Total | <u><u>720</u></u> |

Revenue

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|--------------|-------------|-----------------|--------------|
| 31 Aug 2019 | Balance c/d | 7 380 | 31 Aug 2019 | Revenue journal | 7 380 |
| | | <u>7 380</u> | | | <u>7 380</u> |
| | | | 1 Sept 2019 | Balance b/d | <u>7 380</u> |

Revenue returns

| Date | Details | £ | Date | Details | £ |
|-------------|-------------------------|------------|-------------|-------------|------------|
| 31 Aug 2019 | Revenue returns journal | 720 | 31 Aug 2019 | Balance c/d | 720 |
| | | <u>720</u> | | | <u>720</u> |
| 1 Sept 2019 | Balance b/d | <u>720</u> | | | |

Activity 6: Dee's journal

1

| | | £ | £ |
|------------|---|----|----|
| | | Dr | Cr |
| 3 Oct 2018 | Irrecoverable debt Trade receivable – Dee Shortfall after distribution, now written off as irrecoverable debt. | 48 | 48 |

Trade receivable account: Dee

| Date | Details | £ | Date | Details | £ |
|------------|-------------|------------|-------------|--------------------|------------|
| 1 Jan 2019 | Balance b/d | 162 | 31 Jul 2018 | Cash | 102 |
| | | | 30 Nov 2018 | Cash | 12 |
| | | | 31 Dec 2018 | Irrecoverable debt | 48 |
| | | <u>162</u> | | | <u>162</u> |

Activity 7: Rajesh's new business

1

| | | £ | £ |
|---|--------------------------|--------|--------|
| | | Dr | Cr |
| 11 May 2017 | Property | 15 000 | |
| | Equipment | 11 640 | |
| | Inventory | 7 960 | |
| | Trade receivables | 410 | |
| | Overdraft | | 3 420 |
| | Trade payables | | 960 |
| | Electricity due | | 170 |
| | Capital account – Rajesh | | 30 460 |
| Opening journal entries at 11 May 2017 showing the assets and liabilities purchased by Rajesh at that date. | | | |

Activity 8: Ajax Electrical**1**

At 31 December 2016, the trade receivables amounted to £50 000. Based on this, the allowance for irrecoverable debts is equal to $5\% \times £50\,000 = £2\,500$.

In the statement of financial position at year end, the trade receivables of £50 000 would be reduced by the allowance for irrecoverable debts of £2 500. This means that a net amount is shown of £47 500.

The statement of profit or loss for 2016 would show the allowance for irrecoverable debts of £2 500.

In 2017, the allowance would be $5\% \times £60\,000 = £3\,000$. As we already have an allowance (created in 2016), we only need to increase it by £500, being the difference between the 2016 allowance and the new one. This additional amount of £500 is also shown in the statement of profit or loss for the year.

In the statement of financial position of 2017, we would show trade receivables at £60 000 less the allowance for irrecoverable debts of £3 000 = £57 000.

In 2018, the trade receivables' balances are £40 000 and using the 5% allowance, we would only need a total allowance of £2 000. The current balance on the allowance account is £3 000. This means that we must reduce the allowance by £1 000.

The 2018, statement of profit or loss and other comprehensive income would be credited with this reduction of £1 000, while in the statement of financial position, the trade receivables would be shown at $£40\,000 - 2\,000 = £38\,000$.

Allowance for irrecoverable debts

| Date | Details | £ | Date | Details | £ |
|-------------|-----------------------------|--------------|-------------|-----------------------------|--------------|
| 31 Dec 2016 | Balance c/d | 2 500 | 31 Dec 2016 | Statement of profit or loss | 2 500 |
| | | <u>2 500</u> | | | <u>2 500</u> |
| 31 Dec 2017 | Balance c/d | 3 000 | 1 Jan 2017 | Balance b/d | 2 500 |
| | | <u>3 000</u> | | Statement of profit or loss | 500 |
| 31 Dec 2018 | Statement of profit or loss | 1 000 | | | <u>3 000</u> |
| 31 Dec 2018 | Balance c/d | 2 000 | 1 Jan 2018 | Balance b/d | 3 000 |
| | | <u>3 000</u> | | | <u>3 000</u> |
| | | | 1 Jan 2018 | Balance b/d | 2 000 |

Activity 9: Faizan

1

Trade receivables control

| Date | Details | £ | Date | Details | £ |
|------------|-------------|---------------|--------------|----------------------------|---------------|
| 1 Jan 2018 | Balance b/d | 20 000 | 30 Apr 2018 | Irrecoverable debt – Swart | 420 |
| | | | 15 June 2018 | Irrecoverable debt – Cohen | 1 200 |
| | | | | Balance c/d | 18 380 |
| | | <u>20 000</u> | | | <u>20 000</u> |
| 1 Jan 2019 | Balance b/d | 18 380 | | | |

Allowance for irrecoverable debts

| | | | | | |
|-------------|-----------------------------|--------------|------------|-------------|--------------|
| 31 Dec 2018 | Statement of profit or loss | 2 421 | 1 Jan 2018 | Balance b/d | 3 340 |
| | Balance c/d* | 919 | | | |
| | | <u>3 340</u> | 1 Jan 2019 | Balance b/d | <u>3 340</u> |
| | | | | | 919 |

$$*5\% \times 18\,380 = 919$$

Irrecoverable debts

| | | | | | |
|-------------|-------|--------------|-------------|-------------------------------|--------------|
| 30 Apr 2018 | Swart | 420 | 18 Jul 2018 | Irrecoverable debts recovered | 95 |
| 15 Jun 2018 | Cohen | <u>1 200</u> | 31 Dec 2018 | Statement of profit or loss* | <u>1 525</u> |
| | | <u>1 620</u> | | | <u>1 620</u> |

* This includes £1 200 for Cohen and £325 for Swart.

Activity 10: Jaya

1

Trade receivables control

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|---------------|-------------|-----------------------------|---------------|
| 31 May 2016 | Balance b/d | 14 800 | 31 May 2016 | Irrecoverable debt – Martin | 620 |
| | | | | Balance c/d | 14 180 |
| | | <u>14 800</u> | | | <u>14 800</u> |
| 1 Jun 2016 | Balance b/d | 14 180 | | | |

Trade receivables control

| | | | | | |
|-------------|-------------|---------------|-------------|------------------------------|---------------|
| 31 May 2017 | Balance b/d | 18 900 | 31 May 2017 | Irrecoverable debt – Winston | 280 |
| | | | | Balance c/d | 18 620 |
| | | <u>18 900</u> | | | <u>18 900</u> |
| 1 June 2017 | Balance b/d | 18 620 | | | |

Trade receivables control

| | | | | | |
|-------------|-------------|---------------|-------------|-------------|---------------|
| 31 May 2018 | Balance b/d | <u>21 000</u> | 31 May 2018 | Balance c/d | <u>21 000</u> |
| | | 21 000 | | | 21 000 |
| 1 June 2018 | Balance b/d | 21 000 | | | |

Allowance for irrecoverable debts

| | | | | | |
|-------------|-------------|--------------|-------------|-----------------------------|--------------|
| 31 May 2017 | Balance c/d | 709 | 31 May 2017 | Statement of profit or loss | 709 |
| | | <u>709</u> | | | <u>709</u> |
| 31 May 2018 | Balance c/d | 931 | 1 Jun 2017 | Balance b/d | 709 |
| | | | | Statement of profit or loss | 222 |
| | | <u>931</u> | | | <u>931</u> |
| 31 May 2019 | Balance c/d | 1,260 | 1 Jun 2018 | Balance b/d | 931 |
| | | | 31 May 2018 | Statement of profit or loss | 329 |
| | | <u>1,260</u> | | | <u>1,260</u> |
| | | | 1 Jun 2019 | Balance b/d | 1,260 |

Irrecoverable debts

| | | | | | |
|-------------|-----------------------------|------------|-------------|-----------------------------|------------|
| 31 May 2016 | Trade receivables – Martin | 620 | 31 May 2016 | Statement of profit or loss | 620 |
| 31 May 2017 | Trade receivables – Winston | 280 | | Statement of profit or loss | 280 |
| | | <u>900</u> | | | <u>900</u> |

Irrecoverable debts recovered

| | | | | | |
|-------------|-----------------------------|-----------|-------------|--------|-----------|
| 31 May 2018 | Statement of profit or loss | 93 | 31 May 2018 | Martin | 93 |
| | | <u>93</u> | | | <u>93</u> |

*The amount recovered from Martin is based on the total written off as irrecoverable debt – £620 × 15p = £93.

2

Trade receivables amounts in statement of financial position

| Trade receivables before irrecoverable debts £ | Irrecoverable debts written off £ | Allowance for irrecoverable debts £ | Trade receivables balance at year end £ |
|--|-----------------------------------|-------------------------------------|---|
| 14 800 | 620 | 709 | 13 471 |
| 18 900 | 280 | 931 | 17 689 |
| 21 000 | Nil | 1 260 | 19 740 |

Exam practice: Dejohn's computer repairs

1

Dejohn: extract of statement of financial position at 31 July 2017

| | |
|--|------------|
| | £ |
| Current assets | |
| Trade receivables | 25 500 |
| Less allowance for irrecoverable debts | <u>755</u> |
| | 24 745 |

| | | |
|----------|---------------|------------|
| 2 | | £ |
| | 1–2 month | 200 |
| | 2–3 months | 128 |
| | Over 3 months | <u>120</u> |
| | Total | 448 |

3**Allowance for irrecoverable debts**

| Date | Details | £ | Date | Details | £ |
|-------------|------------------------------|------------|------------|-------------|------------|
| 31 Jul 2018 | Statement of profit or loss* | 307 | 1 Aug 2017 | Balance b/d | 755 |
| 31 Jul 2018 | Balance c/d | 448 | | | |
| | | <u>755</u> | | | <u>755</u> |
| | | <u>448</u> | 1 Aug 2018 | Balance b/d | <u>448</u> |

*This figure is last year's allowance reduction to the new balance of £448 as per total of trade receivables (£755 – £448).

4

Other income.

5**Hytek Supplies**

| Date | Details | £ | Date | Details | £ |
|---------|--------------------|------------|--------|-------------|------------|
| 21 July | Bank | 817 | 1 July | Balance b/d | 350 |
| 21 July | Discounts received | 43 | 4 July | Purchases | 510 |
| | | <u>860</u> | | | <u>860</u> |

6

A trade discount is an amount allowed as a reduction in the price of goods supplied. Purchases are recorded in the books of account net of the trade discount.

A cash discount is an allowance that is deducted from the outstanding debt if it is paid within a specified time period, as either a discount received (the purchaser) or discount allowed (the supplier).

4 Accounting concepts and conventions

Activity 1: Concepts and adjustments

1

| | |
|---|------------------------------|
| An amount of £4 000 due from trade receivable A was written off as irrecoverable debt. | Prudence |
| Inventory of £9 000 was written down to its net realisable value of £8 000. | Prudence |
| £1 000 paid for private travel was debited to drawings. | Business entity |
| Motor vehicles were depreciated at 20% of cost. | Matching and prudence |
| £2 100 insurance was paid for the following financial year. | Matching |
| A tablet was written off as an expense even though it could last 3–5 years. | Materiality |
| The DIY business has staff to show customers how to operate certain tools. This is considered to be worth £50 000 but is not recorded in the books. | Money measurement |
| Depreciation is charged at 20% but we want to increase it to 25% for this year only. | Consistency |

2

Fundamental concepts are rules which lay down the way in which we record all transactions. Any three of the following:

- going concern
- consistency
- prudence
- other payables concept
- separate valuation principle
- substance over form.

Activity 2: Accounting concepts

1

The chapter gives you details of each concept. This answer gives you examples only:

- (a) Going concern – we value inventory on the basis that the business is going to continue.
- (b) Prudence – we only include profit when we are sure that we will receive it.
- (c) Accrual – we charge each year with an appropriate amount for that year.
- (d) Consistency – we use one depreciation method for each asset and do not change the method from year to year.
- (e) Historical cost – transactions are recorded at their original price.
- (f) Materiality – we ignore items of small value as insignificant and not material.

Activity 3: Concepts in practice

1 (a) Other payables.

(b) Consistency.

2 (a) Business entity.

(b) Realisation.

Activity 4: International Accounting Standards

1

Four characteristics include:

- Understandability – presenting information clearly and concisely.
- Relevance – the information is capable of making a difference in the decisions made by users.
- Materiality – the nature and magnitude of the items is relevant to the size of the business organisation.
- Reliable – information is accurate and free from bias.

Activity 5: Application of accounting concepts to different scenarios

1 Students' own answers.

Exam practice: Holborn Products**1**

Proposal 1:

- This would breach the money measurement concept. **(1)**
- The skill of the workforce cannot be measured accurately in monetary terms. **(1)**
- If workers leave that value will be lost without compensation. **(1)**

Proposal 2:

- This would breach the going concern or other payables concept. **(1)**
- Non-current assets would be used for many years **(1)** and therefore a proportion of the cost should be charged to each of those years. **(1)**
- Expenses should be matched to a period. **(1)**
- Profit should not be overstated. **(1)**

Proposal 3:

- This would breach the realisation or other payables concept. **(1)**
- Profit is not realised until the goods are sold. **(1)**
- A profit on manufactured goods is contained in the finished goods inventory which has yet to be realised. **(1)**
- Expenses should be matched to a period. **(1)**
- Profit should not be overstated. **(1)**

2

Potential arguments for IAS:

- provides a common international standard which can be applied across the world
- stakeholders can rely upon the validity of figures in the statements
- greater accuracy of reporting in statements prepared in the same format
- enables comparisons to be made.

Potential arguments against IAS:

- only legally applies to corporate bodies
- requires trained accounting staff to apply
- cost of implementation will be higher not just time-consuming on its own
- non-financial factors are not included in IAS accounting
- standards can be contradictory.

5 Capital expenditure and revenue expenditure

Activity 1: Classifying capital expenditure and revenue expenditure

- (a) capital expenditure
- (b) revenue expenditure
- (c) capital expenditure
- (d) revenue expenditure
- (e) revenue expenditure
- (f) capital expenditure

Activity 2: Motor vehicle business expenditure

- (a) capital expenditure
- (b) revenue expenditure
- (c) revenue expenditure
- (d) capital expenditure
- (e) revenue expenditure
- (f) capital expenditure
- (g) revenue expenditure

Activity 3: FirstMedan Computers

1 & 2

| Item | Capital expenditure (Statement of financial position) | Revenue expenditure (Statement of profit or loss and other comprehensive income) |
|-------------------|---|---|
| | £ | £ |
| Purchase | 40 000 | 160 000 |
| Installation | 10 000 | |
| Training costs | | 7 450 |
| Maintenance | | 2 000 |
| Computer supplies | | 500 |
| Total | <u>50 000</u> | <u>169 950</u> |

Exam practice: Sanborn Foods

1

- Purchase an additional shop – capital expenditure.
- Install new shelves and counters in the shop – capital expenditure.
- Purchase additional inventory - revenue expenditure.
- Employ additional sales staff – revenue expenditure.
- Insure the new premises – revenue expenditure.

2

| | | | |
|----|------------------------|--------|--|
| Dr | Motor vehicle expenses | £2 500 | |
| Cr | Motor vehicles | £2 500 | |

3

Profit would decrease by £2 500, as the expenses account was increased by this amount.

6 Non-current asset depreciation**Activity 1: Journal entries for part exchange**

1

| | £ | £ |
|---|--------|--------|
| | Dr | Cr |
| Disposal account | 12 000 | |
| Motor vehicle cost | | 12 000 |
| Provision for depreciation account (MV) | 4 000 | |
| Disposal | | 4 000 |
| Motor vehicle cost | 20 000 | |
| Bank | | 20 000 |
| Motor vehicle cost | 5 000 | |
| Disposal account | | 5 000 |
| Income statement (loss) | 3 000 | |
| Disposal | | 3 000 |

Activity 2: Kay & Co.

1

Straight line depreciation:

$£450\,000 - £100\,000 \div 5 \text{ years} = £70\,000 \text{ p.a.}$ Each year, depreciation of £70 000 is shown as an expense in the statement of profit or loss.

In the statement of financial position, the following details are shown:

| Statement of financial position | Cost £ | Accumulated depreciation £ | Carrying value £ |
|---------------------------------|---------|----------------------------|------------------|
| 31 December 2019 | 450 000 | 70 000 | 380 000 |
| 31 December 2020 | 450 000 | 140 000 | 310 000 |
| 31 December 2021 | 450 000 | 210 000 | 240 000 |
| 31 December 2022 | 450 000 | 280 000 | 170 000 |
| 31 December 2023 | 450 000 | 350 000 | 100 000 |

2

Reducing balance method:

The statement of profit or loss would be debited with the annual depreciation. In 2009, the amount is £19 000 ($2\% \times £950\,000$). In 2010, depreciation is £18 620 (2% of £931 000) and in 2011 it is £18 247 (2% of £912 380).

In the statement of financial position, the following would be shown:

| Year end | Cost £ | Accumulated depreciation £ | Carrying value £ |
|------------------|---------|----------------------------|------------------|
| 31 December 2019 | 950 000 | 19 000 | 931 000 |
| 31 December 2020 | 950 000 | 37 620 | 912 380 |
| 31 December 2021 | 950 000 | 55 867 | 894 133 |

Activity 3: Misha's soap factory

1

Plant and machinery

| Date | Details | £ | Date | Details | £ |
|-------------|------------------|---------------|-------------|--------------------|---------------|
| 1 Jan 2019 | Balance b/d | 50 000 | 31 Mar 2019 | Transfer old plant | 13 000 |
| 31 Mar 2019 | New plant – cash | 2 000 | 31 Dec 2019 | Balance c/d | 46 000 |
| | Trade-in | 7 000 | | | |
| | | <u>59 000</u> | | | <u>59 000</u> |
| 1 Jan 2020 | Balance b/d | 46 000 | | | |

Provision for depreciation account: plant and machinery

| | | | | | |
|-------------|--------------|---------------|------------|-------------|---------------|
| 31 Mar 2020 | Disposal | 9 358 | 1 Jan 2020 | Balance c/d | 22 500 |
| 31 Dec 2020 | Depreciation | 6 572 | | | |
| | Balance c/d | 6 578 | | | |
| | | <u>22 500</u> | | | <u>22 500</u> |
| | | | 1 Jan 2021 | Balance b/d | <u>6 578</u> |

Disposal account: plant and machinery

| | | | | | |
|-------------|--------------------------------------|---------------|-------------|----------------------------|---------------|
| 31 Mar 2020 | Plant and machinery | 13 000 | 31 Mar 2020 | Plant and machinery | 7 000 |
| | Statement of profit or loss (profit) | 3 358 | | Provision for depreciation | 9 358 |
| | | <u>16 358</u> | | | <u>16 358</u> |

Activity 4: Fatima**1**

Machine cost = £46 300.

2**Plant and machinery**

| Date | Details | £ | Date | Details | £ |
|--------------|-------------|---------------|-------------|-------------|---------------|
| 19 June 2018 | Bank | 38 000 | 31 Dec 2018 | Balance c/d | 46 300 |
| | Delivery | 3 100 | | | |
| | Erection | 5 200 | | | |
| | | <u>46 300</u> | | | <u>46 300</u> |
| 1 Jan 2019 | Balance b/d | 46 300 | 31 Dec 2019 | Balance c/d | 46 300 |
| | | <u>46 300</u> | | | <u>46 300</u> |
| 1 Jan 2020 | Balance b/d | 46 300 | | | |

Depreciation in 2018 = $15\% \times £46\,300 = £6\,945$. In 2019, machine value is $£46\,300 - £6\,945 = £39\,355$; 15% depreciation = $£5\,903.25$.

