

## UNIT 1

### CHAPTER 1

#### Getting Started

If a business chooses the correct type of business organisation it will be easier to carry out its work. If the owner wants to be independent, it is better to conduct the business as a sole trader. It will give the owner independence if they want to be their own boss. If they choose to conduct the business as a partnership, they will have someone to work with and share ideas or will make it easier for them to raise capital (money) to survive and grow.

#### In Chapter Questions

##### Case Study: Partnerships

- 1 So he can become a more successful business owner and increase his profitability.
- 2 Shared skills and knowledge, more capital to invest in the business, cover in case of illness, shared responsibility in case of business losses.
- 3 Hanif and Mzuzi may have arguments over key decisions and having to share the profits. Each partner will be responsible for the debts of the other partner due to unlimited liability in a partnership.

##### Case Study: Dyson Ltd

- 1 The advantages are that you can raise more capital and the owners will have limited liability. Financial institutions are more likely to lend you money due to your limited status.
- 2 The business was set up by an individual and not by the government.
- 3 The shareholders.

#### End of chapter questions

- 1 This is where the owner and the business have the same legal identity and therefore the owner is responsible for the debts of the business.
- 2 This is where the owner, normally a shareholder, is not involved in the day-to-day running of the business.
- 3 Plumber, window cleaner, car mechanic.
- 4 Unlimited partnership and limited partnership.
- 5 An auditor checks the accounts on behalf of the owners to see if they show a 'true and fair' reflection of the business.
- 6 A public sector organisation is one that is run by the government.
- 7 Owners – responsibility of running the business – profit or loss.  
Employees – work for the business – pay and working conditions.  
Customers – the quality and price of the products.  
Government – collecting the taxes from the business.  
Suppliers – selling goods or services to the business and assessing the creditworthiness of the business.
- 8 More than one owner, a partnership could have limited liability.

- 9 To gain limited liability, to increase the amount of capital in the business so it is easier to expand.

### Exam Practice

1A, 2B, 3C, 4C, 5C, 6A, 7C, 8C, 9D, 10A

## CHAPTER 2

### Getting Started

Investigate packages such as Microsoft Office, Quickbooks, Clearbooks and Xero.

### In Chapter Questions

#### Case Study: Accounting Software

Documents can be shared online, which will help him to update the accounts of all the branches from one place.

Accounting information from several branches can be merged, making decision-making easy and fast.

### End of Chapter Questions

- 1 Anti-virus software, complicated passwords.
- 2 Email, cloud.
- 3 You can save your work, easy to send to other people, calculations and templates are already there for you to use.
- 4 Hacking, failure in technology – power cut, some software is expensive.

### Exam Practice

1B, 2D, 3D, 4C

## CHAPTER 3

### Getting Started

Do research about the Enron and Arthur Andersen scandals.

**In Chapter Questions****Case Study: Satyam Scandal**

So that investors trust the business and will be willing to lend money to that business.

**End of Chapter Questions**

- 1 Income statement, Statement of Financial Position, Statement of cash flows.
- 2 Being unbiased when valuing the assets of a business.
- 3 Not talking about the company's financial information. Telling a competitor what prices you are going to charge.
- 4 'In the public interest' means that accountants must present accounts in a true and fair view.
- 5 By following the codes of conduct and following the rules.
- 6 Payroll, Book-keeping, Auditing the accounts.

**Exam Practice**

1C, 2A, 3C, 4B, 5A

**UNIT 2****CHAPTER 4****Getting Started**

Students' own answers

**In Chapter Questions****Case Study: Source Documents**

- 1 Cash receipt
- 2 Bank statement, deposit slip counterfoil from the bank
- 3 Purchase order, invoice received from the supplier
- 4 Bank statement
- 5 Credit note received

**End of Chapter Questions**

- 1 Statement of account
- 2 Invoice
- 3 When goods have been returned to them from another business.

**Exam Practice**

1A, 2D, 3D, 4C

5 Anakin – credit note, statement of account; Caleb – purchase order

- 6 a Invoice  
b Credit note

**CHAPTER 5****Getting Started**

Students' own answers

**End of Chapter Questions**

1b, 2c, 3d, 4b, 5c

- 6 Invoices  
7 Credit notes  
8 Record more uncommon transactions, e.g. purchase of non-current assets on credit, year-end adjustments, correction of errors  
9 Purchase returns account in the nominal ledger and the supplier's accounts in the purchases ledger.

**Exam Practice**

1C, 2D, 3B, 4B, 5C

**6**

Journal	Dr	Cr
Purchases	£5000	
Capital		£5000
Fixtures and fittings	£8000	
Capital		£8000
Bank	£3500	
Capital		£3500
Cash	£100	
Capital		£100
Bank	£5000	
Loan (Brother)		£5000

**CHAPTER 6**

**Getting Started**

Students' own answers

**End of Chapter Questions**

- 1 a Nominal
- b Nominal
- c Nominal
- d Trade payables
- e Trade receivables
- f Nominal

2 Error of transposition (error of original entry)

3 a

Stationary	20	
Purchases		20
Drawings	60	
Purchases		60
Motor vehicle repairs	600	
Motor vehicles	15 000	
P.J. Motors		15 600

- b A narrative is used to explain why the transaction has taken place.
- c It helps explain to anyone checking the accounts and gives context on why it has happened.

