ACCOUNTS TEST

Time: 1 hour and 45 minutes

Marks: 100

Please attempt all questions

1 BC a sole trader prepared the following trial balance from his accounts on 31 August 2022.

	Dr	Cr
	\$	\$
Purchases	120 000	
Revenue		231 500
Sales returns	3600	
Inventory 1 September 2021	11 100	
Capital		111 900
Bank		4 100
Non-current assets at cost		
Premises	98 000	
Machinery	52000	
Provision for depreciation of non-current assets		
Machinery		28400
Commission receivable		2 2 0 0
Trade receivables	19200	
Trade payables		7 300
Discount allowed	600	
Discount received		1 400
Insurance	9600	
Repairs	12400	
Salaries	53900	
Rates	6000	
Carriage inwards	400	
-	386800	386800

Additional information

- 1 The closing inventory at 31 August 2022 was valued at \$12000.
- 2 Commission received of \$800 was owing at 31 August 2022.
- The balance shown for salaries covers the 11 months to 31 July 2022. Salaries for August 2022 are due and unpaid. There have been no salary increases over the previous 12 months and an equal amount is paid each month.
- 4 At 31 August 2022 rates were prepaid by \$300.
- 5 The insurance included \$700 covering a private insurance premium for BC.
- 6 The repairs included \$4000 that related to a new attachment for machinery.
- 7 Machinery is to be depreciated at the rate of 20% per annum by the reducing balance method. A full year's depreciation is charged regardless of the date of any purchases. There were no disposals during the year. Premises are not depreciated.

REQUIRED

(a) Prepare the income statement of BC for the year ended 31 August 2022

BC Income Statement for the year ended 31 August 2022

\$	\$	
	 	 12]
	` 	•

(b)	Calculate the working capital at 31 August 2022.
	[3]

On credit with the full amount of \$6000 payable in 60 days

Obtain a \$6000 8% loan repayable in 5 years

Option 1

Option 2

BC has been making future plans for the business and he needs to purchase \$6000 of machinery immediately. There are two options to finance the purchase.

RE	QUIRED
(c)	Advise BC on which option he should use. Justify your answer.
	[5]

[Total: 20]

2 MC is a trader who maintains a full set of accounting records and prepares control accounts at the end of each month.

REQUIRED

On 1 July 2022

(a) Complete the table to name the book of prime entry which MC would use to obtain information when preparing control accounts.

Item	Book of prime entry
Discount received from credit suppliers	
Purchases returns	
Contra entries	
Interest charged by credit suppliers	

[4]

(b)	Explain how a contra entry is treated in the ledger accounts.
	[2]

\$

MC has provided the following information for the month of July 2022.

Purchases ledger control account credit balance b/d Purchases ledger control account debit balance b/d	21 400 130
Totals for the month	
Credit purchases	259600
Credit purchases returns	9800
Cash purchases	240
Cheques paid to credit suppliers	228 200
Discount received	12900
Cash paid to credit suppliers	500
Interest charges by credit suppliers	150
Contra sales ledger	2260

At 31 July 2022 the purchases ledger control account had a credit balance c/d of \$180.

REQUIRED

(c) Prepare the purchases ledger control account for the month of July 2022. Balance the account and bring down the balances on 1 August 2022.

MC
Purchases ledger control account

Date	Details	\$ Date	Details	\$

Currently MC purchases all goods from a local supplier. He has been offered a monthly price reduction of \$2000 if he changes to an annual contract purchasing all goods from a new overseas supplier.

REQUIRED

(d)	Advise MC whether he should change to the new overseas supplier. Justify your answer.
	[5]

[Total: 20]

3 MG has been in business for a number of years as a furniture manufacturer. On 31 August 2022 the bank column of his cash book showed the business had \$25 600 in the bank account. The bank statement on this date showed a credit balance of \$24815.

The following transactions were included only in the cash book.

	\$
Cheque paid to JW	680
Cheque received from TH	910

In addition, an error had been identified. A standing order for rates of \$205 had incorrectly been recorded in the cash book as \$255.