Provision for depreciation: plant and machinery

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|------------------|-------------|--------------|------------------|
| 31 Dec 2018 | Balance c/d | 6 945.00 | 31 Dec 2018 | Depreciation | 6 945.00 |
| | | <u>6 945.00</u> | | | <u>6 945.00</u> |
| 31 Dec 2019 | Balance c/d | 12 848.25 | 1 Jan 2019 | Balance b/d | 6 945.00 |
| | | <u>12 848.25</u> | 31 Dec 2019 | Depreciation | 5 903.25 |
| | | | | | <u>12 848.25</u> |
| | | | 1 Jan 2020 | Balance b/d | 12 848.25 |

3

If Wilson uses the straight line method then depreciation for each year would be 10% of £46 300 = £4 630.

Activity 5: Sinead**1**

Printer

| Date | Details | £ | Date | Details | £ |
|------------|-------------|--------------|-------------|-------------|--------------|
| 1 Mar 2018 | Bank | 1 300 | 28 Feb 2019 | Balance c/d | 1 300 |
| | | <u>1 300</u> | | | <u>1 300</u> |
| 1 Mar 2019 | Balance b/d | 1 300 | | | |

Provision for depreciation: printer

| | | | | | |
|-------------|--------------------|------------|-------------|--------------|------------|
| 28 Feb 2019 | Printer – transfer | 195 | 28 Feb 2019 | Depreciation | 195 |
| | | <u>195</u> | | | <u>195</u> |
| | | | 28 Feb 2020 | Depreciation | 285 |

Disposal account: printer

| | | | | | |
|-------------|---------|--------------|-------------|--|--------------|
| 28 Feb 2019 | Printer | 1 300 | 28 Feb 2019 | Provision for depreciation | 195 |
| | | | | Printer (p/exchange) | 985 |
| | | | | Statement of profit or loss (loss on sale) | 120 |
| | | <u>1 300</u> | | | <u>1 300</u> |

Photocopier

| | | | | | |
|------------|-------------|------------|-------------|-------------|------------|
| 1 Mar 2019 | Bank | 870 | 28 Feb 2019 | Balance c/d | 870 |
| | | <u>870</u> | | | <u>870</u> |
| 1 Mar 2019 | Balance b/d | 870 | | | |

Provision for depreciation: photocopier

| | | | | | |
|-------------|-------------|------------|-------------|--------------|------------|
| 1 Mar 2019 | Balance c/d | 87 | 28 Feb 2019 | Depreciation | 87 |
| | | <u>87</u> | | | <u>87</u> |
| 28 Feb 2020 | Balance c/d | 267 | 1 Mar 2019 | Balance b/d | 87 |
| | | <u>267</u> | 28 Feb 2020 | Depreciation | 180* |
| | | | | | <u>267</u> |
| | | | | Balance b/d | 267 |

*These are the calculations for 2020 depreciation:

10% on reduced balance of £783 (870 – 87) = £78

10% on new photocopier of £1 026 = £102

£78 + £102 = £180

Exam practice: Nasmul's tea company**1**

| | £ |
|----------------|--------------|
| Machine A | 1 200 |
| Machine B | 2 700 |
| Machine C | <u>1 000</u> |
| Total for year | <u>4 900</u> |

2

Journal

| | £ | £ |
|--|--------|--------|
| | Dr | Cr |
| Disposal Machinery | 15 000 | 15 000 |
| Provision for depreciation – machinery Disposal | 4 200 | 4 200 |
| Bank Disposal | 11 500 | 11 500 |
| Sale of machine A on 31 December 2016 for £11 500 | | |

3 (a)

Machinery account

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|---------------|-------------|-------------|---------------|
| 2016 | | | 2016 | | |
| 1 July | Balance b/d | 30 000 | 31 December | Disposal | 15 000 |
| 2017 | | | 2017 | | |
| 1 April | Bank | 20 000 | 30 June | Balance c/d | 35 000 |
| | | <u>50 000</u> | | | <u>50 000</u> |
| 1 July | Balance b/d | 35 000 | | | |

(b)

Disposal account

| Date | Details | £ | Date | Details | £ |
|-------------|--------------------------------|---------------|-------------|-----------|---------------|
| 2016 | | | 2016 | | |
| 31 December | Machinery | 15 000 | 31 December | Machinery | 4 200 |
| | | | | Bank | 11 500 |
| 2017 | | | | | |
| 30 June | Statement of profit or loss | 700 | | | |
| | | <u>15 700</u> | | | <u>15 700</u> |

4

Points in favour of the use of reducing balance method:

- As the machines are used over a number of years they may become less efficient and require more maintenance and repair costs. The reducing balance method will not distort the profits in later years.
- It would be prudent to charge higher depreciation in the early years.

Points against the use of reducing balance method:

- Each year should obtain equal usage from the machines and so should be charged the same amount of depreciation each year.
- Machinery is likely to have a residual value at the end of its life so it might be appropriate to take this into account when calculating depreciation charge.

Decision:

Candidates may conclude that reducing balance is an appropriate method of calculating depreciation or they may conclude that it is not. The decision should be supported by the arguments/points they have raised.

7 Trial balance

Activity 1: Siu Wah

1

Siu Wah: trial balance at 31 December 2018

| | £ | £ |
|--|---------------|---------------|
| | Dr | Cr |
| Motor vehicles at cost | 5 600 | |
| Fixtures and fittings at cost | 4 200 | |
| Property at cost | 5 600 | |
| Loan | | 1 680 |
| Advertising | 280 | |
| Administration expenses | 1 316 | |
| Loan interest | 56 | |
| Bank overdraft | | 840 |
| Trade receivables | 3 150 | |
| Trade payables | | 2 086 |
| Statement of profit or loss at 1 Jan 2018 | | 5 250 |
| Allowance for irrecoverable debts at 1 Jan 2018 | | 210 |
| Jones – capital account | | 5 446 |
| Revenue | | 10 850 |
| Purchases | 5 180 | |
| Opening inventory at 1 Jan 2018 | 3 500 | |
| Motor vehicles depreciation at 1 Jan 2018 | | 1 680 |
| Fixtures and fittings depreciation at 1 Jan 2018 | | 840 |
| Total | <u>28 882</u> | <u>28 882</u> |

Activity 2: Rashmi

1

Rashmi: trial balance at 31 December 2018

| | £ | £ |
|---------------------------|---------------|---------------|
| | Dr | Cr |
| Cash | 2 150 | |
| Trade receivables | 6 500 | |
| Inventory at 1 Jan 2018 | 1 900 | |
| Equipment | 18 900 | |
| Trade payables | | 4 750 |
| Rashmi, capital account | | 13 000 |
| Rashmi, drawings | 1 800 | |
| Revenue | | 37 250 |
| Wages | 9 500 | |
| Rent | 8 600 | |
| Postage and telephone | 3 750 | |
| Travel and motor expenses | 1 900 | |
| Total | <u>55 000</u> | <u>55 000</u> |

Activity 3: Nathan**1 & 2****Nathan: trial balance at 31 December 2017**

| | £ | £ |
|---|----------------------|----------------------|
| | Dr | Cr |
| Revenue | | 21 860 |
| Purchases | 11 180 | |
| Motor vehicles at cost | 15 600 | |
| Fixtures and fittings at cost | 4 200 | |
| Advertising | 980 | |
| Bank interest | 456 | |
| Opening inventory at 1 Jan 2017 | 6 500 | |
| Motor vehicles (accumulated depreciation at 1 Jan 2017) | | 4 680 |
| Trade receivables | 9 150 | |
| Trade payables | | 9 086 |
| Allowance for irrecoverable debts at 1 Jan 2017 | | 1 910 |
| Nathan – capital account | | 27 446 |
| Property at cost | 19 600 | |
| Selling expenses | 6 680 | |
| Administration expenses | 4 316 | |
| Bank overdraft | | 9 840 |
| Accumulated depreciation – fixtures and fittings (at 1 Jan 2017) | | 3 840 |
| Total | <u>78 662</u> | <u>78 662</u> |

Activity 4: Thomas

1

Thomas: trial balance at 30 September 2019

| | £ | £ |
|---------------------------|-----------------------|-----------------------|
| | Dr | Cr |
| Advertising | 9 600 | |
| Postage and telephone | 3 280 | |
| Lighting and heating | 5 104 | |
| Drawings | 50 560 | |
| Bank overdraft | | 27 796 |
| Insurance | 15 584 | |
| Rent and rates | 60 352 | |
| Salaries and wages | 41 088 | |
| Motor expenses | 37 172 | |
| Purchases | 330 061 | |
| Returns inwards | 1 440 | |
| Returns outwards | | 2 416 |
| Inventory at 1 Oct 2018 | 112 448 | |
| Trade receivables | 65 005 | |
| Commission received | | 3 200 |
| Trade payables | | 51 028 |
| Fixtures and fittings | 49 280 | |
| Capital at 1 Oct 2018 | | 150 432 |
| Cash in hand | 1 450 | |
| Bank interest and charges | 4 928 | |
| Revenue | | 604 960 |
| Motor vehicles | 52 480 | |
| Total | <u>839 832</u> | <u>839 832</u> |

Activity 5: Final Trading Co.

1

Final Trading Co.: trial balance at 30 June 2019

| | £ | £ |
|------------------------|----------------|----------------|
| | Dr | Cr |
| Office expenses | 11 880 | |
| Postage and stationery | 3 900 | |
| Rent and rates | 7 500 | |
| Insurance | 1 095 | |
| Lighting and heating | 1 548 | |
| Motor expenses | 5 880 | |
| Salaries and wages | 14 550 | |
| Revenue | | 109 800 |
| Purchases | 61 950 | |
| Bank charges | 2 418 | |
| Vans | 10 500 | |
| Trade payables | | 9 750 |
| Trade receivables | 20 430 | |
| Property | 84 000 | |
| Inventory 1 July 2018 | 24 060 | |
| Cash at bank | 3 402 | |
| Drawings | 18 834 | |
| Capital | | 152 397 |
| Total | <u>271 947</u> | <u>271 947</u> |

Activity 6: Priya

1

Priya: trial balance at 30 June 2018

| | £ | £ |
|-----------------------|----------------|----------------|
| | Dr | Cr |
| Office expenses | 3 880 | |
| Lighting and heating | 2 570 | |
| Motor expenses | 5 820 | |
| Salaries and wages | 4 650 | |
| Revenue | | 79 850 |
| Purchases | 41 750 | |
| Bank charges | 2 010 | |
| Delivery vehicles | 23 580 | |
| Trade payables | | 9 150 |
| Trade receivables | 29 930 | |
| Office equipment | 24 530 | |
| Inventory 1 July 2017 | 14 960 | |
| Cash at bank | 9 450 | |
| Drawings | 25 870 | |
| Capital | | 100 000 |
| Total | <u>189 000</u> | <u>189 000</u> |

Activity 7: Mimi

1

Mimi: trial balance at 30 June 2019

| | £ | £ |
|-----------------------|---------------|---------------|
| | Dr | Cr |
| Trade receivables | 5 100 | |
| Purchases | 24 000 | |
| Insurance | 350 | |
| Electricity | 700 | |
| Motor expenses | 2 960 | |
| Salaries and wages | 5 830 | |
| Revenue | | 28 891 |
| Drawings | 8 000 | |
| Motor vehicle | 7 500 | |
| Trade payables | | 3 250 |
| Fittings and fixtures | 3 160 | |
| Inventory 1 July 2018 | 5 020 | |
| Cash at bank | 320 | |
| Capital | | 30 799 |
| Total | <u>62 940</u> | <u>62 940</u> |

Activity 8: Max & Co.

1

Max & Co.: trial balance at 30 June 2019

| | £ | £ |
|------------------------|----------------|----------------|
| | Dr | Cr |
| Postage and stationery | 1 300 | |
| Rent and rates | 2 500 | |
| Drawings | 11 340 | |
| Capital | | 80 000 |
| Motor expenses | 1 960 | |
| Salaries and wages | 4 850 | |
| Revenue | | 63 400 |
| Purchases | 48 650 | |
| Motor vehicle | 3 500 | |
| Trade payables | | 7 100 |
| Trade receivables | 39 540 | |
| Bank overdraft | | 5 120 |
| Fittings and fixtures | 23 960 | |
| Opening inventory | 18 020 | |
| Total | <u>155 620</u> | <u>155 620</u> |

Exam practice 1: Ran's balances

1

Ran: trial balance at 31 August 2017

| | £ | £ |
|-----------------------|----------------|----------------|
| | Dr | Cr |
| Bank and cash | 2 469 | |
| Capital | | 25 000 |
| Carriage in | 500 | |
| Carriage out | 400 | |
| Computer supplies | 300 | |
| Discounts received | | 200 |
| Drawings | 9 000 | |
| Equipment | 30 000 | |
| Fixtures | 3 000 | |
| General expenses | 20 | |
| Heating and lighting | 1 000 | |
| Inventory 1 Sept 2016 | 3 456 | |
| Loan payable (2020) | | 80 300 |
| Motor expenses | 500 | |
| Property | 122 000 | |
| Purchases | 45 000 | |
| Purchase returns | | 550 |
| Rent paid | 2 300 | |
| Revenue | | 128 870 |
| Sales returns | 870 | |
| Trade payables | | 27 684 |
| Trade receivables | 20 000 | |
| Wages | 21 789 | |
| Total | <u>262 604</u> | <u>262 604</u> |

(1 mark for each correct entry)

Exam practice 2: Palak's trial balance

1

Palak: trial balance at 30 September 2017

| | £ | £ |
|-----------------------------|-----------------------|-----------------------|
| | Dr | Cr |
| Cash in hand | 10 500 | |
| Capital | | 130 000 |
| Discount allowable | 2 000 | |
| Discount receivable | | 3 500 |
| Drawings | 22 000 | |
| Electricity | 23 000 | |
| General expenses | 5 000 | |
| Inventory at 1 October 2016 | 22 000 | |
| Non-current assets at cost | | |
| Premises | 80 000 | |
| Machinery | 30 000 | |
| Motor vehicles | 29 000 | |
| Provisions for depreciation | | |
| Premises | | 18 000 |
| Machinery | | 3 000 |
| Motor vehicles | | 12 500 |
| Purchases | 100 000 | |
| Rent and rates | 5 500 | |
| Returns inwards | 4 000 | |
| Revenue | | 185 000 |
| Trade receivables | 19 000 | |
| Trade payables | | 22 000 |
| Wages | 22 000 | |
| Suspense account | – | – |
| Total | <u>374 000</u> | <u>374 000</u> |

(1 mark for each figure in bold – maximum 9 marks, total figure, 1 mark for both own figures.)

2

Any three from:

- commission
- omission
- principle
- reversal
- original entry
- compensating.

3

Points in favour:

- acts as an arithmetical check on the accuracy of the ledger accounts
- enables production of financial statements.

Points against:

- not all errors are revealed by the trial balance
- time consuming to produce.

8 Control accounts

Activity 1: Nicolas

1

Nicolas: trade payables control account at 30 June 2019

| Date | Details | £ | Date | Details | £ |
|---------|-------------------------------|---------------|---------|-------------|---------------|
| 30 June | Bank | 4 996 | 1 June | Balance b/d | 8 512 |
| | Discount received | 711 | 30 June | Purchases | 7 190 |
| | Returns out | 657 | | | |
| | Trade receivables – contra | 755 | | | |
| | Balance c/d | 8 583 | | | |
| | | <u>15 702</u> | 1 July | | <u>15 702</u> |
| | | | | Balance b/d | <u>8 583</u> |

Activity 2: Hellenco Trading

1

Hellenco Trading: trade receivables control account at 31 March 2019

| Date | Details | £ | Date | Details | £ |
|-------------|----------------|----------------|-------------|-------------------------|----------------|
| 1 Apr 2018 | Balance b/d | 22 060 | 31 Mar 2019 | Contra – trade payables | 904 |
| 31 Mar 2019 | Revenue | 153 900 | | Returns inwards | 2 050 |
| | Contra account | 196 | | Cheques | 92 282 |
| | Interest | 68 | | Discount allowed | 4 160 |
| | Balance c/d | 6 107 | | Irrecoverable debts | 1 901 |
| | | | | Balance c/d | 81 034 |
| | | <u>182 331</u> | | | <u>182 331</u> |
| 1 Apr 2019 | Balance b/d | 81 034 | 1 Apr 2019 | Balance b/d | 6 107 |

Activity 3: Shayla

1

Shayla: purchase ledger control account at 30 June 2019

| Date | Details | £ | Date | Details | £ |
|---------|-------------------|---------------|---------|-------------|---------------|
| 30 June | Bank | 10 622 | 1 June | Balance b/d | 9 843 |
| | Discount received | 255 | 30 June | Purchases | 12 992 |
| | Returns out | 681 | | | |
| | Balance c/d | 11 277 | | | |
| | | <u>22 835</u> | 1 July | Balance b/d | <u>22 835</u> |
| | | | | | 11 277 |

Revenue ledger control account at 30 June 2019

| | | | | | |
|---------|---------------|---------------|---------|---------------------|---------------|
| 1 June | Balance b/d | 6 488 | 30 June | Returns in | 790 |
| 30 June | Revenue | 19 745 | | Discount allowed | 1 003 |
| | Unpaid cheque | 147 | | Irrecoverable debts | 780 |
| | | | | Bank | 5 933 |
| | | | | Balance c/d | 17 874 |
| | | <u>26 380</u> | | | <u>26 380</u> |
| 1 July | Balance b/d | 17 874 | | | |

Activity 4: Katie

1

Katie: trade receivables control account at 30 June 2020

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|----------------|-------------|-------------------------|----------------|
| 1 Jul 2020 | Balance b/d | 23 105 | 30 Jun 2020 | Bank | 42 033 |
| 30 Jul 2020 | Revenue | 104 500 | | Returns inwards | 16 430 |
| | | | | Irrecoverable debts | 5 910 |
| | | | | Discount allowed | 6 230 |
| | | | | Contra – trade payables | 3 021 |
| | | | | Balance c/d | 53 981 |
| | | <u>127 605</u> | | | <u>127 605</u> |
| 1 Jul 2020 | Balance b/d | 53 981 | | | |

The balance on the trade receivables control account is calculated after all items have been posted to this ledger account.

Katie: trade payables control account at 30 June 2020

| Date | Details | £ | Date | Details | £ |
|-------------|----------------------------|----------------|-------------|--------------|----------------|
| 30 Jun 2020 | Bank | 41 206 | 1 Jul 2019 | Balance b/d | 19 714 |
| | Returns outwards | 12 120 | 30 Jun 2020 | Purchases | 77 390 |
| | Contra – trade receivables | 3 021 | | Cash refund | 3 104 |
| | Discount received | 5 619 | | Balance c/d* | 53 |
| | Balance c/d | 38 295 | | | |
| | | <u>100 261</u> | | | <u>100 261</u> |
| 1 Jul 2020 | Balance c/d | 53 | 1 Jul 2020 | Balance c/d | 38 295 |

*The £53 is calculated after allowing for the given credit balance at month end.

Activity 5: Hilmar & Co.