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				<b>Capital</b>			
					01-Sep	Bank	2000
				<b>Bank</b>			
01-Sep	Capital	2000		03-Sep	Purchases		200
06-Sep	Revenue	95		14-Sep	D Smith		100
20-Sep	Revenue	55		24-Sep	Purchase returns Rowcester		55
22-Jan	I Wain	180		27-Sep	Machinery Co		500
				<b>Purchases</b>			
03-Sep	Bank	200					
05-Sep	D Smith	150					
				<b>D Smith</b>			
07-Sep	Purchases returns	50		05-Sep	Purchases		150
14-Sep	Bank	100					

				<b>Revenue</b>			
				06-Sep	Bank		95
				10-Sep	I Wain		105
				20-Sep	Bank		55
				<b>Purchases returns</b>			
24-Sep				07-Sep	D Smith		50
				<b>I Wain</b>			
10-Sep	Revenue		105	17-Sep	Revenue returns		25
				22-Sep	Bank		180
				<b>Machinery</b>			
12-Sep	Rowcester Machinery Co		500				
				<b>Rowcester Machinery Co</b>			
27-Sep	Bank		500	12-Sep	Machinery		500
				<b>Revenue returns</b>			
17-Sep	I Wain		25				
	Bank		55				

### Exam Practice

1D, 2D, 3A, 4A, 5B, 6A, 7D, 8C, 9D, 10A, 11A, 12C, 13A & D, 14B

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Dr			Cr			
Date	Details	£	Equity	Date	Details	£
30-Apr	Balance c/d	<u>2000</u>		01-Apr	Cash	<u>2000</u>
				01-May	Balance b/d	2000
01-Apr	Equity	2000	<b>Cash</b>	02-Apr	Bank	1750
		<u>2000</u>		30-Apr	Balance c/d	<u>250</u>
						<u>2000</u>
01-May	Balance b/d	250	<b>Bank</b>	04-Apr	Van Business equipment	1000 250
02-Apr	Cash	1750		17-Apr	Johnson Brothers	350

		<u>1750</u>		30-Apr	Balance c/d	<u>150</u>
						<u>1750</u>
01-May	Balance b/d	150				
			<b>Van</b>			
04-Apr	Bank	<u>1000</u>		30-Apr	Balance c/d	<u>1000</u>
01-May	Balance b/d	1000				
			<b>Typewriter</b>			
06-Apr	Business equipment	<u>250</u>		30-Apr	Balance c/d	<u>250</u>
01-May	Balance b/d	250				
			<b>Business equipment</b>			
12-Apr	Bank	<u>250</u>		06-Apr	Typewriter	<u>250</u>
			<b>Photocopier</b>			
11-Apr	Johnson Brothers	350				
			<b>Johnson Brothers</b>			
17-Apr	Bank	<u>350</u>		11-Apr	Photocopier	<u>350</u>

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Dr				Cr		
Date	Details	£	Equity	Date	Details	£
31-Jul	Balance c/d	<u>6000</u>		01-Jul	Bank	<u>6000</u>
				01-Aug	Balance b/d	6000
			<b>Bank</b>			
01-Jul	Equity	6000		01-Jul	Rent	100
06-Jul	Cash	600		01-Jul	Fittings	1200
				01-Jul	Refrigerators	700
				02-Jul	Motor vehicles	2000
				02-Jul	Motor insurance	55
				02-Jul	Van licence	40
				31-Jul	Balance c/d	<u>2505</u>
		<u>6600</u>				<u>6600</u>
01-Aug	Balance b/d	2505				
			<b>Rent</b>			
01-Jul	Bank	<u>100</u>		31-Jul	Balance c/d	<u>100</u>
01-Aug	Balance b/d	100				
			<b>Fittings</b>			
01-Jul	Bank	<u>1200</u>		31-Jul	Balance c/d	<u>1200</u>

01-Aug	Balance b/d	1200			
			<b>Refrigerators</b>		
01-Jul	Bank	<u>700</u>		31-Jul	Balance c/d <u>700</u>
01-Aug	Balance b/d	700			
			<b>Motor vehicles</b>		
02-Jul	Bank	<u>2000</u>		31-Jul	Balance c/d <u>2000</u>
01-Aug	Balance b/d	2000			
			<b>Motor insurance</b>		
02-Jul	Bank	<u>55</u>		31-Jul	Balance c/d <u>55</u>
01-Aug	Balance b/d	55			
			<b>Van licence</b>		
02-Jul	Bank	<u>40</u>		31-Jul	Balance c/d <u>40</u>
01-Aug	Balance b/d	40			
			<b>J Eulie</b>		
31-Jul	Balance c/d	<u>800</u>		03-Jul	Purchases <u>800</u>
			<b>Purchases</b>	01-Aug	Balance b/d 800
03-Jul	J Eulie	<u>800</u>		31-Jul	Balance c/d <u>800</u>
01-Aug	Balance b/d	800			
			<b>Cash</b>		
04-Jul	Revenue	643		05-Jul	Cleaning 3
		<u>643</u>		06-Jul	Bank 600
01-Aug	Balance b/d	40		31-Jul	Balance c/d <u>40</u>
			<b>Revenue</b>		<u>643</u>
31-Jul	Balance c/d	<u>643</u>		04-Jul	Cash <u>643</u>
			<b>Cleaning</b>	01-Aug	Balance b/d 643
05-Jul	Cash	<u>3</u>		31-Jul	Balance c/d <u>3</u>
01-Aug	Balance b/d	3			



**CHAPTER 7****Getting Started**

IT equipment, fixtures and fittings, motor vehicle. Some assets suffer from wear and tear or go out-of-date more quickly than others.