The following transactions were included only on the bank statement.

	\$
Dishonoured cheque received from RJ	420
Insurance paid by direct debit	110
Bank charges	75

REQUIRED

(a) Update the cash book of MG. Bring down the updated balance on 1 September 2022.

MG Cash book (bank columns only)

Date	Details	\$ Date	Details	\$
		 •••••		

(b) Prepare a bank reconciliation statement at 31 August 2022.

MG Bank reconciliation statement at 31 August 2022

		[4]
(c)	State two reasons why a business would prepare a bank reconciliation statement.	
	1	
	2	
		[2]
(d)	State two possible reasons why the cheque from RJ was dishonoured.	[-]
()	1	
	2	
		[2]
(e)	Explain the differences between a direct debit and a standing order.	
		[2]

(f)

A potential new customer has asked MG for a 5% discount on any orders placed. Advise MG on whether to accept or decline these terms. Justify your answer.
[5]
[Total: 20]

4 PG a trader sells electrical components. She has provided the following information for the year ended 31 July 2022.

	\$
Sales journal for the year ended 31 July 2022	360 000
Sales returns journal for the year ended 31 July 2022	13300
Trade receivables at 1 August 2021	28 500
Provision for doubtful debts at 1 August 2021	1140

Cash book extract of totals for the year ended 31 July 2022

	Discount Allowed	Cash	Bank		Bank
Trade receivables	\$ 6500	\$	\$ 335 100	Trade receivables	\$ 4000
Sales		17000		(dishonoured cheques)	

Additional information

- 1 \$900 of trade receivables were written off as irrecoverable debts on 31 July 2022. There were no other irrecoverable debts during the year.
- 2 The provision for doubtful debts is to be set at 4% of trade receivables at 31 July 2022.

REQUIRED

(a) Prepare the following ledger accounts for the year ended 31 July 2022. Where appropriate show the balance brought down on 1 August 2022.

PG Sales account

Date	Details	\$ Date	Details	\$

Sales returns account

Date	Details	\$ Date	Details	\$

Trade receivables account

Date	Details	\$ Date	Details	\$

Irrecoverable debts account

Date	Details	\$ Date	Details	\$

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$		
					[13]		
(b) Prepare a relevant extract from PG's statement of financial position at 31 July 2022.							
PG							
	Extract from statement of financial position at 31 July 2022						

	Extract from statement of financial position at 31 July 2022	
		[2]
(c)	List three ways in which PG could reduce the possibility of irrecoverable debts.	
		[3]
(d)	State two factors PG should consider when setting the provision for doubtful debts.	
()		
		[-]

[Total: 20]

- **5** Sian and Tom are in partnership sharing profits and losses in proportion to capital invested. The partnership agreement states the following:
 - 1 interest on capital is allowed at 6% per annum
 - 2 Sian is allowed a salary of \$20 000 per annum
 - 3 interest on drawings is charged at 3% per annum, charged for each proportion of the year

The profit for the year before appropriation for the year ended 31 March 2022 was \$59 190.

Drawings made during the year were:

	Sian	Tom
	\$	\$
1 April 2021	8000	10000
1 October 2021	6000	12000

The capital account balances on 1 April 2021 were:

\$
Sian 150 000
Tom 100 000

REQUIRED

(a) Prepare the profit and loss appropriation account for Sian and Tom for the year ended 31 March 2022.

Sian and Tom
Profit and loss appropriation account for the year ended 31 March 2022

\$	\$
 	 [

[8]

The current account balances on 1 April 2021 were:

\$

Sian 3000 credit Tom 7000 debit

REQUIRED

(b) Prepare the extract from the statement of financial position of Sian and Tom that shows the capital accounts and the full details of their current accounts at 31 March 2022.

Sian and Tom Statement of financial position (extract) at 31 March 2022

\$	\$ \$	
 	 	 [8]

(c)	Explain the significance of a debit balance in a partner's current account.
	[2
Siar	n and Tom prepare their financial statements on a going concern basis.
(d)	Explain the accounting principle of going concern.
	[2
	[Total: 20