1

Hilmar & Co.: trade receivables control account at 31 March 2019

| Date | Details | £ | Date | Details | £ |
|-------------|-----------------|---------------|-------------|-------------------------|---------------|
| 1 Mar 2019 | Balance b/d | 5 900 | 1 Mar 2019 | Balance b/d | 425 |
| 31 Mar 2019 | Revenue journal | 41 800 | 31 Mar 2019 | Returns journal | 884 |
| | Unpaid cheques | 1 940 | | Bank | 17 470 |
| | Interest | 185 | | Discount allowed | 706 |
| | Balance c/d | 413 | | Irrecoverable debts | 902 |
| | | | | Cash | 6 130 |
| | | | | Contra – trade payables | 1 011 |
| | | | | Balance c/d | 22 710 |
| | | <u>50 238</u> | | | <u>50 238</u> |
| 1 Apr 2019 | Balance b/d | 22 710 | 1 Apr 2019 | Balance b/d | 413 |

You are told that there is a credit balance on the trade receivables control account. After all the postings have been made the remainder is the debit balance on this account.

Note: The irrecoverable debts recovered of £217 is not posted to the trade receivables control as the amount is not credited to any trade receivable account. The amount is a recovery of an expense (irrecoverable debt) previously written off.

Hilmar & Co.: trade payables control account at 31 March 2019

| Date | Details | £ | Date | Details | £ |
|-------------|----------------------------|---------------|-------------|-------------------|---------------|
| 1 Mar 2019 | Balance b/d | 370 | 1 Mar 2019 | Balance b/d | 7 290 |
| 31 Mar 2019 | Returns journal | 470 | 31 Mar 2019 | Purchases journal | 30 433 |
| | Bank | 20 084 | | Balance c/d | 816 |
| | Contra – trade receivables | 1 011 | | | |
| | Discount received | 471 | | | |
| | Cash | 4 020 | | | |
| | Balance c/d | 12 113 | | | |
| | | <u>38 539</u> | | | <u>38 539</u> |
| 1 Apr 2019 | Balance c/d | 816 | 1 Apr 2019 | Balance c/d | 12 113 |

You are told that there is a debit balance on the trade payables control account. After all the postings have been made the remainder is the credit balance on the account.

Exam practice: Ofure

1

Ofure: trade receivables control account at 1 November 2016

| Date | Details | £ | Date | Details | £ |
|-------------|------------------|---------------|-------------|---------------------|---------------|
| 1 Oct 2016 | Balance b/d | 5 550 | 1 Oct 2016 | Balance b/d | 150 |
| 31 Oct 2016 | Revenue | 32 450 | 31 Oct 2016 | Sales returns | 2 250 |
| | Interest charged | 25 | | Irrecoverable debts | 350 |
| | | | | Bank | 26 350 |
| | | | | Contra | 250 |
| | | | | Discount allowed | 355 |
| | | | | Balance c/d | 8 320 |
| | | <u>38 025</u> | | | <u>38 025</u> |
| 1 Nov 2016 | Balance b/d | 8 320 | | | |

Ofure: trade payables ledger control account

| Date | Details | £ | Date | Details | £ |
|-------------|--------------------|---------------|-------------|-------------|---------------|
| 1 Oct 2016 | Balance b/d | 100 | 1 Oct 2016 | Balance b/d | 2 410 |
| 31 Oct 2016 | Purchase returns | 755 | 31 Oct 2016 | Purchases | 13 500 |
| | Discounts received | 265 | | | |
| | Bank | 8 010 | | | |
| | Contra | 250 | | | |
| | Balance c/d | 6 530 | | | |
| | | <u>15 910</u> | | | <u>15 910</u> |
| | | | 1 Nov 2016 | Balance b/d | <u>6 530</u> |

2

Omission, original entry, reversal

3

The trade payables ledger control account is made up of the individual accounts of suppliers, from whom we have bought goods for resale on credit. The purchase day book is a book of prime entry and lists all credit purchase made in a given time period, it is then totalled and posted to the ledger.

4

Points in favour of the decision:

- the control accounts do not reveal all errors – errors of omission or original entry would not be detected
- additional resources are required to produce the control accounts and may require an experienced bookkeeper to prepare them – this has cost implications for Ofure.

Points against the decision:

- Ofure can see the total trade receivables and trade payables quickly, this will help with decision making
- they act as a verification device on the double entry and will improve the accuracy of the accounting information
- they help prevent fraud as there is a check between the individual accounts and the totals.

9 Correction of errors

Activity 1: L Green

1

| | £ | £ |
|-------------------|-----|-----|
| | Dr | Cr |
| Trade receivables | 18 | |
| Suspense account | | 18 |
| Trade receivables | 27 | |
| Suspense account | | 27 |
| Trade payables | 110 | |
| Suspense account | | 110 |
| Suspense account | 90 | |
| Returns inwards | | 90 |
| Trade payables | 75 | |
| Suspense account | | 75 |

Activity 2: Merle**1**

| | | £ | £ |
|-------------|---------------------------------------|-------|-------|
| | | Dr | Cr |
| 20 May 2019 | Machine repairs | 111 | |
| | Plant and machinery | | 111 |
| | Correction of posting | | |
| 22 May 2019 | Discount allowed | 49 | |
| | Discount received | | 49 |
| | Correction of incorrect posting | | |
| 24 May 2019 | Office equipment | 820 | |
| | BB Stores | | 820 |
| | Purchase of printer on credit | | |
| 25 May 2019 | A Brown | 90 | |
| | D Brown | | 90 |
| | Goods returned wrongly posted | | |
| 27 May 2019 | Revenue | 5 400 | |
| | Delivery van disposal | | 5 400 |
| | Van sold incorrectly posted to sales | | |
| 30 May 2019 | Commission received | 100 | |
| | Rent received | | 100 |
| | Rent incorrectly posted to commission | | |

Activity 3: Hinds

1

Hinds: journal entries

| | | £ | £ |
|--|----------------------------|-------|-------|
| | | Dr | Cr |
| 1 Jan 2018 | Fittings | 8 600 | |
| | Trade payable Joe | | 8 600 |
| Fittings purchased on 1 Jan 2018 | | | |
| 31 Mar 2018 | Trade receivable Fritz | 600 | |
| | Fittings | | 600 |
| Fittings sold to Fritz on 31 March 2018 | | | |
| | Irrecoverable debts | 500 | |
| | Trade receivable Steve | | 500 |
| Amount written off as irrecoverable debt | | | |
| | Trade payable L Bryan | 400 | |
| | Trade payable A Bryan | | 400 |
| Reversal of incorrect entry | | | |
| 30 June 2018 | Trade receivable Martin | 200 | |
| | Motor van disposal account | | 200 |
| Van sold to Martin on 30 June 2018 | | | |

Activity 4: C Whyte

1

- (i) No effect on balancing the trial balance as the amount has been posted.
- (ii) The trial balance requires an additional credit of £36.
- (iii) The credit to the trial balance is overstated by £540.
- (iv) The trial balance has been incorrectly debited with £192. To correct this we must credit the trial balance by £384 (i.e. $£192 \times 2$).

| | £ | £ |
|--|-------|----------------------|
| Profit for the year before adjustments | | 9 720 |
| Plus credit – discount received | | 384 |
| | | <u>10 104</u> |
| Less salaries to be debited | 4 200 | |
| Revenue adjustment – overstated | 540 | 4 740 |
| Adjusted profit for the year | | <u><u>£5 364</u></u> |

Note that item (ii) does not affect the profit for the year as the purchases are correctly stated.

Activity 5: Jay & Co.

1

Jay & Co.: journal entries

| | £ | £ |
|------------------------|-----|-----|
| | Dr | Cr |
| Suspense | 600 | |
| Returns in | | 600 |
| Irrecoverable debts | 648 | |
| Suspense | | 648 |
| Trade receivables | 110 | |
| Bank | | 110 |
| Austin | 320 | |
| Justin | | 320 |
| I Buy (trade payables) | 360 | |
| Purchases returns | | 360 |
| Other receivables | 400 | |
| Rent | | 400 |
| Suspense | 270 | |
| Discount received | | 135 |
| Discount allowed | | 135 |

Jay & Co.: suspense account

| Details | £ | Details | £ |
|-------------------|------------|---------------------|------------|
| Returns in | 600 | Balance b/d | 222 |
| Discount received | 135 | Irrecoverable debts | 648 |
| Discount allowed | 135 | | |
| | <u>870</u> | | <u>870</u> |

2

| | £ | £ |
|--|------------|---------------|
| | Dr | Cr |
| Adjustment to profit for the year | | |
| Profit for the year as initially shown | | 12 380 |
| Add: return inwards error | 600 | |
| Credit note now entered | 360 | |
| Rent prepaid | 400 | |
| Discount received now credited | <u>270</u> | <u>1 630</u> |
| | | 14 010 |
| Less: irrecoverable debt – entry corrected | | <u>648</u> |
| Adjusted profit for the year | | <u>13 362</u> |

Activity 6: Elijah

1

Suspense account

| Details | £ | Details | £ |
|----------------------|------------|----------------------------|------------|
| Returns in | 200 | Balance b/d | 101 |
| Credit note (Hilife) | 14 | Thomas (trade payables) | 90 |
| | | Smythe (trade receivables) | 9 |
| | | Vashi | 14 |
| | <u>214</u> | | <u>214</u> |

Activity 7: Roger

1

Roger: journal entries

| | £ | £ |
|-------------------|-------|-------|
| | Dr | Cr |
| Returns inwards | 39 | |
| Trade receivables | | 39 |
| Trade receivables | 450 | |
| Suspense | | 450 |
| Shop fittings | 1 320 | |
| Purchases | | 1 320 |
| Suspense | 300 | |
| Revenue | | 300 |

The credit balance of £48 does not need to be shown here. The trial balance needs to be corrected by adding £48 to trade payables.

Roger: suspense account

| Details | £ | Details | £ |
|----------------|-----|-------------------|-----|
| Balance b/d | 102 | Trade receivables | 450 |
| Trade payables | 48 | | |
| Revenue | 300 | | |
| | 450 | | 450 |

2

Roger: amended trial balance at 31 July 2019

| | £ | £ |
|-------------------------|---------------|---------------|
| | Dr | Cr |
| Capital | | 22 350 |
| Drawings | 9 000 | |
| Inventory 1 August 2018 | 7 500 | |
| Trade receivables | 9 261 | |
| Trade payables | | 8 100 |
| Shop fittings | 5 910 | |
| Purchases | 14 100 | |
| Revenue | | 22 680 |
| Returns inwards | 39 | |
| General expenses | 2 580 | |
| Discount received | | 120 |
| Cash at bank | 4 980 | |
| Returns outwards | | 120 |
| Total | <u>53 370</u> | <u>53 370</u> |

Activity 8: Rahman

1

Rahman: trade receivables control account at 30 November 2017

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|---------------|-------------|---------------------|---------------|
| 1 Nov 2017 | Balance b/d | 23 500 | 30 Nov 2017 | Returns in | 430 |
| 30 Nov 2017 | Revenue | 16 450 | | Discounts allowed | 750 |
| | | | | Receipts | 17 700 |
| | | | | Irrecoverable debts | 530 |
| | | | | Contra | 250 |
| | | | | Balance c/d | 20 290 |
| | | <u>39 950</u> | | | <u>39 950</u> |
| 1 Dec 2017 | Balance b/d | 20 290 | | | |

Exam practice: Nuan's parcel delivery service

1

Nuan: journal entries

| | £ | £ |
|---|--------|--------|
| | Dr | Cr |
| Suspense | 3 500 | |
| Revenue | | 3 500 |
| Suspense | 1 000 | |
| Discounts allowed | | 500 |
| Discounts received | | 500 |
| Drawings | 200 | |
| Cash and bank | | 200 |
| Shun | 530 | |
| Shui | | 530 |
| General expenses | 327 | |
| Suspense | | 327 |
| Motor vehicle at cost | 18 000 | |
| Motor vehicle expenses | | 18 000 |
| Income statement/depreciation expense | 3 600 | |
| Provision for depreciation (motor vehicles) | | 3 600 |

2

Nuan: suspense account

| Details | £ | Details | £ |
|-----------|--------------|------------------|--------------|
| Revenue | 3 500 | Balance b/d | 4 173 |
| Discounts | 1 000 | General expenses | 327 |
| | <u>4 500</u> | | <u>4 500</u> |

3

Types of error:

- 3 – omission
- 4 – commission
- 6 – principle.

4

Benefits of using a suspense account:

- It allows for errors affecting the trial balance to be formally corrected and provides an audit trail.
- It allows for single-entry transactions when the full double-entry transaction is unknown.

Limitations of using a suspense account:

- The value shown in the suspense account does not necessarily reflect the size of the errors.
- If the account cannot be cleared, a decision based on materiality will need to be made about writing off the balance.

10 Financial statements of sole traders

Activity 1: J Anthony

1

J Anthony: trading account for the year ending 31 December 2019

| | £ | £ |
|----------------------------|---------------|----------------------|
| | Dr | Cr |
| Revenue | | 87 213 |
| Less returns inwards | | 1 106 |
| | | <u>86 107</u> |
| Inventory at 1 Jan 2019 | 12 500 | |
| Purchases | 32 345 | |
| Carriage in | 1 984 | |
| | <u>46 829</u> | |
| Less returns out | 2 348 | |
| | <u>44 481</u> | |
| Less inventory 31 Dec 2019 | 16 400 | |
| Cost of sales | | <u>28 081</u> |
| Gross profit | | <u><u>58 026</u></u> |

Activity 2: Christina

1

Christina: trading account for the year ended 30 June 2019

| | £ | £ |
|-------------------------|---------------|----------------------|
| | Dr | Cr |
| Revenue | | 211 980 |
| Less returns | | <u>35 800</u> |
| | | 176 180 |
| Opening inventory | 43 650 | |
| Purchases | 98 650 | |
| Less inventory drawings | <u>5 650</u> | |
| Carriage inwards | <u>76 500</u> | |
| | 213 150 | |
| Less closing inventory | <u>65 780</u> | <u>147 370</u> |
| Gross profit | | <u><u>28 810</u></u> |

Activity 3: Hope

1

Hope: trading account for the year ended 30 June 2019

| | £ | £ |
|------------------------|---------------|-----------------------|
| | Dr | Cr |
| Revenue | | 421 000 |
| Less returns inwards | | <u>40 108</u> |
| | | 380 892 |
| Purchases | 214 000 | |
| Carriage inwards | <u>2 790</u> | |
| | 216 790 | |
| Less closing inventory | <u>37 890</u> | <u>178 900</u> |
| Gross profit | | <u><u>201 992</u></u> |

Activity 4: Hassan

1

Hassan: trading account for the year ended 30 June 2019

| | £ | £ |
|------------------------|---------------|----------------------|
| | Dr | Cr |
| Revenue | | 43 988 |
| Opening inventory | 9 876 | |
| Purchases | 11 870 | |
| | <u>21 746</u> | |
| Returns to suppliers | 1 245 | |
| | <u>20 501</u> | |
| Less closing inventory | 8 967 | 11 534 |
| Gross profit | | <u><u>32 454</u></u> |

Activity 5: Ella

1

Ella: statement of profit or loss and other comprehensive income at 30 June 2019

| | £ | £ |
|---------------------|-----------------|-----------------------|
| Gross profit | | 56 900 |
| <i>Add</i> | | |
| Interest received | 2 980 | |
| Discount received | 1 040 | 4 020 |
| | <u> </u> | <u> </u> |
| <i>Less</i> | | 60 920 |
| Motor expenses | 3 140 | |
| Bank charges | 720 | |
| Wages | 1 360 | |
| Rent payable | 5 870 | |
| Insurance | 3 800 | |
| Postage | 1 010 | 15 900 |
| | <u> </u> | <u> </u> |
| Profit for the year | | <u><u>£45 020</u></u> |

Activity 6: Jacques

1

**Jacques: statement of profit or loss and other comprehensive income
for the year ended 31 December 2019**

| | £ | £ |
|--------------------------|--------|--------|
| Gross profit | | 88 100 |
| Investment income | | 400 |
| | | 88 500 |
| Advertising | 3 000 | |
| Electricity | 2 800 | |
| Insurance | 1 700 | |
| Office expenses | 4 900 | |
| Interest paid | 400 | |
| Rent and rates | 7 500 | |
| Wages and salaries | 41 300 | |
| Depreciation – vehicles | 1 600 | |
| Depreciation – machinery | 4 200 | 67 400 |
| Profit for the year | | 21 100 |

Activity 7: Asset or liability

1

| Description | Non-current asset | Current asset | Current liability |
|-------------------------|-------------------|---------------|-------------------|
| Motor vehicle | ✓ | | |
| Cash | | ✓ | |
| Goods for resale | | ✓ | |
| Amount due to supplier | | | ✓ |
| Amount due by customers | | ✓ | |
| Rent outstanding | | | ✓ |
| Bank overdraft | | | ✓ |
| Office furniture | ✓ | | |

Activity 8: Current or non-current assets

1

- | | |
|--------------------------------------|---------------------|
| (a) Inventory | current asset |
| (b) Money owed to supplier | liability (current) |
| (c) Computer equipment | non-current asset |
| (d) Money outstanding for goods sold | current asset |

2

- | | |
|---|-----------------------|
| (a) Loan due to be repaid to Loans Inc in four months' time | current liability |
| (b) Money owed to a supplier | current liability |
| (c) Fixtures and fittings | asset (non-current) |
| (d) Money outstanding for goods sold by us | asset (current) |
| (e) Loan due to be repaid to National Bank in three years' time | non-current liability |
| (f) VAT due to HMRC | current liability |
| (g) A bank overdraft | current liability |

Activity 9: Allocating accounts

1

| Details | Asset | Liability | Income | Expense | Statement of financial position | Statement of profit or loss |
|--------------------------------|-------|-----------|--------|---------|---------------------------------|-----------------------------|
| Bank overdraft | | ✓ | | | ✓ | |
| Rent paid quarterly in advance | ✓ | | | | ✓ | |
| Motor vehicle | ✓ | | | | ✓ | |
| Factory premises | ✓ | | | | ✓ | |
| Sale of goods | | | ✓ | | | ✓ |
| Purchase of stationery | | | | ✓ | | ✓ |
| Bank interest received | | | ✓ | | | ✓ |
| Insurance premium | | | | ✓ | | ✓ |

| | | | | | | |
|------------------------------------|---|---|---|---|---|---|
| Amount owed to stationery supplier | | ✓ | | | ✓ | |
| Dividends from another business | | | ✓ | | | ✓ |
| Inventory held for resale | ✓ | | | | ✓ | |
| Loan interest paid | | | | ✓ | | ✓ |
| Computer equipment | ✓ | | | | ✓ | |

Activity 10: Juliet

1

As no payments were made during the year, all interest due for the year must be shown as a current liability.