**In Chapter Questions****Case Study: Straight Line Method**

$$(22\,000 - 500) / 10 = \text{MOP}2150$$

**Case Study: Reducing Balance Method**

$$2016: 20\,000 \times 40\% = \$8000$$

$$2017: (20\,000 - 8000) \times 40\% = \$4800$$

$$2018: (20\,000 - 12\,800) \times 40\% = \$2880$$

**End of Chapter Questions**

- 1 Depreciation is where a non-current asset loses its value over a period of time.
- 2 Straight line has the same depreciation figure each year, whereas reducing method has a different figure each year.
- 3 Prudence, consistency.
- 4 How much the non-current asset is worth after depreciation has been taken off.
- 5 Debit income statement, credit – provision for depreciation

**Exam Practice**

1A, 2B, 3D, 4C, 5B, 6A, 7A, 8B, 9B

10 a 2015 – £3300, 2016 – £3300, 2017 – £3300

b £12 100

c Journal entries

2015

Income statement	3300	
Prov for depreciation		3300

2016

Income statement	3300	
Prov for depreciation		3300

2017

Income statement	3300	
Prov for depreciation		3300

11 a  $(76\,000 - 16\,000) / 5 = \text{£}12\,000$

b 20%

**12 a** Depreciation – salon chairs £160, air conditioner £1600

<b>b</b> Non-current assets	Cost	Dep	Carrying value
Salon chairs	1000	360	640
Air conditioner	8000	1600	6400

## UNIT 3

### CHAPTER 8

#### Getting Started

Debit – Rent paid, insurance, wages, revenue returns

Credit – Purchases returns

#### In Chapter Questions

##### Case Study: Trial Balance

	Dr	Cr
Revenue		52 000
Rent	4000	
Wages	12 000	
Electricity	5000	
Discount received		5200
Discount allowed	2300	
Trade payables		7200
Trade receivables	8500	
Suspense account		2600
Purchases	35 200	
	<u>67 000</u>	<u>67 000</u>

#### End of Chapter Questions

- 1 Debit side.
- 2 Not all errors are revealed.
- 3 It is an arithmetical check on the accuracy of the ledgers.
- 4 Bought down and carried down.
- 5 Suspense account.

#### Exam Practice

1D, 2D, 3C, 4A, 5A, 6A, 7B, 8C

9

	Dr	Cr
Non-current assets	24 200	
Provision for depreciation		7400
Inventory	4500	
Bank	1250	
Revenue		72 340
Revenue returns	800	
Purchases	38 150	
Carriage outward	200	
Salaries	5000	
Marketing	7200	
Heating and lighting	8940	
Equity		12 500
Drawings	2000	
	92 240	92 240

10

a

	Dr	Cr
Bank		4350
Capital (Equity)		16 650
Drawings	9000	
Expenses	42 500	
Inventories	16 500	
Machinery	12 000	
Purchases	84 000	
Sales revenue		135 000
Trade payables		1700
Trade receivables	700	
Suspense		7000
	164 700	164 700

b

		<b>Suspense account</b>				
30-Apr	Sales revenue	9000		30-Apr	Drawings	500
				30-Apr	Cash	1500
				30-Apr	Trial Balance	7000
		9000				9000

c

	Dr	Cr
Bank		4350
Capital (Equity)		16 650
Drawings	9500	
Expenses	42 500	
Inventories	16 500	
Machinery	12 000	
Purchases	84 000	
Sales revenue		144 000
Trade payables		1700
Trade receivables	700	
Cash	1500	
	<u>166 700</u>	<u>166 700</u>

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	Dr	Cr
Equity		10 500
Cash in hand	1320	
Discount received		96
Drawings	3600	
Fixtures and fittings	2170	
General expenses	1050	
Inventory	2567	
Purchases	4600	
Revenue returns	92	
Sales revenue		8538
Trade payables		3380
Trade receivables	3197	

## CHAPTER 9

### Getting Started

Debit, expenses, assets and drawings

Credit, liabilities, income and capital

### In Chapter Questions

#### Case Study: Tesco Loses £2 Billion in Value

Owned up to it straight away and adjusted their profits.

Use a different auditor (change the heads in their finance department first).

### End of Chapter Questions

- 1 The journal is used to record unusual transactions that are not recorded in the other journals, e.g. correction of errors, year-end adjustments etc.
- 2 The suspense account is used when the trial balance doesn't balance.
- 3 When an entry is entered into the wrong personal account.
- 4 When an error has been made while totalling the account, and the totalled figure is more than the correct amount.
- 5 Increase profit.
- 6 Credit side.

