

## **Test 2**

**Time  
allowed: 1  
hour and 15  
minutes**

**Marks: 100**

1 Saira is a trader. The following transactions took place in January 2023.

- Jan 2 Rent received, \$360, was paid directly into the bank account
- 4 Paid \$343 to Jai by telephone transfer, having deducted 2% cash discount from the amount due
- 7 Paid cash, \$33, for motor expenses
- 13 Cash sales, \$395, were paid directly into the bank account
- 17 Paid \$194 to David, by electronic transfer, having deducted 3% cash discount from the amount due
- 20 Received a cheque, \$388, from Ivan, in full settlement of a debt of \$400
- 27 Withdrew cash, \$150, from the bank for business use
- 29 Paid \$124, cash, for wages

### REQUIRED

- (a) Prepare Saira's cash book on the page opposite.  
Balance the cash book and bring down the balances at 1 February 2023.

Saira  
Cash

Date 2023	Details	Discount allowed \$	Cash \$	Bank \$	Date 2023	Details	Discount received \$	Cash \$	Bank \$
<i>Jan</i>	<i>Balance</i>		<i>110</i>	<i>713</i>	.....	.....	.....	.....	.....
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[13]

Saira has now received a business bank statement and is comparing it to her cash book.

**REQUIRED**

- (b) Complete the table by writing 'increase', 'decrease' or 'no effect' in **each** box to show the effect of recording the items listed, which appeared only on the bank statement. The first one is completed for you as an example.

Items to be adjusted	Effect on bank balance in cash book	Effect on capital
Bank charges	<i>decrease</i>	<i>decrease</i>
Credit transfer from Saira's personal bank account		
Cheque from Ivan was dishonoured		

[4]

The going concern concept requires that Saira's financial statements are prepared under the assumption that her business will continue for an indefinite period of time.

**REQUIRED**

- (c) State why **each** external user of the accounting statements would be interested in Saira's business continuing indefinitely.

User	Reason
Bank manager	
Government	
Trade payables	

[3]

[Total: 20]

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- 2 Rai is a trader. He has prepared his trial balance at 31 January 2023. The credit side totalled \$152 more than the debit side. Rai placed the difference in a suspense account.

Rai later discovered the following errors.

- 1 Wages, \$200, had been entered in the cash book but omitted from the wages account.
- 2 A credit purchase, \$247, from Stella, had been debited to Stella's account and credited to the purchases account.
- 3 The rent payable account and the sales account had both been overcast by \$100.
- 4 A cheque for motor expenses, \$75, had been debited twice to the motor expenses account.
- 5 A payment to Jasper, \$196, had been recorded as \$169 in Jasper's account.

### REQUIRED

- (a) Prepare the journal entries to correct errors 1–5. Narratives are **not** required.

Rai  
Journal

Error number	Details	Debit \$	Credit \$
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(b) Prepare the suspense account.

Rai  
Suspense account

Date	Details	\$	Date	Details	\$
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Rai's original draft profit, before correcting the errors, was \$9800.

**REQUIRED**

(c) Calculate Rai's profit **after** correction of errors 1–5.

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..... [4]

Rai's trial balance was used to check the arithmetical accuracy of the ledger accounts. His journal was used to correct the errors found.

**REQUIRED**

(d) State:

(i) **one** other use of the trial balance

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..... [1]

(ii) **one** other use of the journal.

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..... [1]

[Total: 20]



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- 3 Lucas is a trader. He has provided the following information.

	\$
Balances at 1 January 2023	
Sales ledger control account	14 940 debit
Purchases ledger control account	8 450 credit
Totals for January 2023	
Credit sales	12 736
Cash sales	3 992
Credit purchases	7 325
Returns to credit suppliers	463
Returns from credit customers	920
Cash received from credit customers	685
Bank transfers received from credit customers	10 620
Bank payments to credit suppliers	6 675
Irrecoverable debts written off	140
Discount received	210
Contra entries	180
Interest charged on overdue purchases ledger accounts	166

### REQUIRED

- (a) Prepare the sales ledger control account for January 2023. Balance the account and bring down the balance at 1 February 2023.

Lucas  
Sales ledger control

Date	Details	\$	Date	Details	\$
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[6]

(b) Prepare the purchases ledger control account for January 2023. Balance the account and bring down the balance at 1 February 2023.

Lucas  
Purchases ledger control

Date	Details	\$	Date	Details	\$
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- 4 Adya is a trader. She buys and sells one type of good only. She has provided the following information.

	\$
For the year to 31 October 2022	
Revenue	98 000
Purchases	62 305
Expenses	31 188
Other income	4 630

At 31 October 2022

Inventory	7 500
Trade receivables	9 240
Trade payables	5 365
Bank overdraft	5 135

The inventory quantity and valuation at 31 October 2022 are double those at 31 October 2021.

**REQUIRED**

- (a) Complete the following tables.

Gross margin	
Working	Answer (correct to two decimal places)

Profit margin	
Working	Answer (correct to two decimal places)

Rate of inventory turnover	
Working	Answer (correct to two decimal places)

Liquid (acid test) ratio	
Working	Answer (correct to two decimal places)

[9]

Adya's purchases price has remained constant throughout both years ended 31 October 2021 and 31 October 2022. The following information relates to Adya's business for the year ended 31 October 2021.

Gross margin	37.60%
Profit margin	14.85%
Rate of inventory turnover	12 times
Liquid (acid test) ratio	1.15:1

**REQUIRED**

**(b)** Comment on the changes in:

**(i)** gross margin

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..... [2]

**(ii)** the liquid (acid test) ratio.

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..... [2]



Adya is concerned about the increase in inventory over the year to 31 October 2022. She is considering reducing her selling price to increase the quantity of goods she can sell.

**REQUIRED**

(c) Advise Adya whether she should reduce her selling price. Justify your answer.

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One of the limitations of financial statements is that there is a gap between the end of the financial year and the preparation of the financial statements.

**REQUIRED**

(d) Explain how this limitation may influence Adya’s decision about whether or not to reduce her selling price.

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..... [2]

[Total: 20]

- 5 Samir and Punita are in partnership. The partnership agreement provides for the following:
- interest on drawings of 5%
  - interest on capital of 3% per annum
  - a salary to Punita of \$11 000 per annum
  - residual profits and losses are to be shared 60% to Samir and 40% to Punita.

The partners provided the following information.

Profit for the year ended 31 December 2022	\$ 24 600
Capital account balances at 1 January 2022	
Samir	80 000
Punita	75 000
Current account balances at 1 January 2022	
Samir	6 450 credit
Punita	8 335 credit
Drawings for the year ended 31 December 2022	
Samir	16 000
Punita	12 400

**REQUIRED**

(a) Prepare the appropriation account for Samir and Punita for the year ended 31 December 2022.

Samir and Punita  
Appropriation Account for the year ended 31 December 2022

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- (b) Prepare Punita’s current account for the year ended 31 December 2022. Balance the account and bring down the balance at 1 January 2023.

Punita  
Current account

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Samir would now like to pay the expenses of his own private car from the partnership bank account.

**REQUIRED**

- (c) Place a tick (✓) in the appropriate boxes below to show the effects of Samir paying the expenses of his own private car from the partnership bank account.

	Increase	Decrease	No effect
Partnership profit for the year			
Samir’s drawings			
Samir’s interest on drawings			

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