Interest on £30 000 at 8% = £2 400

Interest on £8 000 at 7% = £560

Repayment for one year on the loan is also due to be paid within 12 months and is therefore a current liability = £2 000

Trade payables are also payable for goods = £2 100

Total current liabilities = £7 060

Activity 11: Missing figure

1

| Non-current assets £ | Current assets £ | Non-current liabilities £ | Current liabilities £ | Capital £ |
|----------------------|------------------|---------------------------|-----------------------|---------------|
| 48 000 | 22 000 | 14 000 | 6 000 | 50 000 |
| 26 600 | 17 500 | 3 100 | 6 000 | 35 000 |
| 102 000 | 18 000 | 30 000 | 25 000 | 65 000 |
| 102 000 | 46 000 | 10 000 | 28 000 | 110 000 |
| 48 000 | 22 000 | Nil | 5 000 | 65 000 |

Activity 12: Dinah

1

Dinah: statement of financial position at 31 December 2019

| | £ | £ | £ |
|--------------------------------------|---------------|---------------|---------------|
| Non-current assets | | | |
| Machinery | 42 000 | 19 400 | 22 600 |
| Vehicles | 8 000 | 5 600 | 2 400 |
| Investments | 2 800 | | 2 800 |
| | <u>52 800</u> | <u>25 000</u> | <u>27 800</u> |
| Current assets | | | |
| Inventory | 15 500 | | |
| Trade receivables 30 000 – 800 | 29 200 | | |
| Cash | 700 | 45 400 | |
| Total assets | | | <u>73 200</u> |
| Capital and liabilities | | | |
| Capital | | | 38 200 |
| Profit for the year | | | 21 100 |
| Closing capital | | | <u>59 300</u> |
| Non-current liabilities | | | |
| Bank loan | | | 7 000 |
| Current liabilities | | | |
| Trade payables | 6 900 | 6 900 | |
| Total capital and liabilities | | | <u>73 200</u> |

Activity 13: Michael Enterprises

1

**Michael Enterprises: statement of profit or loss and other comprehensive income
for the year ended 31 October 2019**

| | £ | £ | £ |
|------------------------|---------|---------|----------------|
| Revenue | | 618 100 | |
| Less returns inwards | | 1 400 | 616 700 |
| Less cost of sales | | | |
| Inventory opening | | 109 830 | |
| Add purchases | 358 050 | | |
| Less returns outwards | 2 450 | 355 600 | |
| | | 465 430 | |
| Less inventory closing | | 188 870 | 276 560 |
| Gross profit | | | 340 140 |
| Less expenses | | | |
| Delivery expenses | | 7 105 | |
| Electricity and gas | | 16 912 | |
| Insurance | | 1 435 | |
| Rent | | 24 500 | |
| Rates | | 6 342 | |
| Salaries and wages | | 109 823 | |
| Motor expenses | | 9 912 | 176 029 |
| Profit for the year | | | <u>164 111</u> |

**Michael Enterprises: statement of financial position
at 31 October 2019**

| | £ | | £ |
|--------------------------------------|---------------|---------|-----------------------|
| Non-current assets | | | |
| Fixtures and fittings | | | 44 100 |
| Current assets | | | |
| Inventory | 188 870 | | |
| Trade receivables | 114 198 | | |
| Cash at bank | 15 225 | | |
| Cash in hand | 1 050 | 319 343 | |
| Total assets | | | <u>363 443</u> |
| Capital and liabilities | | | |
| Capital | | | 204 792 |
| Profit for the year | 164 111 | | |
| Drawings | (76 650) | | |
| Closing capital | | | <u>292 253</u> |
| Less current liabilities | | | |
| Trade payables | <u>71 190</u> | | |
| Total capital and liabilities | | | <u><u>363 443</u></u> |

Activity 14: Sedra

1

**Sedra: statement of profit or loss and other comprehensive income
for the year ended December 2018**

| | £ | £ |
|----------------------|---------|----------------------|
| Revenue | | 65 555 |
| Purchases | 35 510 | |
| Closing inventory | (9 500) | |
| Cost of sales | | <u>26 010</u> |
| Gross profit | | <u>39 545</u> |
| Other income: | | |
| Commission received | | 300 |
| | | <u>49 845</u> |
| Less expenses: | | |
| Heating and lighting | 2 550 | |
| Marketing expenses | 3 750 | |
| Rent paid | 600 | |
| Wages and salaries | 21 000 | |
| Profit for the year | | <u><u>11 945</u></u> |

Activity 15: Yani

1

Yani: statement of financial position at 31 December 2018

| | Cost | Accumulated depreciation | Carrying value |
|--------------------------------------|---------------|-----------------------------|----------------|
| | £ | £ | £ |
| Non-current assets | | | |
| Property | 60 000 | 2 000 | 58 000 |
| Equipment | <u>10 000</u> | <u>2 500</u> | <u>7 500</u> |
| | <u>70 000</u> | <u>4 500</u> | <u>65 500</u> |
| Current assets | | | |
| Inventory | 8 550 | | |
| Trade receivables | 18 200 | | <u>26 750</u> |
| Total assets | | | <u>92 250</u> |
| Capital and liabilities | | | |
| Capital | | 65 000 | |
| Profit for the year | | 21 800 | |
| Drawings | | <u>(12 000)</u> | |
| | | | 74 800 |
| Current liabilities | | | |
| Trade payables | | 15 250 | |
| Bank overdraft | | 2 200 | |
| Total capital and liabilities | | | <u>92 250</u> |

Exam practice: Alfredo

1

**Alfredo: statement of profit or loss and other comprehensive income
for the year ended 31 May 2017**

| | £ | £ |
|---------------------------------|----------|----------------------|
| Revenue | | 205 000 |
| Less returns inwards | | <u>800</u> |
| | | 204 200 |
| Inventory 1 June 2016 | 31 000 | |
| Purchases | 125 000 | |
| Returns out | (1 000) | |
| Carriage inwards | 800 | |
| Inventory 31 May 2017 | (32 000) | |
| Cost of sales | | <u>123 800</u> |
| Gross profit | | 80 400 |
| Other income | | |
| Discounts received | | <u>3 100</u> |
| | | 83 500 |
| Less expenses | | |
| Discounts allowed | 1 680 | |
| Wages | 27 000 | |
| Rent and rates | 8 500 | |
| Electricity | 4 600 | |
| General expenses | 23 500 | |
| Depreciation | 7 000 | |
| Irrecoverable debts written off | 600 | |
| Allowance for DD | 60 | |
| | | <u>72 940</u> |
| Profit for the year | | <u>10 560</u> |

2

Alfredo: statement of financial position at 31 May 2017

| | Cost | Accumulated depreciation | Carrying value |
|--------------------------------------|--------|--------------------------|----------------|
| | £ | £ | £ |
| Non-current assets | | | |
| Equipment | 64 000 | 43 000 | 21 000 |
| Current assets | | | |
| Inventory | | 32 000 | |
| Trade receivables | 18 400 | | |
| Less ADD | (460) | 17 940 | |
| Cash and bank | | 2 170 | 52 110 |
| Total assets | | | <u>73 110</u> |
| Capital and liabilities | | | |
| Capital | | 59 800 | |
| Profit for the year | | 10 560 | |
| Drawings | | (12 900) | 57 460 |
| Current liabilities | | | |
| Trade payables | | 15 650 | |
| Total capital and liabilities | | | <u>73 110</u> |

11 Year-end adjustments

Activity 1: Jay

1

Jay: finance costs

| Date | Details | £ | Date | Details | £ |
|--------------|-------------|--------------|-------------|-----------------------------|--------------|
| 15 Mar 2018 | Bank | 350 | 31 Dec 2018 | Statement of profit or loss | 1 400 |
| 30 July 2018 | Bank | 350 | | | |
| 5 Nov 2018 | Bank | 350 | | | |
| 31 Dec 2018 | Balance c/d | 350 | | | |
| | | <u>1 400</u> | | | <u>1 400</u> |
| | | | 1 Jan 2019 | Balance b/d | 350 |

Total interest for the year is 7% on a loan of £20 000 = £1 400. This amount is an expense and is written off in the statement of profit or loss. The £350 balance is an accrual.

Activity 2: Nissa**1**

Charge to statement of profit or loss is £84 000. Accrue £14 000 in the statement of financial position (April and May only paid at the end of June).

| Rent | | | | | |
|--------------|----------------|----------|-------------|-----------------------------|----------|
| Date | Details | £ | Date | Details | £ |
| 30 Jun 2018 | Bank – 1 month | 7 000 | 31 May 2019 | Statement of profit or loss | 84 000 |
| 30 Sept 2018 | Bank – 3 | 21 000 | | | |
| 31 Dec 2018 | Bank – 3 | 21 000 | | | |
| 31 Mar 2019 | Bank – 3 | 21 000 | | | |
| 31 May 2019 | Accrual c/d | 14 000 | | | |
| | | 84 000 | | | 84 000 |
| | | 84 000 | 1 June 2019 | Accrual b/d | 14 000 |

2

Charge to statement of profit or loss £92 000. Accrue £16 000.

| Rent | | | | | |
|--------------|----------------|----------|-------------|-----------------------------|----------|
| Date | Details | £ | Date | Details | £ |
| 30 Jun 2019 | Bank | 21 000 | 1 June 2019 | Accrual b/d | 14 000 |
| 30 Sept 2019 | Bank | 21 000 | 31 May 2020 | Statement of profit or loss | 92 000 |
| 31 Dec 2019 | Bank | 24 000 | | | |
| 31 Mar 2020 | Bank | 24 000 | | | |
| 31 May 2020 | Accrual c/d | 16 000 | | | |
| | | 106 000 | | | 106 000 |
| | | 106 000 | 1 Jun 2010 | Accrual b/d | 16 000 |

3

Charge to statement of profit or loss £20 500. Prepaid £14 000.

(The charge is $£1\,500 \times 7 = £10\,500 + £2\,000 \times 5 = £10\,000$.)

| Insurance | | | | | |
|------------|-----------------------|---------------|-------------|-----------------------------|---------------|
| Date | Details | £ | Date | Details | £ |
| 1 Jan 2019 | Bank | 18 000 | 31 May 2019 | Prepaid c/d | 10 500 |
| | | | | Statement of profit or loss | 7 500 |
| | | <u>18 000</u> | | | <u>18 000</u> |
| 1 Jun 2019 | Other receivables b/d | 10 500 | 31 May 2020 | Prepaid c/d | 14 000 |
| | Bank | 24 000 | | Statement of profit or loss | 20 500 |
| | | <u>34 500</u> | | | <u>34 500</u> |
| 1 Jan 2020 | | | | | |
| 1 Jun 2020 | Prepaid c/d | 14 000 | | | |

Activity 3: Electricity expense

1

| Electricity | | | | | |
|-------------|-------------|--------------|-------------|-----------------------------|--------------|
| Date | Details | £ | Date | Details | £ |
| 15 Feb 2018 | Bank | 550 | 1 Jan 2018 | Balance b/d | 430 |
| 30 Jul 2018 | Bank | 280 | 31 Dec 2018 | Statement of profit or loss | 1 135 |
| 31 Oct 2018 | Bank | 310 | | | |
| 31 Dec 2018 | Balance c/d | 425 | | | |
| | | <u>1 565</u> | | | <u>1 565</u> |
| | | | 1 Jan 2019 | Balance b/d | 425 |

Of the £550 paid in February 2010, £430 is for the previous year.

Activity 4: BB Trading

1

Insurance

| Date | Details | £ | Date | Details | £ |
|------------|-------------|--------------|-------------|-----------------------------|--------------|
| 1 Jan 2018 | Balance b/d | 700 | 31 Dec 2018 | Balance c/d | 1 050 |
| 1 Aug 2018 | Bank | 1 800 | | Statement of profit or loss | 1 450 |
| | | <u>2 500</u> | | | <u>2 500</u> |
| 1 Jan 2019 | Balance b/d | 1 050 | | | |

Payment in August 2018 is for 12 months. Of this, 7 months are advance payments (amounts prepaid).

Exam practice: Nan's sofa shop

1

| | £ | £ |
|--|--------|--------|
| | Dr | Cr |
| Irrecoverable debts | 1 000 | |
| Trade receivables | | 1 000 |
| Decrease in allowance for doubtful debts (statement of financial position) | 125 | |
| Allowance for doubtful debts (statement of profit or loss) | | 125 |
| Prepaid rent | 10 000 | |
| Rent | | 10 000 |
| Wages | 7 000 | |
| Accrued wages | | 7 000 |
| Depreciation – motor vehicles | 17 500 | |
| Provision for depreciation – motor vehicles | | 17 500 |

2 (a)

Accrual or matching concept

(b)

Prudence

12 Departmental records

Activity 1: Auto Partz

1

**Auto Partz: extract statement of profit or loss and other comprehensive income
for the year ended 30 November 2017**

| | £ | £ |
|---------------------|----------------------|---------------------------|
| | New car sales | Service department |
| Revenue | 870 000 | 120 000 |
| Opening inventory | 130 000 | 20 000 |
| Purchases | 420 000 | 80 000 |
| Transfer | 5 000 | (5 000) |
| Closing inventory | 125 000 | 20 000 |
| Less cost of sales | <u>430 000</u> | <u>75 000</u> |
| Gross profit | <u>440 000</u> | <u>45 000</u> |

Activity 2: Expanding or closing a department

1

| Advantages and disadvantages of closing a department | |
|--|--|
| Advantages | Disadvantages |
| If loss-making, it will increase profits | Overheads still need to be paid |
| Might be able to expand other profitable areas of the business | Possible loss of positive contribution |
| Lease space to another business | Loss of consumer confidence |
| | Social accounting consequences |

2

| Advantages and disadvantages of expanding a department | |
|--|--|
| Advantages | Disadvantages |
| Spread the risk between more products | Lack of focus on core business/products |
| Social accounting benefits – employment | Social accounting disadvantages – possible pollution |
| Benefit from lower unit costs | Overall increase in costs |
| Benefit from the sale of complementary products | Cost of non-current assets may be high |

Activity 3: Apportionment

1

- (a) value of non-current assets
- (b) floor space occupied
- (c) wages costs or number of employees
- (d) revenue
- (e) floor space occupied
- (f) value of non-current assets
- (g) revenue.

Activity 4: Mill Antiques

1

**Mill Antiques: statement of profit or loss and other comprehensive income
for the year ended 31 August 2017**

| | £ | £ | £ |
|--|-------------------|-------------------------|--------------|
| | Sales of antiques | Restoration of antiques | Café |
| Revenue | 135 000 | 45 000 | 30 000 |
| Less cost of sales | 59 500 | 10 000 | 6 000 |
| Gross profit | 75 500 | 35 000 | 24 000 |
| Less expenses: | | | |
| Depreciation | 1 080 | 2 700 | 1 620 |
| Wages | 16 000 | 22 000 | 10 000 |
| Management salaries | 8 000 | 11 000 | 5 000 |
| Heating and lighting | 3 500 | 500 | 500 |
| Rent and rates | 7 000 | 1 000 | 1 000 |
| Advertising expenses | 3 600 | 1 200 | 800 |
| Delivery expenses | 1 500 | 500 | |
| Insurance | <u>2 800</u> | <u>400</u> | <u>400</u> |
| | 43 480 | 39 300 | 19 320 |
| Departmental profit or loss for the year | <u>32 020</u> | <u>(4 300)</u> | <u>4 680</u> |

Exam practice: PC Support

1 (a) Rent and rates – floor area: the expense will be incurred in relation to the area occupied by the respective departments.

(b) Marketing expenses – revenue marketing will raise awareness of the goods and services that PC Support has to offer, which should increase the sales revenue of the respective departments.

2

**PC Support: statement of profit or loss and other comprehensive income
for the year ended 31 December 2017**

| | £ | £ | £ | £ |
|---|---------------|--------|---------------|--------|
| | Shop | | Repairs | |
| Revenue | | 75 000 | | 45 000 |
| Opening inventory | 25 500 | | 1 800 | |
| Purchases | 28 000 | | 6 400 | |
| Transfers | (3 400) | | 3 400 | |
| | 50 100 | | 11 600 | |
| Closing inventory | (29 000) | | (2 000) | |
| Cost of sales | | 21 100 | | 9 600 |
| Gross profit | | 53 900 | | 35 400 |
| Wages | 40 500 | | 27 000 | |
| Rent and rates | 7 500 | | 4 500 | |
| General expenses | 3 150 | | 1 950 | |
| Marketing expenses | 375 | | 225 | |
| Irrecoverable debts | | | 500 | |
| Allowance for irrecoverable debts | 78 | | 50 | |
| Depreciation – fixtures and fittings | <u>400</u> | | <u>300</u> | |
| | <u>52 003</u> | | <u>34 525</u> | |
| Departmental profit for the year | 1 897 | | 875 | |

3

Potential positive arguments:

- The owner will be required to concentrate more on developing one of the activities.
- The expanded activity will result in the owner devoting more of his time. He may need to employ a manager for the other department.
- More floor space will be required to expand whichever department the owner chooses to expand. Additional floor space will cost more and may involve the business moving to new premises.
- The goods for sale in the shop or the services of the workshop could be expanded.

Potential negative arguments:

- Further materials and labour resources will need to be acquired. This will require additional capital from the owner or in the form of a loan.
- The provision of a complementary service may need to be retained. Customers who have computers repaired may buy the accessories available within the shop.
- It may not be possible to expand one department without putting additional demand on the other department.
- The cost of marketing is very low, more concentration on marketing activities may increase the overall demand for both services increasing the profitability of the business.
- Both departments might naturally expand if the services that are on offer are presented to the public.
- If you close one department all the fixed costs must be borne by the other department.

Decision:

Candidates may conclude that the owner should/ should not concentrate on a single activity. The candidate's decision should be supported by references to positive and negative points.

13 Incomplete records

Activity 1: Lasith

1

Opening balance £10 035; closing balance £6 220.

2

Profit for the year = Closing capital – Opening capital + Drawings = £3 815

Activity 2: Eve

1

Eve's capital is £18 000. She has not withdrawn any capital but merely used it to purchase non-current assets.

Activity 3: Roshan

1

Net assets at 1 January 2019 = £54 000. At 31 December 2019 = £69 000. Net difference = £15 000.

Roshan's profit for the year is £15 000 + £10 000 (drawings) = £25 000.

Activity 4: Nita

1

**Nita – extract statement of profit or loss and other comprehensive income
for the year ended 31 January 2019**

| | £ | £ |
|-------------------|----------|----------------|
| Revenue | | 150 000 |
| Opening inventory | 36 500 | |
| Purchases | 120 800 | |
| Closing inventory | (32 300) | |
| Cost of sales | | <u>125 000</u> |
| Gross profit | | <u>25 000</u> |

Activity 5: Bharti

1

Rent and rates

| Date | Details | £ | Date | Details | £ |
|------------|-------------|--------------|------------|---|--------------|
| 1 Jan 2018 | Balance b/d | 2 400 | 1 Jan 2018 | Balance b/d | 300 |
| | Payments | 5 000 | | Statement of profit or loss and other comprehensive income | 5 850 |
| | | <u>7 400</u> | | Balance c/d | <u>1 250</u> |
| | Balance b/d | <u>1 250</u> | | | <u>7 400</u> |

Activity 6: Chan

1

Trade receivables control

| Date | Details | £ | Date | Details | £ |
|------------|-------------|----------------|-------------|-------------|----------------|
| 1 Jan 2019 | Balance b/d | 17 400 | 31 Dec 2019 | Payments | 89 300 |
| | Revenue | 96 580 | | Discounts | 4 940 |
| | | | | Balance c/d | 19 740 |
| | | <u>113 980</u> | | | <u>113 980</u> |
| | Balance b/d | 19 740 | | | |

Chan's revenue for the year is £96 580.