7b, 8b, 9a, 10b, 11d, 12b, 13b, 14d, 15b, 16b, 17d

### Exam Practice

- 1 a Complete reversal.  
b Bill would have less revenue and therefore his profit would be lower.
- 2 The trial balance would still balance, so you would just use the journal to correct the answer.
- 3 a To help look for errors in the accounts. A business needs to prepare their final accounts and a balanced Statement of Financial Position. If the errors are not located by the time of preparing the draft final accounts then the suspense account is included in the financials until the errors are located and the suspense balance is eliminated.

b

Rent paid	387	
Suspense		387
L Kong	863	
K Long	863	
Suspense		1726
Fixtures & fittings	7500	
Purchases		7500
Cash	400	
Tamara		400
Purchases returns	850	
Sales returns	680	
Suspense		1530

- 3 c  $22\,500 + 7500 + 680 - 387 - 850 = 29\,443$

4 a

Suspense account	230	
Loan account		230
Cash	1200	
Revenue		1200
Purchases	800	
Suspense		800
Carpet	1400	
Repairs		1400

b

		<b>Suspense account</b>		
Loan account	230		Purchases	800
Trial balance difference	<u>570</u>			<u>800</u>
	<u>800</u>			

**CHAPTER 10**

**Getting Started**

Trade payables, trade receivables, nominal ledger.

To make it easier to locate the errors when the trial balance fails to balance. These controls will act as mini trial balances.

**In Chapter Questions**

**Case Study: Trade Receivables Account**

		<b>Trade receivables</b>		
Credit sales	8678		Sales returns	840
			Bank	5762
			Discount allowed	342
			Irrecoverable debt	45
			Balance c/d	<u>1689</u>
	<u>8678</u>			<u>8678</u>
Balance b/d	1689			

**End of Chapter Questions**

- 1 To act as another check on the trade payables and trade receivables ledgers.
- 2 A set-off between two entries in both control accounts.
- 3 It would depend on the business, but normally monthly.
- 4 Trade receivables ledger control account.
- 5 Nominal, trade payables and trade receivables.
- 6 They should balance. The totals of all the balances of the trade receivables ledger should be the same as the balance in the control account
- 7 Make sure you pay your suppliers on time and don't get a bad reputation. Locate errors and avoid fraud.

**Exam Practice**

1A, 2A, 3C, 4D, 5A

6

**Trade receivables ledger control account**

01-Apr	Balance b/d	1 028 944			
30-Apr	Sales day book	43 123	30-Apr	Discount allowed	795
	Bank	1262	30-Apr	Bank	54 754
	Dario Feng	100	30-Apr	Returns inward	2345
			30-Apr	Irrecoverable debt	182
			30-Apr	Set-off / Contra	899
			30-Apr	Balance c/d	1 014 454
		1 072 067			1 072 067
01-May	Balance b/d	1 014 454			

**CHAPTER 11****Getting Started**

N/A

## In Chapter Questions

## Case Study: Bank Reconciliation Statement

		<b>Cash book</b>		
01-Feb	Balance b/d	695	T Gramson	200
	J Sahif	18	Balance c/d	513
		<u>713</u>		
01-Feb	Correct balance b/d	513		
		<u>513</u>		
Balance as per cashbook		513		
Add unpresented cheques		384		
		<u>123</u>		
Balance as per bank statement		1020		

## End of Chapter Questions

		<b>Cash book</b>		
<b>1 a</b>				
30-Apr	Balance b/d	620	Bank charges	15
	Interest	20	Insurance DD	40
	Bank transfer Aisha	130		
			Dishonoured	65
			Balance c/d	650
		<u>770</u>		
	Balance b/d	650		
		<u>650</u>		
<b>b</b>	Balance as per cashbook	650		
	Add unpresented cheques	250		
	Less lodgements	<u>310</u>		
	Balance as per bank statement	<u>590</u>		

**c** Incorrect adding up in the cashbook, incorrect entry in the cashbook.



**ACCOUNTING Student Book Answers**

2	Balance as per cash book	(1780)
	Add unpresented cheques	270
	Less lodgements	<u>800</u>
	Balance as per bank statement	(2310)

3

**Cash book**

Balance b/d	2073	Error correction	90
		Insurance	360
		Dishonoured cheque	314
		Bank charges	11
		Balance c/d	<u>1298</u>
	<u>2073</u>		<u>2073</u>
Balance b/d	1298		

**Bank reconciliation statement**

Balance as per cash book	1298
Add unpresented cheques	390
Less lodgements	<u>500</u>
	1188
Add bank error	<u>62</u>
Balance as per bank statement	1250

**Exam Practice**
**1D, 2D, 3D, 4B, 5C, 6C, 7C, 8B**

- 9 The check for fraud and to correct any errors that may have occurred in the cash book or by the bank.
- 10 Monthly.
- 11 Someone who is paying money.
- 12 Standing order is the same amount each month, a direct debit can differ each month.
- 13 Overdrawn – negative bank balance.
- 14 A receipt not yet entered in the bank statement.

**UNIT 4**
**CHAPTER 12**
**Getting Started**

Shop fittings, land, building, equipment – till  
 Heating, lighting, wages

**In Chapter Questions****Case Study: Capital Expenditure and Revenue Expenditure**

Magazines and books: Revenue expenditure

Shop fittings: Capital expenditure

Cash register: Capital expenditure

Stationery: Revenue expenditure

Refrigerator: Capital expenditure

**Case Study: Expenditure, Profit and Assets**

a Profit:  $\$10\,800 - \$200 = \$10\,600$

b Non-current assets:  $\$72\,345 + \$3000 + \$500 + \$300 = \$76\,145$

**End of Chapter Questions**

- 1 Purchase of motor vehicle, buildings and fixtures and fittings.
- 2 Rent, wages, electricity.
- 3 Cash sales.
- 4 Sale of motor vehicle.
- 5 Revenue expenditure goes in the income statement and capital expenditure goes in the Statement of Financial Position. If the two expenditures are not correctly classified, your profit and non current asset figures could be distorted (either both will be overstated or understated).