Activity 7: Natalya

1

Natalya's profit for the year is calculated as follows: £62 700 – £64 300 = £1 600 + £11 300 = £12 900

Activity 8: J Jones

1

First, we need to prepare the statement of assets and liabilities at 1 January 2019.

| | £ |
|-------------------------|--------------|
| Assets | |
| Equipment | 3 000 |
| Inventory | 2 550 |
| Trade receivables | 2 130 |
| Bank balance | 480 |
| | <u>8 160</u> |
| Less liabilities | |
| Trade payables | 1 620 |
| Capital | <u>6 540</u> |

Next, we need calculate the purchases and revenue for the year. This we can do using a ledger account for each, as follows:

Trade payables control

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|---------------|-------------|-------------|---------------|
| 31 Dec 2019 | Paid | 9 600 | 1 Jan 2019 | Balance b/d | 1 620 |
| | Balance c/d | 1 680 | 31 Dec 2019 | Purchases | 9 660 |
| | | <u>11 280</u> | | | <u>11 280</u> |
| | | | 1 Jan 2020 | Balance b/d | 1 680 |

Trade receivables control

| | | | | | |
|-------------|-------------|---------------|-------------|-------------|---------------|
| 1 Jan 2019 | Balance b/d | 2 130 | 31 Dec 2019 | Receipts | 20 670 |
| 31 Dec 2019 | Revenue | 21 030 | | Balance c/d | 2 490 |
| | | <u>23 160</u> | | | <u>23 160</u> |
| 1 Jan 2020 | Balance b/d | 2 490 | | | |

J Jones: statement of profit or loss and other comprehensive income for the year ended 31 December 2019

| | £ | £ |
|------------------------|---------------|---------------------|
| Revenue | | 21 030 |
| Opening inventory | 2 550 | |
| Purchases | 9 660 | |
| | <u>12 210</u> | |
| Less closing inventory | 3 600 | 8 610 |
| Gross profit | | <u>12 420</u> |
| Expenses | 5 430 | |
| Depreciation | 300 | 5 730 |
| Profit for the year | | <u><u>6 690</u></u> |

J Jones: statement of financial position at 31 December 2019

| | Cost | Provision for depreciation | Carrying value |
|--------------------------------------|--------------|-------------------------------|---------------------|
| | £ | | £ |
| Non-current assets | | | |
| Equipment | 3 000 | 300 | 2 700 |
| Current assets | | | |
| Inventory | 3 600 | | |
| Trade receivables | 2 490 | | |
| Bank | 420 | | |
| | <u>6 510</u> | | |
| Total assets | | | <u>9 210</u> |
| Capital and liabilities | | | |
| Capital at 1 Jan 2019 | 6 540 | | |
| Profit | 6 690 | | |
| Drawings | (5 700) | | |
| Closing capital | | | <u>7 530</u> |
| Current liabilities | | | |
| Trade payables | 1 680 | | |
| Total capital and liabilities | | | <u><u>9 210</u></u> |

Activity 9: Alicia

1

Cash book

| Details | £ | Details | £ |
|-------------------|---------------|----------------|---------------|
| Balance b/d | 7 840 | Trade payables | 49 320 |
| Cash sales | 32 380 | Purchases | 20 006 |
| Trade receivables | 41 906 | Wages | 11 310 |
| Capital | 5 800 | Motor expenses | 8 670 |
| Loan – Fry | 10 000 | Insurance | 8 931 |
| Balance c/d | 1 315 | Bank charges | 1 004 |
| | <u>99 241</u> | | <u>99 241</u> |
| | | Balance b/d | 1 315 |

Trade receivables control

| | | | |
|-------------|---------------|-------------|---------------|
| Balance b/d | 29 390 | Receipts | 41 906 |
| Revenue | 43 563 | Balance c/d | 31 047 |
| | <u>72 953</u> | | <u>72 953</u> |
| Balance b/d | 31 047 | | |

Trade payables control

| | | | |
|-------------|---------------|-------------|---------------|
| Payments | 49 320 | Balance b/d | 7 320 |
| Balance c/d | 8 240 | Purchases | 50 240 |
| | <u>57 560</u> | | <u>57 560</u> |
| | | Balance b/d | 8 240 |

Revenue = 43 563 + 26 651 (exc. Alicia's drawings) + 32 380 = £102 594

Purchases = 20 006 + 50 240 + 1 610 = £71 856

**Alicia: statement of profit or loss and other comprehensive income
for the year ended 31 December 2019**

| | £ | £ |
|---------------------------------|--------|--------------|
| Revenue | | 102 594 |
| Opening inventory | 11 250 | |
| Purchases | 71 856 | |
| | 83 106 | |
| Closing inventory | 13 210 | 69 896 |
| Gross profit | | 32 698 |
| Wages (11 310 – 1 403 + 643) | 10 550 | |
| Motor expenses (8 670 + 4 031) | 12 701 | |
| Insurance (1 033 + 8 931 – 924) | 9 040 | |
| Bank charges | 1 004 | |
| Depreciation – vehicle | 2 947 | |
| Depreciation – equipment | 1 500 | |
| Interest on loan | 500 | 38 242 |
| Net loss for the year | | <u>5 544</u> |

Alicia: statement of financial position at 31 December 2019

| | Cost | Provision for depreciation | Carrying value |
|--------------------------------------|--------|----------------------------|----------------|
| | £ | £ | £ |
| Non-current assets | | | |
| Vehicles | 26 523 | | |
| Equipment | 25 240 | | 51 763 |
| Inventory | 13 210 | | |
| Current assets | | | |
| Trade receivables | 31 047 | | |
| Other receivables | 924 | | |
| Total assets | | | <u>96 944</u> |
| Capital and liabilities | | | |
| Capital – Alicia | 97 000 | | |
| Additional capital | 5 800 | | |
| Drawings | | 21 010 | |
| Loss for the year | | 5 544 | |
| Closing capital | | | <u>76 246</u> |
| Non-current liabilities | | | |
| Loan – Fry | | | 10 000 |
| Current liabilities | | | |
| Trade payables | 8 240 | | |
| Other payables (500 + 643) | 1 143 | | |
| Overdraft | 1 315 | 10 698 | |
| Total capital and liabilities | | | <u>96 944</u> |

Activity 10: Miro

1

Trade payables

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|---------------|-------------|-------------|---------------|
| 31 Jul 2020 | Bank | 32 061 | 1 Aug 2019 | Balance b/d | 6 140 |
| | Balance c/d | 5 930 | 31 Jul 2020 | Purchases | 31 851 |
| | | <u>37 991</u> | | | <u>37 991</u> |
| | | | 1 Aug 2020 | Balance b/d | 5 930 |

Trade receivables

| | | | | | |
|-------------|-------------|---------------|-------------|-------------|---------------|
| 1 Aug 2019 | Balance b/d | 8 120 | 31 Jul 2020 | Bank | 40 014 |
| 31 Jul 2020 | Revenue | 38 734 | | Balance c/d | 6 840 |
| | | <u>46 854</u> | | | <u>46 854</u> |
| 1 Aug 2020 | Balance b/d | 6 840 | | | |

| | £ | £ |
|----------------------------------|---------------|---------------|
| Revenue ex. trade receivables | 38 734 | |
| Exc. cash sales (14 310 + 9 015) | 23 325 | 62 059 |
| Opening inventory | 6 300 | |
| Purchases* | 38 258 | |
| | <u>44 558</u> | |
| Closing inventory | 4 130 | 40 428 |
| Gross profit | | <u>21 631</u> |
| Wages | 7 301 | |
| Telephones (416 + 420 - 240) | 596 | |
| Electricity (680 - 496 + 490) | 674 | |
| Printing (600 + 210) | 810 | |
| Motor expenses (1 904 + 1 002) | 2 906 | |
| Depreciation | 2 960 | 15 247 |
| Profit for the year | | <u>6 384</u> |

| | £ | £ | £ |
|--------------------------------------|---------------|---------------|---------------|
| Non-current assets | | | |
| Land and building – at cost | | 45 000 | |
| Fixtures and fittings (cost £20 000) | | <u>11 840</u> | 56 840 |
| Current assets | | | |
| Inventory | 4 130 | | |
| Trade receivables | 6 840 | | |
| Other receivables | 240 | | |
| Cash at bank | <u>16 044</u> | 27 254 | |
| Current liabilities | | | |
| Trade payables | 5 930 | | |
| Other payables | 490 | 6 420 | 20 834 |
| | | | <u>77 674</u> |
| Capital at 1 Aug 2019 | | 74 000 | |
| Additional capital | | 4 000 | |
| Profit for the year | | <u>6 384</u> | |
| | | 84 384 | |
| Less drawings | | <u>6 710</u> | <u>77 674</u> |

Activity 11: Nadia

1

Trade payables

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|--------------|-------------|-------------|--------------|
| 31 Dec 2019 | Cash | 6 024 | 1 Jan 2019 | Balance b/d | 937 |
| | Balance c/d | <u>630</u> | 31 Dec 2019 | Purchases | <u>5 717</u> |
| | | <u>6 654</u> | | | <u>6 654</u> |
| | | | 1 Jan 2020 | Balance b/d | 630 |

Trade receivables

| | | | | | |
|-------------|-----------------------------|---------------|-------------|-----------------|---------------|
| 1 Jan 2019 | Balance b/d | 107 | 31 Dec 2019 | Cash | 7 430 |
| 31 Dec 2019 | Statement of profit or loss | 15 330 | | Cash withdrawn* | 7 904 |
| | | | | Balance c/d | 103 |
| 1 Jan 2020 | Balance b/d | <u>15 437</u> | | | <u>15 437</u> |
| | | 103 | | | |

*Cash withdrawn = 100×52 (drawings) + 52×52 (wages) = $5\,200 + 2\,704 = 7\,904$

Purchases

| Date | Details | £ | Date | Details | £ |
|-------------|----------------|--------------|-------------|-----------------------------|--------------|
| 31 Dec 2019 | Trade payables | 5 717 | 31 Dec 2019 | Drawings | 130 |
| | | | | Statement of profit or loss | 5 587 |
| | | <u>5 717</u> | | | <u>5 717</u> |

Bank

| | | | | | |
|-------------|-------------------|--------------|-------------|--------------------------|--------------|
| 1 Jan 2019 | Balance b/d | 192 | 31 Dec 2019 | Trade payables | 6 024 |
| 31 Dec 2019 | Trade receivables | 7 430 | | Rent | 800 |
| | | | | Repairs | 94 |
| | | | | Advertising | 72 |
| | | | | Other operating expenses | 44 |
| | | <u>7 622</u> | | Balance c/d | <u>588</u> |
| 1 Jan 2019 | Balance c/d | 588 | | | <u>7 622</u> |

**Nadia: statement of profit or loss and other comprehensive income
for the year ended 31 December 2019**

| | £ | £ |
|--------------------------|-------|--------------|
| Revenue | | 15 330 |
| Opening inventory | 535 | |
| Purchases (5 717 – 130) | 5 587 | |
| | 6 122 | |
| Closing inventory | 1 021 | 5 101 |
| Gross profit | | 10 229 |
| Rent | 800 | |
| Repairs | 94 | |
| Advertising | 72 | |
| Other operating expenses | 68 | |
| Depreciation | 180 | |
| Wages | 2 704 | 3 918 |
| Profit for the year | | <u>6 311</u> |

Nadia: statement of financial position at 31 December 2019

| | £ | £ | £ |
|--------------------------------------|-------|-------|-------|
| Non-current assets | | | |
| Fixtures and fittings (cost 1 800) | | | 310 |
| Current assets | | | |
| Inventory | 1 021 | | |
| Trade receivables | 103 | | |
| Cash at bank | 588 | 1 712 | |
| Total assets | | | 2 022 |
| Capital and liabilities | | | |
| Capital at 1 Jan 2019* | | 387 | |
| Profit for the year | | 6 311 | |
| Drawings | | 5 330 | |
| Closing capital | | | 1 368 |
| Current liabilities | | | |
| Trade payables | 630 | | |
| Other payables | 24 | 654 | |
| Total capital and liabilities | | | 2 022 |

* $A - L = C$, i.e. $1\,324 - 937 = £387$

Activity 12: Monica

1

Cash book summary

| Date | Details | £ | Date | Details | £ |
|------|---------------------------------------|---------------|------|----------------------------------|---------------|
| | Balance b/d | 1 064 | | Salaries | 3 040 |
| | Cash sales | 4 920 | | Repairs | 194 |
| | Payments from trade receivables | 9 874 | | Rent | 1 021 |
| | Loan – Ali | 4 000 | | Bank charges | 102 |
| | | | | Payments to trade payables | 5 094 |
| | | | | Balance c/d | 10 407 |
| | | <u>19 858</u> | | | <u>19 858</u> |
| | Balance b/d | 10 407 | | | |

Trade payables

| | | | | | |
|-------------|-------------|--------------|-------------|-------------|--------------|
| 31 Mar 2020 | Bank | 5 094 | 1 Apr 2019 | Balance b/d | 2 901 |
| | Balance c/d | 2 830 | 31 Mar 2020 | Purchases | 5 023 |
| | | <u>7 924</u> | | | <u>7 924</u> |
| | | | 1 Apr 2020 | Balance b/d | 2 830 |

Trade receivables

| | | | | | |
|--------------|-------------|---------------|-------------|-------------|---------------|
| 1 Apr 2019 | Balance b/d | 3 021 | 31 Mar 2020 | Bank | 9 874 |
| 31 Mar 2020 | Revenue | 10 916 | | Balance c/d | 4 063 |
| | | <u>13 937</u> | | | <u>13 937</u> |
| 1 April 2020 | Balance b/d | 4 063 | | | |

Capital account

| Date | Details | £ | Date | Details | £ |
|-------------|-------------|---------------|-------------|---------------------|---------------|
| 31 Mar 2020 | Drawings | 4 800 | 1 Apr 2019 | Balance b/d | 9 074 |
| | Balance c/d | 15 780 | 31 Mar 2020 | Profit for the year | 11 506 |
| | | <u>20 580</u> | | | <u>20 580</u> |
| | | | 1 Apr 2020 | Balance b/d | 15 780 |

**Monica: statement of profit or loss and other comprehensive income
for the year ended 31 March 2020**

| | £ | £ |
|---------------------|--------------|----------------------|
| Revenue | | 20 636 |
| Opening inventory | 4 090 | |
| Purchases | 5 023 | |
| | <u>9 113</u> | |
| Closing inventory | 5 260 | 3 853 |
| Gross profit | | <u>16 783</u> |
| Rent | 1 021 | |
| Repairs | 194 | |
| Salary | 3 040 | |
| Bank charges | 102 | |
| Depreciation | 620 | |
| Loan interest | 300 | 5 277 |
| Profit for the year | | <u><u>11 506</u></u> |

Monica: statement of financial position at 31 March 2020

| | £ | £ | £ |
|--------------------------------------|--------|--------|---------------|
| Non-current assets | | | |
| Fixtures and fittings | 3 800 | 620 | 3 180 |
| Current assets | | | |
| Inventory | 5 260 | | |
| Trade receivables | 4 063 | | |
| Cash at bank | 10 407 | 19 730 | |
| Total assets | | | <u>22 910</u> |
| Capital and liabilities | | | |
| Capital | 9 074 | | |
| Profit for the year | 11 506 | | |
| Drawings | | 4 800 | |
| Closing capital | | | <u>15 780</u> |
| Non-current liabilities | | | |
| Loan – Ali | | | 4 000 |
| Current liabilities | | | |
| Trade payables | 2 830 | | |
| Other payables | 300 | | |
| Total capital and liabilities | | | <u>22 910</u> |

2

Profit for the year is calculated in the capital account statement as £11 506.

Exam practice: Mai's flower business

1 £400 Cr

2 (a)

Total purchases = credit purchases + cash purchases

Credit purchases:

| | £ |
|---------------------------------|----------------------|
| Payments for credit purchases | 19 500 |
| Less trade payables 31 Mar 2017 | (8 500) |
| Add trade payables 31 Mar 2018 | 6 500 |
| Total credit purchases | 17 500 |
| <u>Cash purchases</u> | 1 000 |
| <u>Total purchases</u> | <u>18 500</u> |

(b)

Total revenue = credit sales + cash sales

| | £ |
|------------------------------------|--------|
| Receipts | 18 500 |
| Less trade receivables at 1/4/2017 | 6 000 |
| Add trade receivables at 31/3/2017 | 6 500 |
| Total credit sales | 19 000 |
| Cash sales banked | 6 000 |
| Cash sales not banked | 3 200 |
| Total revenue | 28 200 |

3

Mai: statement of profit or loss and other comprehensive income

| | £ | £ |
|---------------------------------|----------------|----------------|
| Revenue | | 28 200 |
| Less cost of sales | | |
| Opening inventory | 9 500 | |
| Add purchases | 18 500 | |
| Less closing inventory | <u>(8 500)</u> | |
| Cost of sales | | <u>19 500</u> |
| Gross profit | | 8 700 |
| Add other income | | |
| Commission received | | <u>1 200</u> |
| | | 9 900 |
| Less expenses | | |
| Wages (6 000 – 400 + 500 + 200) | 6 300 | |
| Motor vehicle expenses | 2 300 | |
| Depreciation | <u>3 000</u> | <u>11 600</u> |
| Loss for the year | | <u>(1 700)</u> |

4

Points for keeping a formal set of books:

- Mai has made a loss (own figure); keeping formal books might help her keep track of her business and prevent future losses.
- A balance of personal accounts is available at all times.
- Formal books may help Mai obtain finance in the future.
- Mai could prepare monthly financial statements.

Points against keeping a formal set of books:

- Mai is already making a loss, hiring a qualified accountant will increase costs further.
- By itself, a formal set of books will not ensure future profits are generated.
- Mai may need to spend more time on strategic decision-making rather than preparing accounting information.

14 Partnerships

Activity 1: Smith and Jones

1

| | £ | £ |
|--|--------|---------|
| Details | Dr | Cr |
| Profit for the year before adjustments | | 140 000 |
| Interest Smith | 3 000 | |
| Interest Jones | 2 000 | |
| Salary Jones | 5 000 | 10 000 |
| | <hr/> | <hr/> |
| | | 130 000 |
| Share of balance Smith | 78 000 | |
| Jones | 52 000 | 130 000 |
| | <hr/> | <hr/> |

Activity 2: Dun and Swail

1

**Dun & Swail: profit or loss appropriation account
for the year ended 30 June 2019**

| | £ | £ | £ |
|-----------------------------------|--------|-----------|--------|
| Profit for the year | | | 97 400 |
| Add interest on drawings: | | | |
| Dun | 205 | | |
| Swail | 120 | | 325 |
| Adjusted profit | | | 97 725 |
| Salaries: | | | |
| Dun | 24 000 | | |
| Swail | 23 000 | 47 000.00 | |
| Interest on capital: | | | |
| Dun | 8 400 | | |
| Swail | 5 600 | 14 000.00 | |
| Interest on new capital: | | | |
| Dun | 1 120 | | |
| Swail | 1 050 | 2 170.00 | 63 170 |
| Net profit available for partners | | | 34 555 |
| Dun | | 17 277.50 | |
| Swail | | 17 277.50 | 34 555 |

Workings: interest on drawings

Dun:

$$£6\,000 \times 3\% \div 12 \times 9 = 135$$

$$£7\,000 \times 3\% \div 12 \times 4 = 70$$

$$£135 + 70 = £205$$

Swail:

$$£4\,000 \times 3\% \div 12 \times 9 = 90$$

$$£3\,000 \times 3\% \div 12 \times 4 = 30.$$

$$90 + 30 = £120$$

Current accounts

| | Dun | Swail | | Dun | Swail |
|----------------------|---------------|---------------|------------------|---------------|---------------|
| Details | £ | £ | Details | £ | £ |
| Drawings | 13 000 | 7 000 | Balance b/d | 23 850 | 11 490 |
| Interest on drawings | 205 | 120 | Cash introduced* | 24 000 | 36 000 |
| Salary paid | 24 000 | 23 000 | Salary | 24 000 | 23 000 |
| Balance c/d | 61 442 | 64 297 | Interest | 8 400 | 5 600 |
| | | | Interest | 1 120 | 1 050 |
| | | | Profit | 17 277 | 17 277 |
| | <u>98 647</u> | <u>94 417</u> | | <u>98 647</u> | <u>94 417</u> |
| | | | Balance b/d | 61 442 | 64 297 |

*It is assumed that the additional amounts are not part of the fixed capital.

Capital accounts

| | Dun | Swail | | Dun | Swail | | |
|-------------|---------|----------------|----------------|------------|---------|----------------|----------------|
| Date | Details | £ | £ | Date | Details | £ | £ |
| 30 Jun 2019 | Bal c/d | 144 000 | 116 000 | 1 Jul 2018 | Bal b/d | 120 000 | 80 000 |
| | | | | 1 Nov 2018 | Bank | 24 000 | |
| | | | | 1 Feb 2019 | Bank | | 36 000 |
| | | <u>144 000</u> | <u>116 000</u> | | | <u>144 000</u> | <u>116 000</u> |
| | | | | 1 Jul 2019 | Bal b/d | 144 000 | 116 000 |

Activity 3: Singh and Yates

1

**Singh & Yates: profit or loss appropriation account
for the year ended 31 December 2019**

| | £ | £ | £ |
|------------------------------|-------|--------|--------|
| Profit for the year | | | 80 000 |
| Interest on drawings – Singh | | 1 200 | |
| Yates | | 1 000 | 2 200 |
| | | | 82 200 |
| Interest on capital – Singh | 6 800 | | |
| Yates | 4 800 | 11 600 | |
| | | 18 000 | 29 600 |
| Salary – Singh | | 18 000 | 29 600 |
| Profit for the year | | | 52 600 |
| Share of profit – Singh | | 21 040 | |
| Yates | | 31 560 | 52 600 |

Current accounts

| | | Singh | Yates | | | Singh | Yates |
|-------------------|--------|--------|-------|-------------|--------|--------|-------|
| Details | £ | £ | £ | Details | £ | £ | £ |
| Interest drawings | 1 200 | 1 000 | | Balance b/d | 11 000 | 8 000 | |
| Drawings | 12 000 | 10 000 | | Interest | 6 800 | 4 800 | |
| Salary paid | 18 000 | | | Salary | 18 000 | | |
| Balance c/d | 25 640 | 33 360 | | Profit | 21 040 | 31 560 | |
| | 56 840 | 44 360 | | | 56 840 | 44 360 | |
| | | | | Balance b/d | 25 640 | 33 360 | |

In the statement of financial position the capital is shown as:

$$85\,000 + 60\,000 = \pounds 145\,000$$

Activity 4: Manik and Rana

1

- (a) The capital account is used to denote the amount of fixed capital introduced by each partner. In this partnership, the total capital is £170 000.
- (b) Any changes during a year caused by drawings or the introduction of additional capital, or the award of a salary or interest on capital is shown in the current account.
- (c) Drawings are that amount withdrawn by a partner in cash or through the use of goods or services of the partnership. Rana has drawings of £12 000 p.a. and Manik has drawings of £4 000 p.a. These amounts will be shown in the current account.

Activity 5: Tanaka and Whyte

1

| | | | |
|----------------|--------|---------|--------|
| Interest at 6% | | £ | £ |
| | Tanaka | 300 000 | 18 000 |
| | Whyte | 180 000 | 10 800 |
| Interest at 6% | | | |
| | Tanaka | 20 000 | 1 200 |
| | Whyte | 14 000 | 840 |

Tanaka – interest charged at 10% p.a.

| Amount £ | Date of drawing | Number of months | Interest £ |
|----------|------------------|------------------|------------|
| 12 000 | 31 July 2018 | 10 | 1 000 |
| 10 000 | 30 November 2018 | 6 | 500 |
| 12 000 | 31 March 2019 | 2 | 200 |
| 13 000 | 31 May 2019 | 0 | 0 |

Whyte – interest charged at 10% p.a.

| Amount £ | Date of drawing | Number of months | Interest £ |
|----------|------------------|------------------|------------|
| 6 000 | 31 July 2018 | 10 | 500 |
| 2 000 | 30 November 2018 | 6 | 100 |
| 6 000 | 31 March 2019 | 2 | 100 |
| 3 000 | 31 May 2019 | 0 | 0 |

**Tanaka & Whyte: profit or loss appropriation account
for the year ended 31 May 2019**

| | £ | £ | £ |
|-----------------------------|--------|--------|---------|
| Profit for the year | | | 126 700 |
| Interest on drawings | | | |
| Tanaka | 1 700 | | |
| Whyte | 700 | | 2 400 |
| | | | 129 100 |
| Interest on capital | | | |
| Tanaka | 18 000 | | |
| Whyte | 10 800 | 28 800 | |
| Interest on current account | | | |
| Tanaka | 1 200 | | |
| Whyte | 840 | 2 040 | |
| Salary | | | |
| Whyte | | 25 000 | 55 840 |
| Net profit for partners | | | 73 260 |
| Tanaka | | 51 282 | |
| Whyte | | 22 078 | 73 260 |

2**Current accounts**

| | Tanaka | Whyte | | Tanaka | Whyte |
|-------------------|--------|--------|-------------|--------|--------|
| Details | £ | £ | Details | £ | £ |
| Drawings | 47 000 | 17 000 | Balance b/d | 20 000 | 14 000 |
| Interest drawings | 1 700 | 700 | Interest | 19 200 | 11 640 |
| Salary paid | | 25 000 | Salary | | 25 000 |
| Balance c/d | 41 852 | 29 848 | Profit | 51 282 | 22 078 |
| | 90 552 | 72 648 | | 90 552 | 72 648 |
| | | | Balance b/d | 41 852 | 29 848 |

Activity 6: Leung, Chan and West

1

**Leung, Chan & West: statement of profit or loss and other comprehensive income
for the year ended 31 July 2019**

| | £ | £ | £ |
|-----------------------------------|-------|--------------|---------------|
| Profit for the year | | | 72 400 |
| Add travelling expenses – Chan | 650 | | |
| Goods at cost – Leung | 2 100 | | 2 750 |
| Interest on capital accounts: | | | 75 150 |
| Leung | 3 600 | | |
| Chan | 3 000 | | |
| West | 2 400 | 9 000 | |
| Salary – Leung | | 28 000 | 37 000 |
| Net profit available for partners | | | <u>38 150</u> |
| Apportionment of profits | | | |
| Leung | | 19 075 | |
| Chan | | 12 717 | |
| West | | <u>6 358</u> | <u>38 150</u> |

2

Current accounts

| Details | £ | | | Details | £ | | |
|-------------|---------------|---------------|--------------|---------------------|---------------|--------------|--------------|
| | Leung | Chan | West | | Leung | Chan | West |
| Salary paid | 28 000 | | | Salaries | 28 000 | | |
| Drawings | 7 000 | 6 300 | 5 100 | Interest on capital | 3 600 | 3 000 | 2 400 |
| Goods | 2 100 | | | Profit | 19 075 | 12 717 | 6 358 |
| Travel exp. | | 650 | | | | | |
| Bal c/d | 13 575 | 8 767 | 3 658 | | | | |
| | <u>50 675</u> | <u>15 717</u> | <u>8 758</u> | Bal b/d | <u>13 575</u> | <u>8 767</u> | <u>3 658</u> |

Activity 7: Jack and Faith

1

**Jack & Faith: statement of profit or loss and other comprehensive income
for the year ended 31 December 2019**

| | £ | £ |
|---|--------|--------|
| Revenue | | 71 460 |
| Inventory | 6 890 | |
| Purchases | 44 823 | |
| | 51 713 | |
| Closing inventory | 13 813 | 37 900 |
| Gross profit | | 33 560 |
| Depreciation fixtures | 1 600 | |
| Salary | 6 004 | |
| Electricity | 2 198 | |
| Stationery | 460 | |
| Bank interest and charges | 64 | 10 326 |
| Profit for the year | | 23 234 |
| Interest on current accounts (95 + 205) | | 300 |
| | | 23 534 |
| Interest on capital (1 800 + 1 350) | 3 150 | |
| Salaries (8 000 + 6 800) | 14 800 | 17 950 |
| Profit for partners | | 5 584 |
| Jack | 2 792 | |
| Faith | 2 792 | 5 584 |
| | | 5 584 |

Current accounts

| Details | £ | | Details | £ | |
|-------------|---------------|---------------|-------------|---------------|---------------|
| | Jack | Faith | | Jack | Faith |
| Balance b/d | 1 900 | 4 100 | Interest | 1 800 | 1 350 |
| Interest | 95 | 205 | Salary | 8 000 | 6 800 |
| Drawings | 4 000 | 3 000 | Profit | 2 792 | 2 792 |
| Salary paid | 8 000 | 6 800 | Balance c/d | 1 403 | 3 163 |
| | <u>13 995</u> | <u>14 105</u> | | <u>13 995</u> | <u>14 105</u> |
| Balance b/d | 1 403 | 3 163 | | | |

Jack & Faith: statement of financial position at 31 December 2019

| | £ | £ | £ |
|--------------------------------------|--------|--------|---------------|
| Non-current assets | | | |
| Building | | | 22 000 |
| Fixtures | | | 5 550 |
| | | | <u>27 550</u> |
| Current assets | | | |
| Inventory | 13 813 | | |
| Trade receivables | 6 507 | | |
| Cash at bank | 4 020 | 24 340 | |
| Total assets | | | <u>51 890</u> |
| Capital and liabilities | | | |
| Capital – Jack | | 20 000 | |
| Capital – Faith | | 15 000 | |
| Current account – Jack | | 6 597 | |
| Current account – Faith | | 3 637 | 10 234 |
| Closing capital | | | <u>45 234</u> |
| Current liabilities | | | |
| Trade payables | 6 561 | | |
| Other payables | 95 | 6 656 | |
| Total capital and liabilities | | | <u>51 890</u> |

Activity 8: Michael and Dania

1

**Michael & Dania: statement of profit or loss and other comprehensive income
for the year ended 31 December 2019**

| | £ | £ |
|----------------------------|----------------|----------------------|
| Revenue | | 298 715 |
| Opening inventory | 93 460 | |
| Purchases | 195 220 | |
| | <u>288 680</u> | |
| Closing inventory | 132 880 | 155 800 |
| Gross profit | | <u>142 915</u> |
| Less general expenses | 6 448 | |
| Salaries and wages | 43 309 | |
| Irrecoverable debts | 1 912 | 51 669 |
| Profit for the year | | <u><u>91 246</u></u> |

| | £ | £ | £ |
|---|----------------|---------------|---------------|
| Appropriation of net profit for the year | Michael | Dania | Total |
| Interest on capital | 6 700 | 4 100 | 10 800 |
| Interest on drawings | (460) | (340) | (800) |
| Salary | 2 600 | | 2 600 |
| Share of balance | 39 323 | 39 323 | 78 646 |
| | <u>48 163</u> | <u>43 083</u> | <u>91 246</u> |

Michael & Dania: statement of financial position at 31 December 2019

| | £ | £ | £ |
|--------------------------------------|---------|----------------------------|----------------|
| | Cost | Provision for depreciation | Carrying value |
| Non-current assets | | | |
| Fittings and fixtures | 22 000 | 6 600 | 15 400 |
| Current assets | | | |
| Inventory | 132 880 | | |
| Trade receivables | 37 800 | | |
| Cash at bank | 6 512 | 177 192 | |
| Total assets | | | <u>192 592</u> |
| Capital and liabilities | | | |
| Capital – Michael | | 67 000 | |
| Capital – Dania | | 41 000 | 108 000 |
| Current account – Michael | | 35 507 | |
| Current account – Dania | | 27 685 | 63 192 |
| Closing capital | | | <u>171 192</u> |
| Current liabilities | | | |
| Trade payables | | 21 400 | |
| Total capital and liabilities | | | <u>192 592</u> |

Current accounts

| | Michael | Dania | | Michael | Dania |
|----------------------|---------------|---------------|---------------------|---------------|---------------|
| Details | £ | £ | Details | £ | £ |
| Drawings | 15 800 | 16 500 | Balance b/d | 3 144 | 1 102 |
| Interest on drawings | 460 | 340 | Salary | 2 600 | |
| Salary paid | 2 600 | | Interest on capital | 6 700 | 4 100 |
| Balance c/d | 32 907 | 27 685 | Profit for the year | 39 323 | 39 323 |
| | <u>51 767</u> | <u>44 525</u> | | <u>51 767</u> | <u>44 525</u> |
| | | | Balance b/d | 32 907 | 27 685 |

Activity 9: Anna and Bea

1

Anna & Bea: trading account for the year ended 31 December 2019

| | £ |
|---------------|----------------|
| Revenue | 168 000 |
| Cost of sales | 42 000 |
| Gross profit | <u>126 000</u> |

Anna & Bea: statement of profit or loss and other comprehensive income

| | £ | £ | £ | £ |
|-------------------------|------------------------|---------------|-------------------------|---------------|
| | 1 Jan 2019–30 Jun 2019 | | 1 July 2019–31 Dec 2019 | |
| Gross profit | | 63 000 | | 63 000 |
| Rent | 6 000 | | 6 000 | |
| Wages | 13 000 | | 4 000 | |
| Office expenses | 2 500 | | 2 500 | |
| Depreciation | | | 525 | |
| Interest on loan – Anna | | 21 500 | 200 | 13 225 |
| Profit for the period | <u>41 500</u> | <u>41 500</u> | | <u>49 775</u> |
| Salary Anna | 10 000 | | 10 000 | |
| Salary Jake | | 10 000 | 8 000 | 18 000 |
| | | <u>31 500</u> | | <u>31 775</u> |
| Profit Anna | 18 900 | | 15 887 | |
| Profit Bea | <u>12 600</u> | | 9 532 | |
| Profit Jake | | <u>31 500</u> | <u>6 356</u> | <u>31 775</u> |

Note: Interest paid on a loan from a partner is not shown in the statement of changes in equity but in the main body of the statement of profit or loss. The current account is still credited with the interest. In all questions the capital accounts of the partners should be treated as fixed and any debit or credit entries should be made to the current account. In the same way, the drawings should be transferred to the current account at year end.

2

Current accounts

| Details | £ | | | Details | £ | | |
|--------------------------|---------------|---------------|---------------|------------------|---------------|---------------|---------------|
| | Anna | Bea | Jake | | Anna | Bea | Jake |
| Transfer to loan account | 5 000 | | | Bal b/d | 17 000 | 11 000 | |
| Salary paid | 20 000 | | 8 000 | Salaries | 20 000 | | 8 000 |
| Bal c/d | <u>46 987</u> | <u>33 132</u> | <u>13 356</u> | Profit | 34 787 | 22 132 | 6 356 |
| | | | | Interest on loan | 200 | | |
| | | | | Machinery | | | 7 000 |
| | <u>71 987</u> | <u>33 132</u> | <u>13 356</u> | | <u>71 987</u> | <u>33 132</u> | <u>21 356</u> |
| | | | | Bal b/d | 46 987 | 33 132 | 13 356 |

Activity 10: Lane, Wood and Jones

1

Capital accounts

| Details | £ | | | Details | £ | | |
|-------------------|---------------|---------------|---------------|-------------------|---------------|---------------|---------------|
| | Lane | Wood | Jones | | Lane | Wood | Jones |
| Intangible assets | 10 000 | 10 000 | 10 000 | Bal b/d | 35 000 | 35 000 | |
| | | | | Intangible assets | 15 000 | 15 000 | |
| Bal c/d | <u>40 000</u> | <u>40 000</u> | <u>30 000</u> | Bank | | | 40 000 |
| | <u>50 000</u> | <u>50 000</u> | <u>40 000</u> | | <u>50 000</u> | <u>50 000</u> | <u>40 000</u> |
| | | | | Bal b/d | 40 000 | 40 000 | 30 000 |

The effect of the intangible assets being created and then eliminated has been to reduce the value of capital put in by Jones by £10 000 while increasing the capital value of the other two partners by £5 000. In effect, Jones has paid £10 000 to become an owner in a successful business.

Exam practice: Zoe & Tayla

1

Capital accounts

| Details | £ | | | Details | £ | | |
|-------------------|---------------|---------------|---------------|-------------------|---------------|---------------|---------------|
| | Zoe | Tayla | Bailey | | Zoe | Tayla | Bailey |
| Intangible assets | 9 000 | 12 000 | 6 000 | Bal b/d | 40 000 | 60 000 | |
| | | | | Intangible assets | 13 500 | 13 500 | |
| | | | | Cash | | | 5 000 |
| Bal c/d | 44 500 | 61 500 | 24 000 | Assets | | | 25 000 |
| | <u>53 500</u> | <u>73 500</u> | <u>30 000</u> | | <u>53 500</u> | <u>73 500</u> | <u>30 000</u> |
| | | | | Bal b/d | 44 500 | 61 500 | 24 000 |

2

Zoe, Tayla and Bailey: extract statement of profit or loss and other comprehensive income for the year ended 31 March 2018

| | £ | £ |
|---------------------------|--------------|----------------|
| Profit for the year | | 63 080 |
| Plus interest on drawings | | |
| Zoe | 750 | |
| Tayla | 700 | |
| Bailey | <u>450</u> | <u>1 900</u> |
| | | 64 980 |
| Less salaries | | |
| Tayla | 5 000 | |
| Bailey | <u>4 000</u> | <u>(9 000)</u> |
| | | 55 980 |
| Less interest on capital | | |
| Zoe | 890 | |
| Tayla | 1 230 | |
| Bailey | <u>480</u> | <u>(2 600)</u> |
| Share of profit | | 53 380 |
| | | |
| Zoe | | 17 793 |
| Tayla | | 23 725 |
| Bailey | | <u>11 862</u> |
| | | <u>53 380</u> |

3

Current accounts

| Details | £ | | | Details | £ | | |
|---------------|---------------|---------------|---------------|----------|---------------|---------------|---------------|
| | Zoe | Tayla | Bailey | | Zoe | Tayla | Bailey |
| Bal b/d | | 6 000 | | Bal b/d | 1 200 | | |
| Salaries paid | | 5 000 | 4 000 | Salaries | | 5 000 | 4 000 |
| Interest | 750 | 700 | 450 | Interest | 890 | 1 230 | 480 |
| drawings | | | | capital | | | |
| Drawings | 15 000 | 14 000 | 9 000 | Profit | 17 793 | 23 725 | 11 862 |
| Bal c/d | <u>4 133</u> | <u>4 255</u> | <u>2 892</u> | | | | |
| | <u>19 883</u> | <u>29 955</u> | <u>16 432</u> | | <u>19 883</u> | <u>29 955</u> | <u>16 432</u> |
| | | | | Bal b/d | 4 133 | 4 255 | 2 892 |

4

Zoe, Tayla and Bailey: extract statement of financial position at 31 March 2018

| | £ | | £ |
|--------------------------------|--------|---------------|---------|
| Capital and liabilities | | | |
| Capital accounts | | | |
| | Zoe | 44 500 | |
| | Tayla | 61 500 | |
| | Bailey | <u>24 000</u> | |
| | | | 130 000 |
| Current accounts | | | |
| | Zoe | 4 133 | |
| | Tayla | 4 255 | |
| | Bailey | <u>2 892</u> | |
| | | | 11 370 |

5

Points in favour:

- clarifies the role of partners and so avoids unnecessary disputes
- sets out the financial terms of admission and exit from the partnership
- identifies rules for the appropriation of profit.

Points against:

- will not prevent disagreements
- time and cost of setting up an agreement
- may have unwanted outcomes
- cannot cover every eventuality.