**Exam Practice**

1B, 2A, 3B, 4A, 5D, 6B, 7C, 8B

**CHAPTER 13****Getting Started**

Students' own answers

**In Chapter Questions****Case Study: Accounting Concepts**

Business entity – owner and business transaction should be kept separate. Profit should increase by 13 000 rupees.

Prudence and accruals – you should not anticipate profits. Profit should fall by 1 000 000 rupees.

Prudence – inventory should be recorded at the lowest value. Profit should fall by 15 000 rupees.

**End of Chapter Questions**

- 1 They ensure that the accounts give a true and fair view of the business. Comparison of different businesses' accounts can be done.
- 2 It states that you may record only transactions and activities that could be measured in monetary terms
- 3 You can compare your figures from year-to-year easily.
- 4 Prudence.
- 5 Inventory should always be recorded at its lowest value. Prudence concept.

**Exam Practice**

1B, 2C, 3D, 4C, 5B, 6D, 7A

- 8 When the owner does not charge petrol for personal use to the business expenses but shows it separately under drawings.
- 9 Your profits may be overstated and you may think you have more money than you do, and you may be eligible to pay more tax.
- 10 Consistency

**CHAPTER 14****In Chapter Questions****Case Study: Trial Balance Part 1**

	£	£
Sales revenue		150 000
Sales returns		<u>6 000</u>
Net revenue		144 000

**Cost of sales**

Opening inventories	12 000	
Purchases	45 000	
Carriage in	500	
purchase returns	<u>6 000</u>	
Net purchases	51 500	
Closing inventories	<u>(8 000)</u>	
Cost of goods sold		<u>43 500</u>
Gross profit		100 500

**Less expenses**

Rent	30 000
Wages	25 000

Electricity	7000	
Administration	10 000	
Fuel	5000	
Insurance	6000	83 000
		<hr/>
Profit for the year		<u>17 500</u>

**Case Study: Trial Balance Part 2**

<b>Non current assets</b>	£	£
Buildings		100 000
Motor vehicles		30 000
		130 000

<b>Current assets</b>		
Inventories	8000	
Trade receivables	3000	
Cash	25 000	36 000
<b>Net assets</b>		166 000

<b>Equity</b>		
Opening equity		100 000
Add profit for the year		17 500
Less drawings		12 000
Closing equity		105 500

<b>Non current liabilities</b>		
Bank loan		29 500

<b>Current liabilities</b>		
Trade payables		18 000
Bank		13 000
		166 000

**End of Chapter Questions**

- 1 All the income and expenses of the business and how much profit is made.
- 2 All the assets, liabilities of the business and the value of the business.
- 3 An asset that is owned by the business for more than one year.
- 4 The cost of the items used for resale.
- 5 Money invested in the business by the owner or owners.

**Exam Practice**

1B, 2A, 3C, 4A, 5C, 6C, 7A, 8C, 9A, 10B

## 11 a

<b>Non current assets</b>	Cost	Dep	Carrying value
Machinery	20 000	12 000	8000
<b>Current assets</b>			
Inventories		3000	
Trade receivables		1000	
Bank		500	4500
Net assets			12 500
<b>Equity</b>			
Opening capital			6000
Profit for the year			7500
Drawings			4500
			9000
<b>Current liabilities</b>			
Trade payables			700
<b>Non current liabilities</b>			
Loan			2800
Equity and liabilities			12 500

**b i** Money used for the day-to-day running of the business. Current assets minus current liabilities.

**ii** 3800

## 12

Sales revenue	200 000
Revenue returns	12 000
Net revenue	188 000

**Cost of sales**

Opening inventories	18 000
Purchases	99 000
Carriage in	4000
Purchase returns	(8000)
Net purchases	113 000
Closing inventories	17 000
Cost of goods sold	96 000
Gross profit	92 000
<b>Less expenses</b>	
Rent	40 000

Wages	25 000	
Electricity	7 000	
Administration	10 000	
Fuel	21 000	
Insurance	6 000	109 000

Loss for the year		<u>(17 000)</u>
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**Non current assets**

	£	£
Buildings		140 000
Motor vehicles		<u>37 000</u>
		177 000

**Current assets**

Inventories	17 000	
Trade receivables	3 000	
Cash	<u>15 000</u>	35 000

**Net assets**

	<u>212 000</u>
--	----------------

**Equity**

Opening capital	180 000
Less loss for the year	17 000
Less drawings	<u>22 000</u>
Closing capital	141 000

**Non current liabilities**

Bank loan	40 000
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**Current liabilities**

Trade payables	18 000
Bank	<u>13 000</u>
	<u>212 000</u>

**13**

Non current assets	50 500
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Current assets	<u>47 000</u>
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Net assets	<u>97 500</u>
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**Equity**

Capital	74 000
Profit	3 000
Drawings	<u>9 000</u>
Closing capital	68 000

Current liabilities	19 000
	<u>87 000</u>

14

	£	£
Sales revenue		500 000
Sales returns		<u>17 500</u>
Net revenue		482 500

**Cost of sales**

Opening inventories	12 345	
Purchases	237 899	
Carriage in	4 321	
Purchase returns	<u>(8 888)</u>	
Net purchases	245 677	
Closing inventories	<u>(17 000)</u>	
Cost of goods sold		<u>228 677</u>
Gross profit		253 823