15 Clubs and non-profit-making organisations

Activity 1: Mill Music Society

1

Mill Music Society: receipts and payments account for the year ended 31 December 2018

| Receipts | £ | Payments | £ |
|---------------|---------------|----------------------|---------------|
| Subscriptions | 11 000 | Balance b/d | 50 |
| Tickets sold | 2 000 | Rent | 1 200 |
| Fundraisers | 825 | Concert costs | 1 250 |
| | | Printing | 800 |
| | | Music purchase | 250 |
| | | Equipment | 5 900 |
| | | Heating and lighting | 850 |
| | | Balance c/d | 3 525 |
| | <u>13 825</u> | | <u>13 825</u> |
| Balance b/d | 3 525 | | |

Activity 2: Valley Badminton

1

Valley Badminton: snack bar trading account for the year ended 31 December 2018

| | £ | £ |
|-------------------------|-------------|--------------|
| Revenue | | 4 555 |
| Opening inventory | 105 | |
| Purchases | 1 400 | |
| Closing inventory | <u>(55)</u> | |
| Cost of sales | | <u>1 450</u> |
| Gross profit | | 3 105 |
| Less expenses | | |
| Wages | 1 200 | |
| Depreciation: equipment | <u>350</u> | |
| Profit for the year | | <u>1 555</u> |

Activity 3: Old School Cricketers

1

Old School Cricketers: subscriptions account

| Date | Details | £ | Date | Details | £ |
|--------|------------------------|---------------|--------|---------------------|---------------|
| 1 Jan | Balance b/d | 3 000 | 1 Jan | Balance b/d | 1 350 |
| 31 Dec | Income and expenditure | 25 300 | 31 Dec | Bank | 24 700 |
| | Balance c/d | <u>1 750</u> | | Irrecoverable debts | 1 500 |
| | | <u>30 050</u> | | Balance c/d | <u>2 500</u> |
| 1 Jan | Balance b/d | 2 500 | 1 Jan | Balance b/d | <u>30 050</u> |
| | | | | | 1 750 |

Activity 4: Valley Sports Club

1

Income and expenditure account for the year ended 31 December 2019

| | £ | £ |
|---|--------------|----------------------|
| Subscriptions | | 14 600 |
| Profit from restaurant | | 240 |
| Raffle ticket revenue | 3 800 | |
| Less expenses on raffle | <u>1 800</u> | <u>2 000</u> |
| Total income | | 16 840 |
| Rent (2 400 + 300 – 200) | 2 500 | |
| Printing | 500 | |
| Electricity (700 + 140 – 120) | 720 | |
| Telephones (400 + 65 – 48) | 417 | |
| Repairs to equipment | 620 | |
| Depreciation of equipment (4 700 + 3 100 – 6 200) | <u>1 600</u> | <u>6 357</u> |
| Excess income over expenditure | | <u><u>10 483</u></u> |

Valley Sports Club: statement of financial position at 31 December 2019

| | £ | £ | £ |
|--------------------------------------|---------------|--------------|---------------|
| Non-current assets | | | |
| Exercise equipment at 1 January 2019 | 4 700 | | |
| Additions | 3 100 | | |
| | <u>7 800</u> | <u>1 600</u> | <u>6 200</u> |
| Current assets | | | |
| Inventory | 1 400 | | |
| Cash at bank | 11 080 | | 12 480 |
| Total assets | | | <u>18 680</u> |
| Accumulated fund | | | |
| Balance at 1 January 2019 | 6 742 | | |
| Surplus for the year | <u>10 483</u> | | <u>17 225</u> |
| Current liabilities | | | |
| Trade payables for purchases | 950 | | |
| Accrued charges | 505 | | 1 455 |
| Total capital and liabilities | | | <u>18 680</u> |

2

**Valley Sports Club: restaurant trading account
for the year ended 31 December 2019**

| | £ | £ |
|--|---------------|------------|
| Revenue | | 21 700 |
| Inventory at 1 Jan 2019 | 1 200 | |
| Purchases (16 400 + 950 – 690) | 16 660 | |
| | <u>17 860</u> | |
| Closing inventory | 1 400 | 16 460 |
| Gross profit | | 5 240 |
| Less wages | | 5 000 |
| Profit transferred to income & expenditure account | | <u>240</u> |

Activity 5: The Trainer Club**1 (a)****The Trainer Club: café trading account for the year ended 31 December 2019**

| | £ | £ |
|--|--------------|--------------|
| Revenue | | 3 980 |
| Inventory at 1 January 2019 | 1 200 | |
| Purchases | 1 250 | |
| | <u>2 450</u> | |
| Closing inventory | 1 040 | 1 410 |
| Gross profit | | 2 570 |
| Less wages | | 800 |
| Profit transferred to income and expenditure account | | <u>1 770</u> |

(b)**The Trainer Club: income and expenditure account
for the year ended 31 December 2019**

| | £ | £ |
|---------------------------------------|-------|--------------|
| Subscriptions | | 4 730 |
| Irrecoverable subscriptions recovered | | 120 |
| Profit from bar | | 1 770 |
| Raffle ticket revenue | | 1 200 |
| Competition fees | | 905 |
| Total income | | <u>8 725</u> |
| Rent | 2 000 | |
| Subscription recovered | 120 | |
| Postages and telephones | 140 | |
| Repairs to equipment | 200 | |
| Depreciation of equipment | 890 | 3 350 |
| Excess income over expenditure | | <u>5 375</u> |

(c)

The Trainer Club: statement of financial position at 31 December 2019

| | £ | £ |
|---|--------------|---------------|
| Non-current assets | | |
| Exercise equipment at 1 January 2019 | 8 900 | |
| Depreciation for the year | 890 | 8 010 |
| Current assets | | |
| Inventory | 1 040 | |
| Cash at bank* | 7 625 | 8 665 |
| Total assets | | <u>16 675</u> |
| Accumulated fund | | |
| Balance at 1 January 2019 | 11 040 | |
| Surplus of income over expenditure for the year | <u>5 375</u> | 16 415 |
| Current liabilities | | |
| Subscriptions in advance | | 260 |
| Total capital and liabilities | | <u>16 675</u> |

*You need to calculate this figure. Add all receipts plus opening balance and deduct all payments.

Exam practice: Kabbadi Veterans' Club

1 (a)

The Kabaddi Veterans' Club: shop trading account for the year ended 31 December 2018

| | £ | £ |
|---------------------|---------|--------------|
| Revenue | | 6 500 |
| Less cost of sales: | | |
| Opening inventory | 1 200 | |
| Purchases | 3 000 | |
| Closing inventory | (1 500) | <u>2 700</u> |
| Gross profit | | 3 800 |
| Less expenses: | | |
| Shop wages | | <u>3 000</u> |
| Profit for the year | | <u>800</u> |

(b)

The Kabaddi Veterans' Club: subscription account

| Date | Details | £ | Date | Details | £ |
|-------------|------------------------|--------------|-------------|-------------|--------------|
| 2018 | | | 2018 | | |
| 1 Jan | Balance b/d | 600 | 1 Jan | Balance b/d | 300 |
| 31 Dec | Income and expenditure | 2 600 | 31 Dec | Bank | 3 200 |
| | Balance c/d | <u>500</u> | | Balance c/d | <u>200</u> |
| | | <u>3 700</u> | | | <u>3 700</u> |
| 2019 | | | 2019 | | |
| 1 Jan | Balance b/d | 200 | 1 Jan | Balance b/d | 500 |

(c)

The Kabaddi Veterans' Club: life membership account

| Date | Details | £ | Date | Details | £ |
|-------------|------------------------|------------|-------------|-------------|------------|
| 2018 | | | 2018 | | |
| 31 Dec | Income and expenditure | 120 | 31 Dec | Bank | 800 |
| | Balance c/d | <u>680</u> | | | <u>800</u> |
| | | <u>800</u> | | | <u>800</u> |
| 2019 | | | 2019 | | |
| | | | 1 Jan | Balance b/d | 680 |

(d)

**The Kabaddi Veterans' Club: income and expenditure account
for the year ended 31 December 2018**

| | £ | £ |
|------------------------|------------|------------|
| Income | | |
| Subscriptions | | 2 600 |
| Life membership | | 120 |
| Profit from shop | | <u>800</u> |
| | | 3 520 |
| Less expenditure | | |
| Miscellaneous expenses | 390 | |
| Loss on annual dinner | 300 | |
| Wages | 1 890 | |
| Depreciation | <u>300</u> | |
| | | (2 880) |
| Surplus | | <u>640</u> |

(e)

**The Kabaddi Veterans Club: statement of financial position
at 31 December 2018**

| | £ | £ |
|--------------------------------------|--------------|---------------|
| Non-current assets | | |
| Property | | 50 000 |
| Equipment | | <u>1 900</u> |
| | | <u>51 900</u> |
| Current assets | | |
| Inventory | 1 500 | |
| Subscriptions owing | 200 | |
| Cash and bank | <u>1 155</u> | |
| | | <u>2 855</u> |
| Total assets | | <u>54 755</u> |
| Accumulated fund | | |
| Balance at 1 January 2018 | | <u>52 900</u> |
| Surplus | | <u>640</u> |
| | | <u>53 540</u> |
| Non-current liabilities | | |
| Life membership subscriptions | | 680 |
| Current liabilities | | |
| Miscellaneous expenses | 35 | |
| Subscriptions prepaid | <u>500</u> | |
| | | <u>535</u> |
| Total capital and liabilities | | <u>54 755</u> |

2

Points in favour:

- improved cash flow – the £800 received helped eliminate a bank overdraft at the start of the year
- life members will hopefully spend money in the long run in the shop and other club activities, such as the annual dinner currently making a loss)
- may attract new members keen to take up a discounted membership.

Points against:

- in the long run it will lead to less revenue from subscriptions if the life membership is heavily discounted
- creates a non-current liability to continue to provide a service at the current levels.

16 Manufacturers

Activity 1: Marmax Trading

1

Marmax Trading: manufacturing account for the year ended 30 April 2019

| | £ | £ |
|---|---------|-----------------------|
| Opening raw material inventory | | 16 000 |
| Direct material | 117 000 | |
| Carriage inwards | 3 000 | 120 000 |
| | | <u>136 000</u> |
| Less closing raw material | | 14 000 |
| Cost of raw material consumed | | <u>122 000</u> |
| Direct labour | | 145 000 |
| Prime cost | | <u>267 000</u> |
| Factory overhead expenses | | |
| Indirect costs (materials) | 1 700 | |
| Wages | 29 000 | |
| Depreciation | 15 000 | |
| Other factory repairs, heating, etc. | 20 100 | 65 800 |
| | | <u>332 800</u> |
| Add work in progress at beginning of year | | 800 |
| | | <u>333 600</u> |
| Less work in progress at end of year | | 1 000 |
| Cost of production transferred to trading account | | <u><u>332 600</u></u> |

Activity 2: Cast Manufacturers

1

Cast: manufacturing account for the year ended 31 March 2019

| | £ | £ |
|--|---------|------------------|
| Inventory of raw materials 1 Apr 2018 | | 76 688 |
| Add purchases | 615 000 | |
| Add carriage inwards | 17 269 | 632 269 |
| | | 708 957 |
| Less inventory raw materials 31 Mar 2019 | | 90 788 |
| Cost of raw materials consumed | | 618 169 |
| Direct wages | | 996 788 |
| Prime cost | | 1 614 957 |
| Factory overhead expenses: | | |
| Power and fuel | 134 700 | |
| Rent and rates | 63 843 | |
| Depreciation of machinery | 106 125 | 304 668 |
| | | 1 919 625 |
| Add work in progress 1 Apr 2018 | | 107 269 |
| | | 2 026 894 |
| Less work in progress 31 Mar 2019 | | 110 213 |
| Total production cost | | <u>1 916 681</u> |

Activity 3: Ezee Manufacturing

1

Ezee: manufacturing account for the year ended 31 March 2019

| | £ | £ |
|--|---------|----------------|
| Inventory of raw materials 1 Apr 2018 | | 29 325 |
| Add purchases | 181 475 | |
| Add carriage inwards | 1 148 | 182 623 |
| | | 211 948 |
| Less inventory raw materials 31 Mar 2019 | | 30 813 |
| Cost of raw materials consumed | | 181 135 |
| Direct wages | 193 120 | |
| Direct expenses | 1 105 | 194 225 |
| Prime cost | | 375 360 |
| Factory overhead expenses: | | |
| Power and fuel | 19 210 | |
| Indirect wages | 76 755 | |
| Factory rent | 12 070 | |
| Depreciation of machinery | 10 030 | |
| Factory insurance | 1 785 | |
| Repairs to factory | 4 250 | |
| General factory expenses | 3 783 | 127 883 |
| | | 503 243 |
| Add work in progress 1 Apr 2018 | | 10 455 |
| | | 513 698 |
| Less work in progress 31 Mar 2019 | | 12 920 |
| Total production cost | | <u>500 778</u> |

Activity 4: Reedy Manufacturing Co.

1

**Reedy Manufacturing Co.: manufacturing account
for the year ended 31 December 2018**

| | £ | £ |
|--|--------------|-----------------------|
| Inventory of raw materials 1 Jan 2018 | | 10 673 |
| Add purchases | 79 616 | |
| Add carriage inwards | <u>6 633</u> | <u>86 249</u> |
| | | 96 922 |
| Less inventory raw materials 31 Dec 2018 | | <u>15 005</u> |
| Cost of raw materials consumed | | 81 917 |
| Direct wages | | <u>112 101</u> |
| Prime cost | | 194 018 |
| Factory overhead expenses: | | |
| Fuel and power | 5 913 | |
| Indirect wages | 38 307 | |
| Factory rent | 8 271 | |
| Depreciation of machinery | 8 208 | |
| Factory expenses | 6 094 | |
| Factory lighting and heat | <u>4 144</u> | <u>70 937</u> |
| | | 264 955 |
| Add work in progress 1 Jan 2018 | | <u>9 196</u> |
| | | 274 151 |
| Less work in progress 31 Dec 2018 | | <u>12 130</u> |
| Total production cost | | <u><u>262 021</u></u> |

Activity 5: Emkoe Metal

1

| | £ |
|--------------------------|---------|
| Cost of production | 160 000 |
| Add factory profit (20%) | 40 000 |
| Transfer price | 200 000 |

Activity 6: Samir

$$1 \quad 50\,400 \times 50/150 = \underline{\pounds 16\,800}$$

$$2 \quad 74\,400 \times 50/150 = \underline{\pounds 24\,800}$$

$$\underline{\pounds 8\,000}$$

£8 000 would be deducted from the profit on manufacture, as an expense.

3

Samir: statement of financial position (extract) at 31 August 2018

| | £ | £ |
|--------------------------------------|----------|---------|
| Current assets | | |
| Raw materials | | 118 500 |
| Work in progress | | 70 000 |
| Finished inventory | 74 400 | |
| Less provision for unrealised profit | (24 800) | 49 600 |

Exam practice: Yorke

1

Yorke: manufacturing account for the year ended 31 October 2018

| | £ | £ |
|------------------------------------|----------------|----------------|
| Opening inventory of raw materials | 9 000 | |
| Purchases of raw materials | <u>126 000</u> | |
| | 135 000 | |
| Closing inventory of raw material | <u>10 000</u> | |
| Cost of raw material consumed | | 125 000 |
| Direct wages | | 250 000 |
| Royalties | | <u>50 000</u> |
| Prime cost | | 425 000 |
| Overheads | | |
| Factory supervision wages | 60 500 | |
| Rates | 9 600 | |
| Expenses | 13 000 | |
| Depreciation – machinery | <u>5 500</u> | |
| | | <u>513 600</u> |
| Work in progress – 1 November 2017 | | 2 250 |
| Work in progress – 31 October 2018 | | <u>(3 750)</u> |
| Total production cost | | 512 100 |
| Add manufacturing profit 15% | | <u>76 815</u> |
| Transfer to trading account | | <u>588 915</u> |

2

Working: $\text{£}28\,700 \times 15/115 = \text{£}3\,744$

| | £ |
|-------------------|-------|
| Closing balance | 3 744 |
| Opening balance | 2 885 |
| Change – increase | 859 |

The increase in the provision for unrealised profit of £115 would be an expense and reduce the profit for the year.

3

A provision is required as the cost of production has been increased by adding the 15% factory profit. This means the value of finished goods inventory is higher than the actual cost.

Applying the concept of prudence, this profit element needs to be removed as inventory should be valued at the lower of cost or net realisable value. The increase in the provision of £115 is deducted from the gross profit so that profits are not overstated. In addition, the whole amount of the provision, £3 000, is deducted from the value of the inventory in the statement of financial position, so it is not overvalued.

17 Valuation of inventory

Activity 1: Tavish Furniture

1

Calculation of damaged inventory valuation:

Value = lower of cost or NRV

= £17 550 or £20 800 less £3 540

= £17 550 or £17 260

Inventory at 31 December 2017 = $\text{£}62\,530 - \text{£}17\,550 + \text{£}17\,260 = \text{£}62\,240$

Activity 2: Sahan

1

| Method | Calculation | Cost used £ |
|--------|--|-------------|
| FIFO | 200 units at £1.20 plus 100 units at £1.50 | 390 |
| LIFO | 300 units at £1.50 | 450 |

It is notable that FIFO shows a higher profit when prices rise.

Activity 3: Nat

1

| Goods in | | |
|-----------------|----------|--------------|
| Date | Quantity | Unit Price £ |
| February | 60 | £22 |
| April | 30 | £26 |

| Goods out | |
|------------------|----------|
| Date | Quantity |
| July | 80 |

Balance at 31 December 2009 = 10 units.

(a) FIFO value is $£10 \times 26 = £260$

(b) LIFO value is $£10 \times 22 = £220$

Activity 4: Musicman & Co.

1

Musicman & Co.: inventory valuation using FIFO

| Date | Inventory in | Unit price £ | Inventory out | Qty | Unit £ | Value £ |
|---------------|--------------|--------------|---------------|-----|--------|---------|
| Balance | | | | 33 | 200 | 6 600 |
| 3 Jul 2016 | 120 | 270 | | 120 | 270 | 32 400 |
| Value | | | | | | 39 000 |
| Sales Jul/Aug | | | 30 | 3 | 200 | 600 |
| | | | | 120 | 270 | 32 400 |
| Value | | | | | | 38 400 |
| 6 Sep 2016 | 100 | 300 | | 100 | 300 | 30 000 |
| Value | | | | | | 68 400 |
| Sept/Oct | | | 90 | 33 | 270 | 8 910 |
| | | | | 100 | 300 | 30 000 |
| Value | | | | | | 38 910 |
| 20 Nov 2016 | 180 | 330 | | 180 | 330 | 59 400 |
| Value | | | | | | 98 310 |
| Nov/Dec | | | 150 | 163 | 330 | 53 790 |
| Value | | | | | | 53 790 |
| 25 Mar 2017 | 240 | 390 | | 240 | 390 | 93 600 |
| Value | | | | | | 147 390 |
| Jan /Mar | | | 210 | 193 | 390 | 75 270 |
| Value | | | | | | 75 270 |
| 2 May 2017 | 120 | 420 | | 120 | 420 | 50 400 |
| Value | | | | | | 125 670 |
| Apr/Jun 2017 | | | 60 | 133 | 390 | 51 870 |
| | | | | 120 | 420 | 50 400 |
| Value | | | | | | 102 270 |

Musicman & Co.: inventory valuation using LIFO

| Date | Inventory in | Unit price £ | Inventory out | Qty | Unit £ | Value £ |
|---------------|--------------|--------------|---------------|-----|--------|---------|
| Balance | | | | 33 | 200 | 6 600 |
| 3 Jul 2016 | 120 | 270 | | 120 | 270 | 32 400 |
| Value | | | | | | 39 000 |
| Sales | | | 30 | 33 | 200 | 6 600 |
| Jul/Aug 2016 | | | | 90 | 270 | 24 300 |
| Value | | | | | | 30 900 |
| 6 Sep 2016 | 100 | 300 | | 100 | 300 | 30 000 |
| Value | | | | | | 60 900 |
| Sept/Oct 2016 | | | 90 | 33 | 200 | 6 600 |
| | | | | 90 | 270 | 24 300 |
| | | | | 10 | 300 | 3 000 |
| Value | | | | | | 33 900 |
| 20 Nov 2016 | 180 | 330 | | 180 | 330 | 59 400 |
| Value | | | | | | 93 300 |
| Nov/Dec 2016 | | | 150 | 33 | 200 | 6 600 |
| | | | | 90 | 270 | 24 300 |
| | | | | 10 | 300 | 3 000 |
| | | | | 30 | 330 | 9 900 |
| Value | | | | | | 43 800 |
| 25 Mar 2017 | 240 | 390 | | 240 | 390 | 93 600 |
| Value | | | | | | 137 400 |
| Jan /Mar 2017 | | | 210 | 33 | 200 | 6 600 |
| | | | | 90 | 270 | 24 300 |
| | | | | 10 | 300 | 3 000 |
| | | | | 30 | 330 | 9 900 |
| | | | | 30 | 390 | 11 700 |
| Value | | | | | | 55 500 |
| 2 May 2017 | 120 | 420 | | 120 | 420 | 50 400 |
| Value | | | | | | 105 900 |
| Apr/Jun 2017 | | | 60 | 33 | 200 | 6 600 |
| | | | | 90 | 270 | 24 300 |
| | | | | 10 | 300 | 3 000 |
| | | | | 30 | 330 | 9 900 |
| | | | | 30 | 390 | 11 700 |
| | | | | 60 | 420 | 25 200 |
| Value | | | | | | 80 700 |

Activity 5: Sweet & Co.