**Less expenses**

Rent	44 444	
Wages	22 552	
Electricity	7 777	
Administration	11 111	
Fuel	21 211	
Insurance	<u>6 789</u>	<u>113 884</u>

Profit for the year		<u><u>139 939</u></u>
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**Non current assets**

	£	£
Buildings		250 000
Motor vehicles		<u>55 555</u>
		305 555

**Current assets**

Inventories	17 000	
Trade receivables	3 456	
Cash	<u>34 567</u>	<u>55 023</u>

<b>Net assets</b>		<u><u>360 578</u></u>
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**Equity**

Opening capital		123 456
Add profit for the year		139 939
Less drawings		<u>20 483</u>
Closing capital		242 912

**Non current liabilities**

Bank loan 44 444

**Current liabilities**

Trade payables 18 901

Bank 54 321

360 578

### CHAPTER 15

#### Getting Started

Student's own answers

#### In Chapter Questions

##### Case study: Other Receivables and Payables

Income statement 68 000

Statement of Financial Position under current liabilities, other payables 6000

#### End of Chapter Questions

1b, 2a, 3b, 4a, 5d, 6d, 7b, 8d, 9b, 10a, 11b, 12c, 13d

14 Adjustment made for expenses and income paid in the wrong financial period.

15 Expenses paid in advance. Money that the business could ask for.

16 Other receivables in current assets and other payables in current liabilities.

#### Exam Practice

1

			<b>Electricity</b>			
31-Mar	Bank	18 000		01-Apr	Balance b/d	3000
31-Mar	Balance c/d	<u>4000</u>		31-Mar	Income statement	<u>19 000</u>
		22 000				22 000
				01-Apr	Balance b/d	4000

2

			<b>Insurance</b>			
31-Mar	Balance b/d	60		01-Apr	Income statement	258
31-Mar	Bank	<u>264</u>		31-Mar	Balance b/d	<u>66</u>
		324				324
01- Apr	Balance b/d	66				



3

	£	£
Sales revenue		375 000
Revenue returns		<u>420</u>
Net revenue		374 580

**Cost of sales**

Opening inventories	62 000	
Purchases	195 000	
Carriage in		
Purchase returns		
Net purchases	<u>257 000</u>	
Closing inventories	<u>50 000</u>	
Cost of goods sold		<u>207 000</u>
Gross profit		167 580
Discount received		180
<b>Less expenses</b>		<b>167 760</b>
Rent (20 000 – 4000)	16 000	
Wages	37 000	
Electricity (8000+2000)	10 000	
Irrecoverable debt	520	
Fork lift dep	4500	
Motor car dep	4800	
General office	<u>18 000</u>	<u>90 820</u>
Profit for the year		<u><u>76 940</u></u>

<b>Non current assets</b>	Cost	Dep	Carrying value
Forklift truck	20 000	9000	11 000
Motor vehicles	<u>18 000</u>	<u>10 800</u>	<u>7200</u>
	38 000	19 800	18 200
<b>Current assets</b>			
Inventories		50 000	
Trade receivables	16 200		
Allowance irrecoverable debts	<u>2640</u>	13 560	
Bank		3840	
Cash		120	<u>71 520</u>
<b>Net assets</b>			<u><u>89 720</u></u>

**Equity**

Opening capital	14 680
Add profit for the year	76 940
Less drawings	18 500
Closing capital	73 120

**Non current liabilities**

Bank loan

**Current liabilities**

Other payables	2000
Trade payables	<u>14 600</u>
	<u><u>89 720</u></u>

**CHAPTER 16****Getting Started**

Write a letter. Don't sell them any more products. If the amount is large, you could resort to legal action. Otherwise you may write off the debt as a loss.

**In Chapter Questions****Case study: Source Documents**

	Irrecoverable debts
Income statement	2 320 000

**Case Study: Irrecoverable Debts**

<b>2015</b>	<b>Allowance for irrecoverable debt</b>	31-Jul	Income statement	<b>2015</b>
				1680

<b>Income statement extract</b>	\$
Profit for the year	75 320
Allowance for irrecoverable debt	1680
Correct profit for the year	73 640

<b>Current assets</b>	<b>2015</b>
Trade receivables	42 000
Allowance	1680
	<u>40 320</u>

**Allowance for irrecoverable debts****2016**

Date		Amount	Date		Amount
			1.8.15	Balance b/d	1 680
31.7.16	Balance c/d	2 350	31.7.16	Income statement	670
		2 350			2 350
			01.8.16	Balance b/d	2 350

**Income statement extract**

Profit for the year	85 000
Allowance for irrecoverable debt	670
Correct profit for the year	84 330

**Current assets**

Trade receivables	47 000
Allowance	2350
	44 650

**End of Chapter Questions**

1a, 2c, 3d, 4b, 5b

6 Money owed to the business by credit customers.

7 Nominal ledger

8 Prudence

9 Nominal ledger

10 So that it does not overstate its profits and shows a true and fair view in the financial statements.

**Exam Practice**

1 a 4% of \$38 000 = \$1520

b

**Current Assets**

Trade		
Receivables	38 000	
Allowance	1520	36 480

2 a

**2015** **Irrecoverable debt**

31-Jan Trade receivables 1200

**2017** **Irrecoverable debt**

31-Jan Trade receivables 400

**Allowance for irrecoverable debt**

31-Jan Trade receivables **2015**  
1420

**Allowance for irrecoverable debt**

31-Jan Trade receivables **2016**  
1800

**Allowance for irrecoverable debt**

31-Jan Trade receivables **2017**  
1900

**Current assets** **2015**  
Trade receivables 14 200  
Allowance 1420 12 780

**Current assets** **2016**  
Trade receivables 18 000  
Allowance 1800 16 200

**Current assets** **2017**  
Trade receivables 19 000  
Allowance 1900 17 100

3 a 5%

b The number of irrecoverable debts has increased so it would be prudent to increase the provision so profits are not overstated. Since they maintain a percentage rate, it may be the amount of trade receivables has increased as at that date.

c

	Dr	Cr
Income statement	428	
Allowance for irrecoverable debt		428
Being adjustment for allowance for irrecoverable debt.		

## CHAPTER 17

### Getting Started

Newsagents, window cleaner, car wash. They are dealing with small value transactions. They may lose some of the paperwork.

### In Chapter Questions

#### Case Study: Incomplete Records 1

Opening capital = 31 600

Closing capital = 31 250

Drawings = 18 000

Profit = 31 250 + 18 000 – 31 600 = 17 650

#### Case Study: Incomplete Records 2

Sales revenue	31 600
<b>Cost of sales</b>	
Inventory	1200
Purchases	17 100
Inventory	<u>1600</u>
Cost of goods sold	<u>16 700</u>
Gross profit	<u>14 900</u>

#### Case Study: Calculating Profits

Gross profit	97 000
<b>Expenses</b>	
Motor expenses	11 990
Advertising	17 097
Rent	<u>13 210</u>
Profit for the year	<u>54 703</u>

**End of Chapter Questions**

- 1 Sole traders are not compelled by law to publish their accounts. They trade alone and bear the risk alone.
- 2 A document showing the assets and liabilities on a certain date.
- 3 Equity or capital.
- 4 Revenue minus cost of sales.
- 5 Gross profit minus all expenses, adding other income if any.

**Exam Practice**

1D, 2B, 3D, 4C, 5A, 6D, 7B, 8A

9

<b>Non current assets</b>	Cost	Dep	Carrying value
Premises	90 000		90 000
Equipment	50 000	3000	47 000
			137 000

**Current assets**

Inventories		17 500	
Trade receivables		19 350	
Bank			
Cash		100	36 800
<b>Net assets</b>			173 950

**Equity**

Opening capital	145 000
Add profit for the year	10 000
Less drawings	11 000
Closing capital	143 850

**Non current liabilities****Current liabilities**

Trade payables	29 000
Bank	750
Accruals	200
	173 950

**CHAPTER 18****Getting Started**

N/A

**In Chapter Questions****Case Study: Accounting Ratios**

	<b>2017</b>	<b>2016</b>
Gross profit margin	31.20%	27.89%
Profit for the year margin	1.95%	2.86%
Current ratio	1.29:1	1.22:1
Liquid ratio	0.96:1	0.89:1

Gross profit margin has improved, whilst profit for the year has decreased. Current ratio and liquid ratio have all improved.

**End of Chapter Questions**

1b, 2d, 3d, 4d, 5a, 6c, 7b, 8b, 9b, 10b, 11c, 12d

**Exam Practice**

1 a GPM 28% PPM 12%

- b The gross profit margin could be higher due to an increase in revenue and a decrease in the cost of sales due to negotiating better prices while purchasing goods, e.g. bulk buying leading to large trade discounts.

The profit for the year as a percentage of revenue could have increased due to an increase in revenue, a decrease in the cost of sales and/or a decrease in expenses.

2 a i Current ratio: 1.52:1, Liquid ratio: 0.69:1

- a ii The liquid ratio would be a better indication of liquidity as it doesn't include inventory. Inventory is the most difficult current asset to turn into cash or liquid form.

b  $4950/52\ 500 = 9.43\%$ **CHAPTER 19****Getting Started**

Student's own answers

**In Chapter Questions****Case Study: Source Documents 1**

Profit for the year		44 000
Less: Interest on capital		
Aran	720	
Newine	<u>900</u>	1620
Less: Salaries		
Newine		<u>9380</u>
		33 000
Less : Share of profits		
Aran	2/3	22 000
Newine	1/3	<u>11 000</u>
		33 000

**Case Study: Source Documents 2****Appropriation account**

Profit for the year	46 784
<b>Add interest on drawings</b>	
Gembira	480
Venna	106
<b>Less interest on capital</b>	
Gembira	2300
Venna	2700
<b>Less salary</b>	
Vanna	<u>8000</u>
	34 370
<b>Profits shared</b>	
Gembira	20 622
Venna	<u>13 748</u>
	34 370



## Current account

	Gembira	Venna		Gembira	Venna
Interest on drawing	480	106	Balance b/d	0	0
			Interest on capital	2300	2700
			Salary		8000
Balance c/d	22 442	24 342	Share of profits	20 622	13 748
	<b>22 922</b>	<b>24 448</b>		<b>22 922</b>	<b>24 448</b>
			Balance b/d	22 442	24 342

## End of Chapter Questions

- 1 Where the owner and the business have the same legal identity and is responsible for all debts.
- 2 They might not work for the business but they just provide capital.
- 3 This is because it would be charged interest if the business took out a loan. To compensate in a fair manner to the partners for the different amounts of capital each has invested in the business.
- 4 They have invested different amounts of capital in the business.