1 (a)

Sweet & Co.: inventory valuation using LIFO

| Date | Inventory in | KG £ | Inventory out | Qty | KG £ | Value £ |
|-------------|--------------|------|---------------|-----|------|---------|
| Balance b/d | | | | 500 | 1.00 | 500 |
| 3 Jan 18 | 800 | 1.01 | | 800 | 1.01 | 808 |
| Value | | | | | | 1 308 |
| 5 Jan 18 | | | 900 | 400 | 1.0 | 400 |
| Value | | | | | | 400 |
| 11 Jan 18 | | | 100 | 300 | 1.0 | 300 |
| Value | | | | | | 300 |
| 13 Jan 18 | 700 | 1.03 | | 700 | 1.03 | 721 |
| Value | | | | | | 1 021 |
| 15 Jan 18 | 800 | 1.05 | | 800 | 1.05 | 840 |
| Value | | | | | | 1 861 |
| 18 Jan 18 | | | 400 | 300 | 1.00 | 300 |
| | | | | 700 | 1.03 | 721 |
| | | | | 400 | 1.05 | 420 |
| Value | | | | | | 1 441 |
| 23 Jan 18 | 500 | 1.04 | | 500 | 1.04 | 520 |
| Value | | | | | | 1 961 |
| 25 Jan 18 | | | 600 | 300 | 1.00 | 300 |
| | | | | 700 | 1.03 | 721 |
| | | | | 300 | 1.05 | 315 |
| Value | | | 900 | 300 | 1.00 | 300 |
| 31 Mar 2018 | | | | 100 | 1.03 | 103 |
| Value | | | | | | 403 |

(b)

Sweet & Co.: inventory valuation using FIFO

| Date | Inventory in | KG £ | Inventory out | Qty | KG £ | Value £ |
|-------------|--------------|------|---------------|-----|------|---------|
| Balance b/d | | | | 500 | 1.00 | 500 |
| 3 Jan 2018 | 800 | 1.01 | | 800 | 1.01 | 808 |
| Value | | | | | | 1 308 |
| 5 Jan 2018 | | | 900 | 400 | 1.01 | 404 |
| Value | | | | | | 404 |
| 11 Jan 2018 | | | 100 | 300 | 1.01 | 303 |
| Value | | | | | | 303 |
| 13 Jan 2018 | 700 | 1.03 | | 700 | 1.03 | 721 |
| Value | | | | | | 1 024 |
| 15 Jan 2018 | 800 | 1.05 | | 800 | 1.05 | 840 |
| Value | | | | | | 1 864 |
| 18 Jan 2018 | | | 400 | 600 | 1.03 | 618 |
| | | | | 800 | 1.05 | 840 |
| Value | | | | | | 1 458 |
| 23 Jan 2018 | 500 | 1.04 | | 500 | 1.04 | 520 |
| Value | | | | | | 1 978 |
| 25 Jan 2018 | | | 600 | 800 | 1.05 | 840 |
| | | | | 500 | 1.04 | 520 |
| Value | | | | | | 1 360 |
| 31 Mar 2018 | | | 900 | 400 | 1.04 | 416 |
| Value | | | | | | 416 |

Exam practice: Birchington Metals

1

| Date | Receipts | Issues | Balance | Value (£) |
|----------------------------|-------------|---------------------------|-------------|---------------|
| Opening balance | | | 10 @ £1 500 | 15 000 |
| November 2016–January 2017 | 10 @ £1 400 | 10 @ £1 500 5 @ £1 400 | 5 @ £1 400 | 7 000 |
| February 2017–April 2017 | 10 @ £1 300 | 5 @ £14 00 3 @ £1 300 | 7 @ £1 300 | 9 100 |
| May 2017–July 2017 | 15 @ £1 250 | 7 @ £1 300 7 @ £1 250 | 8 @ £1 250 | 10 000 |
| August 2017–October 2017 | 8 @ £1 200 | 8 @ £1 250 4 @ £1 200 | 4 @ £1 200 | £4 800 |

2

| Date | Receipts | Issues | Balance | Value (£) |
|----------------------------|-------------|--|--|--------------|
| Opening balance | | | 10 @ £1 500 | 15 000 |
| November 2016–January 2017 | 10 @ £1 400 | 10 @ £1.400 5 @ £1 500 | 5 @ £1 500 | 7 500 |
| February 2017–April 2017 | 10 @ £1 300 | 8 @ £1 300 | 5 @ £1 500 2 @ £1 300 | 10 100 |
| May 2017–July 2017 | 15 @ £1 250 | 14 @ £1 250 | 5 @ £1 500 2 @ £1 300 1 @ £1 250 | 11 350 |
| August 2017–October 2017 | 8 @ £1 200 | 8 @ £1 200 1 @ £1 250 2 @ £1 300 1 @ £1 500 | 4 @ £1 500 | 6 000 |

3

Closing inventory valuation

FIFO £4 800

LIFO £6 000

£1 200 increase

18 Labour costs

Activity 1: Villingili Holidays

1

| Labour costs for March 2018 | | | | | |
|-----------------------------|--------------|-----------------|----------------|---------|--------------|
| Employee | No. of sales | Rate per sale £ | Monthly cost £ | Returns | Total cost £ |
| Abbas | 8 | 100 | 800 | | 800 |
| Nasreena | 7 | 110 | 770 | | 770 |
| Sultan | 12 | 95 | 1 140 | (100) | 1 040 |
| Total | 27 | | 2 710 | (100) | 2 610 |

Activity 2: Kar Komponenten

1

Osman £345 + £30 = £375

Armstrong £396 + 0 = £396

Rashid £368 + £40 = £408Total = £1 179

Exam practice: Kim Electricals**1**

Under a piecework system, employees would be rewarded by the level of output they produce, the higher the level of output the higher the rewards. The calculation of labour costs would be Price per piece of output \times quantity produced.

2

Points in favour of piecework:

- Employees are incentivised to work leading to improved productivity and output. This would increase the output and lead to increased revenues.
- The work is relatively low skilled, so quality might not fall as workers work more quickly to increase their earnings.
- Payment of wages linked directly to output.

Points against piecework:

- Despite being low-skilled, quality levels may fall, increasing costs of raw materials and the cost of sales.
- If quality does fall, staff may be needed to inspect output, increasing costs.
- Costs are unpredictable due to variations in employee work rates, this makes planning more difficult.

The decision should be supported by the arguments, with effective application to the scenario, recommendations are informed.

19 Overhead costs**Activity 1: Classification of costs**

- 1(a)** variable
- (b)** semi-variable
- (c)** fixed
- (d)** semi-fixed
- (e)** fixed
- (f)** fixed
- (g)** semi-fixed
- (h)** variable

Activity 2: Thisara Electricals

1

| | Plastic moulding | Electrical | Assembly |
|------------------------|-------------------------|-----------------------|----------------------|
| | £ | £ | £ |
| Allocated overheads | 49 000 | 54 000 | 27 000 |
| Insurance | 2 000 | 10 000 | 2 000 |
| Rent and rates | 6 000 | 3 000 | 1 000 |
| Equipment depreciation | 2 000 | 10 000 | 2 000 |
| Management salaries | <u>15 000</u> | <u>25 000</u> | <u>5 000</u> |
| Total | <u><u>74 000</u></u> | <u><u>102 000</u></u> | <u><u>37 000</u></u> |

Activity 3: Dasun

1

Department A OAR = £255 450/7 680 hours = £33.26 per hour.

Department B OAR = £144 350/8 400 hours = £17.18 per hour.

Activity 4: Kusal Carpets

1

| | Colouring | Manufacturing | Stores | Maintenance |
|---------------|-----------------------|----------------------|---------------|--------------------|
| | £ | £ | £ | £ |
| Allocated | 105 000 | 75 500 | 24 000 | 36 000 |
| Maintenance | 18 000 | 14 400 | 3 600 | (36 000) |
| Stores | 16 560 | 5 520 | (27 600) | 5 520 |
| Maintenance | 2 760 | 2 208 | 552 | (5 520) |
| Stores* | 332 | 110 | (552) | 110 |
| Maintenance** | 66 | 44 | – | (110) |
| Total | <u><u>142 718</u></u> | <u><u>97 782</u></u> | Nil | Nil |

*Figure rounded

**Maintenance apportioned to production departments as costs not material.

Exam practice: Maja**1**

An expense that varies directly in proportion to business activity, e.g. raw materials.

2

A semi-fixed cost is constant over a range of output, but once that level of activity is reached the cost will increase and remain at that level until the next limit has been reached. A semi-variable cost as a fixed element of expense, payable if there is no activity; and a variable element where the costs increase with the level of activity.

3

A basis of recovering the total costs of a production department by the jobs passing through the departments. This can be by labour hour rate or machine hour rate.

4

| | Electrical assembly | Final assembly | Stores and shipping |
|----------------------|----------------------------|-----------------------|----------------------------|
| | £ | £ | £ |
| Management salaries | 10 000 | 6 000 | 4 000 |
| Buildings insurance | 6 000 | 3 000 | 1 000 |
| Rent and rates | 4 200 | 2 100 | 700 |
| Employment insurance | <u>3 000</u> | <u>1 800</u> | <u>1 200</u> |
| | 23 200 | 12 900 | 6 900 |
| Stores and shipping | <u>5 175</u> | <u>1 725</u> | <u>(6 900)</u> |
| Total | <u>28 375</u> | <u>14 625</u> | Nil |

5

Electrical assembly $£28\,375 \div 8\,000 \text{ hours} = £3.55 \text{ per hour}$

Final assembly $£14\,625 \div 4\,800 \text{ hours} = £3.05 \text{ per hour}$

6

Points in favour:

- This method would be suitable if the production process is labour intensive.
- It considers the time factor and is simple to understand.

Points against:

- Not suitable if production is capital intensive
- There is not difference between the time spent by skilled and unskilled labour.
- Need to maintain records is time consuming and costly.

20 Job costing

Activity 1: Aero-Partz

1

| Cost of order | | | |
|-----------------------|----------------|-----------|------------------------|
| | | £ | £ |
| Raw materials | £2 900 + 5% | | 3 045.00 |
| Hire of tools | £150 +20% | | 180.00 |
| Direct labour: | | | |
| Machining | £15 × 8 hrs | 120 | |
| Electroplating | £6 × 7.5 hrs | 45 | |
| Assembly | £12 × 4 | <u>48</u> | 213.00 |
| Overhead | £22 × 19.5 hrs | | <u>429.00</u> |
| | | | <u>3 687.00</u> |
| Non-manufacturing o/h | £3 687 @ 10% | | 368.70 |
| Total cost | | | <u><u>4 055.70</u></u> |

Activity 2: Tacky-Tees

1

| Quotation | | | |
|------------------------|------------------|-------------|----------------------|
| | | £ | £ |
| Raw materials | £1.75 × 80 units | | 140.00 |
| Direct labour: | | | |
| Pattern cutting | £8.50 × 1 hr | 8.50 | |
| Sewing | £8.20 × 1.5 hrs | 12.30 | |
| Screenprinting | £11.00 × 2.5 hrs | 27.50 | |
| Finishing | £8.00 × 0.5 hr | <u>4.00</u> | <u>52.30</u> |
| Overhead recovery | £5.36 × 5.5 hrs | | <u>29.48</u> |
| Total cost | | | <u>221.78</u> |
| Profit | 50% mark-up | | <u>110.89</u> |
| Quotation price | | | <u><u>332.67</u></u> |

Exam practice: Perfect Printers

1

A costing method that calculates the cost of a specific customer order.

2 & 3

| Quotation | | | |
|------------------------|--------------|--------------|----------------------|
| | | £ | £ |
| Raw materials | £100 + 15% | | 115.00 |
| Direct labour: | | | |
| Printing | £12.00 × 3 | 36.00 | |
| Finishing | £8.00 × 1.5 | 12.00 | |
| Overhead recovery | £8.20 × 4.5 | <u>36.90</u> | <u>84.90</u> |
| Total cost | | | <u>199.90</u> |
| Profit at 20% | | | <u>39.98</u> |
| Profit at 10% | <u>19.99</u> | | |
| Reduction | | | <u>(19.99)</u> |
| Quotation price | | | <u><u>219.89</u></u> |

21 Ratios**Activity 1: Felipe**

1

- (a) Gross profit as a percentage of revenue – 27.3
- (b) Profit for the year as a percentage of revenue – 16.67
- (c) Return on capital employed (percentage) – 50.88
- (d) Revenue to non-current assets – 2.5:1
- (e) Current (working capital) ratio – 4.67:1
- (f) Liquid ratio – 3.33:1
- (g) Rate of inventory turnover (times) – 12.82 times
- (h) Trade payables payment period – 20.27 days
- (i) Trade receivables collection period – 24.33 days

Activity 2: Calculator Ltd

1

(a), (b) and (c)

| Calculator Ltd | | |
|-----------------------------|---|---|
| Profitability ratios | 2018 | 2019 |
| Gross profit % | $8\,900 \div 44\,800 \times 100 = 19.87$ | $11\,180 \div 52\,620 \times 100 = 21.25$ |
| Profit for the year % | $4\,224 \div 44\,800 \times 100 = 9.43$ | $5\,312 \div 52\,620 \times 100 = 10.01$ |
| ROCE | $4\,224 + 480 \div 5\,700 \times 100 = 82.52$ | $5\,312 + 130 \div 6\,028 \times 100 = 90.28$ |

(d) and (e)

| Calculator Ltd | | |
|-------------------------|--------------------------------------|------------------------------------|
| Liquidity ratios | 2018 | 2019 |
| Working capital ratio | $11\,470:4\,720 = 2.43:1$ | $12\,424:4\,954 = 2.51:1$ |
| Acid test | $11\,470 - 6\,000 : 4\,720 = 1.16:1$ | $12\,424 - 7\,400:4\,954 = 1.01:1$ |

(f), (g), (h) and (i)

| Calculator Ltd | | |
|----------------------------------|--|--|
| Efficiency ratios | 2018 | 2019 |
| Inventory turnover | $35\,900 \div 5\,410 = 6.6$ times | $41\,440 \div 6\,700 = 6.2$ times |
| Trade payables collection period | $4\,800 \div 44\,800 \times 365 = 39.1$ days | $4\,200 \div 52\,620 \times 365 = 29.1$ days |
| Trade receivables payment period | $4\,420 \div 37\,080 \times 365 = 43.5$ days | $4\,562 \div 42\,840 \times 365 = 38.9$ days |
| Revenue to non-current assets | $44\,800 \div 9\,650 = 4.64$ | $52\,620 \div 9\,530 = 5.52$ |

Exam practice: Pierre

1

**Pierre: statement of profit or loss and other comprehensive income
for the year ended 31 July 2018**

| | £ | £ |
|------------------------|--------|---------------|
| Revenue | | 30 000 |
| Cost of sales | | |
| Purchases | 16 000 | |
| Less closing inventory | 2 000 | |
| Cost of sales | | 14 000 |
| Gross profit | | <u>16 000</u> |
| Less expenses | | |
| General expenses | 6 000 | |
| Depreciation | 300 | |
| Interest | 100 | |
| Profit for the year | | <u>9 600</u> |

2 (a) $\frac{16\,000}{30\,000} \times 100 = 53.33\%$

(c) $\frac{9\,700}{8\,000} \times 100 = 121.25\%$

(b) $\frac{9\,600}{30\,000} \times 100 = 32\%$

(d) $\frac{14\,000}{1\,000} = 14 \text{ times}$

3

**Pierre: forecast statement of profit or loss and other comprehensive income
for the year ended 31 July 2018**

| | £ | £ |
|------------------------|--------|---------------|
| Revenue | | 39 600 |
| Cost of sales | | |
| Opening inventory | 2 000 | |
| Purchases | 18 240 | |
| Less closing inventory | 3 000 | |
| Cost of Sales | | 17 240 |
| Gross Profit | | <u>22 360</u> |
| Less expenses | | |
| General expenses | 8 400 | |
| Depreciation | 500 | |
| Interest | 100 | |
| Wages | 6 000 | |
| Profit for the year | | <u>7 360</u> |

4 (a) $\frac{22\,360}{39\,600} \times 100 = 56.46\%$

(b) $\frac{7\,360}{39\,600} \times 100 = 18.59\%$

22 Social accounting and ethics

Activity 1: Factory closure

1

The four social contexts could include: the local community, the environment, the workforce, health and safety, use of natural resources.

2

The non-financial factors could include: the bad publicity generated by the closure in a deprived area; how will the local community react to the closure of the factory; the reaction of employees in other factories owned by Global Garments; the effect the closure might have on businesses that supply the factory.

Activity 2: Stakeholder debate

1

Students' own answers.

2

A stakeholder – a user of financial information that has an interest in the activities of a business.

3

Likely stakeholder group will be the owners of the business.

4

Job security could be a likely objective of the workforce.

5

Students' own answers.

Activity 3: Code of ethics for accountants

1

Students' own answers. The five fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

2

Students' own answers.

Exam practice: Expansion proposal**1**

Social accounting:

- Business should consider their actions in a social context, not just profit.
- Considers impact on workers, community, environment, etc.
- Long-term benefit for business and society.

Ethical accounting:

- Businesses should report with honesty.
- Not misleading by issuing incorrect statements or financial statements.
- Not withholding relevant information.

2

For expansion:

- From a financial viewpoint, the expansion will increase operating profit margin by 400%, a significant increase to the benefit of the owners.
- Will guarantee future employment and create more jobs
- Customers will benefit as demand for rice and coffee will be met.

Against the expansion:

- Only a few additional employees required, so social impact small.
- Use of water from the local river could be considered unethical.
- Loss of ownership of land by local farmers is an issue, will they be employed by Agri Products – social accounting issue.