5a, 6c, 7c, 8b, 9d, 10a, 11c, 12a, 13c

## Exam Practice

## 1 a Income statement

	\$	\$
Gross profit		72 000
Discount received		1000
<b>Less expenses</b>		<b>73 000</b>
Discount allowed	3000	
Heating and lighting	6500	
Rent and rates	13 000	
Depreciation	10 000	
Wages	8200	
General expenses	800	41 500
Profit for the year		31 500
<b>Less interest on capital</b>		
John Faha		10 000
May Ishima		4000
<b>Less salary</b>		
May Ishima		15 000
		2500
<b>Profits shared</b>		
John Faha		1000
May Ishima		1500
		2500

<b>Appropriation account</b>		
Sales revenue		361 480
Revenue returns		0
Net revenue		361 480
Net purchases	356 400	
Closing inventories	109 360	
Cost of goods sold		247 040
Gross profit		114 440
<b>Less expenses</b>		
Salaries	45 668	
Office expenses	1 920	
Motor expenses	2 252	
Heating and lighting	2 000	
Equipment depreciation	2 600	
Motor vehicle depreciation	7 360	61 800
Profit for the year		52 640
<b>Add interest on drawings</b>		
Kidd		628
Mellor		892
<b>Less interest on capital</b>		
Kidd		5 160
Mellor		3 000
<b>Less salary</b>		
Mellor		15 000
		31 000
Profits shared		
Kidd		18 600
Mellor		12 400
		31 000

- b It would stop too much money being withdrawn from the business by the partners. It would share the cost of drawings out fairly.

## 2 Kidd and Mellory Statement of Financial Position as at 31 March 2017

<b>Non current assets</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
Motor vehicle	36 800	22 080	14 720
Equipment	26 000	10 400	15 600
	62 800	32 480	30 320
<b>Current assets</b>			
Inventory		109 360	
Trade receivables		83 840	
Bank		2 460	
Cash		560	196 220
Net assets			226 540
<b>Capital and liabilities</b>			
Capital	Kidd 86 000	Mellory 50 000	136 000
<b>Current accounts</b>			
Opening balances	5 516	4 844	
Interest on capital	5 160	3 000	
Salaries	-	15 000	

Share of profit	18 600	12 400	
Less interest on drawing	628	892	
Less drawings	16 000	22 000	
Balances	12 648	12 352	25 000
<b>Current liabilities</b>			
Trade payables		65 100	
Other payables		440	65 540
Total capital and liabilities			226 540

## CHAPTER 20

### Getting Started

- 1 Raw materials, work-in-progress and finished goods.
- 2 Raw materials – the engine; work-in-progress – engine fitted in the car; finished goods – the completed car.
- 3 N/A

### In Chapter Questions

#### Case Study: Manufacturing Accounts

##### Raw materials

Opening inventory	6000
Purchases	82 494
Closing inventory	<u>17 366</u>
Raw materials consumed	71 128
Direct wages	52 330
Patents	<u>3456</u>
<b>Prime cost</b>	<u>126 914</u>

### End of Chapter Questions

- 1 A cost that can be directly identified with a specific product, i.e. changes directly with the output.
  - 2 A cost that is not involved in the manufacturing of the product but is involved in the factory. Cannot be linked to the items being manufactured. The costs do not change with the level of output.
  - 3 The total amount of direct costs.
  - 4 Straight-line and reducing balance.
  - 5 Raw materials, work-in-progress and finished goods.
- 6c, 7a, 8d, 9a

## Exam Practice

1 a

<b>Raw materials</b>		
Purchases		98 500
Closing inventory		<u>3300</u>
Raw materials consumed		95 200
Direct wages		57 250
<b>Prime cost</b>		152 450
Indirect costs		
Factory wages	22 400	
General expenses	7990	
Fuel and power	3950	
Machinery dep	<u>4450</u>	<u>38 790</u>
		191 240
Closing work-in-progress		<u>2120</u>
Production cost of goods completed		<u><u>189 120</u></u>

b

Revenue		251 400
Cost of sales		
Production cost	189 120	
Closing inventory finished goods	<u>5810</u>	<u>183 310</u>
Gross profit		<u><u>68 090</u></u>

2 a i Whichever is the lowest of cost or net realisable value.

ii Prudence.

b

<b>Opening inventory</b>		
Purchases		285 880
Closing inventory		<u>21 450</u>
Raw materials consumed		282 660
Direct wages		180 708
<b>Prime cost</b>		463 368
Indirect costs		
General expenses	123 493	
Machinery dep	<u>21 000</u>	<u>144 493</u>
		607 861
Opening work-in-progress		15 680
Closing work-in-progress		<u>14 120</u>
Production cost of goods completed		<u><u>609 421</u></u>

**c**

Revenue		915 000	
<b>Cost of sales</b>			
Opening inventory finished goods	56 905		
Production cost	609 421		
Purchase of finished goods	12 555		
Closing inventory finished goods	43 140	635 741	
Gross profit		279 259	