

## Section A Multiple Choice Questions

1. A business has a good reputation. The owner wishes to include goodwill in the financial statements. An accountant advises against it.

Which accounting concept is the accountant applying?

- A business entity  
 going concern  
 matching  
 prudence
2. Inventories are valued at the lower of cost and net realisable value in the statement of financial position.

Which accounting concept is being applied?

- duality  
 historic cost  
 matching  
 prudence
3. Why is depreciation provided on non-current assets?
- so that the cost is allocated to periods that benefit from them  
 so that the entity concept is applied  
 so that there is enough cash in the business to replace them  
 so that they are shown at market value

4. The table shows extracts from the statements of financial position of a business.

	2014 \$	2015 \$
non-current assets (at cost)	190 000	245 000
less accumulated depreciation	75 000	90 000
net book value	115 000	155 000

Other information for the financial year 2015 is as follows.

	\$
depreciation charged	40 000
new non-current assets purchased (at cost)	105 000
loss on sale of non-current assets	10 000

Which amount was received from the sale of the non-current assets?

- A \$15 000      B \$25 000      C \$35 000      D \$50 000

5. The following information relates to the disposal of a non-current asset.

	\$
profit on disposal	5 200
cost of non-current asset sold	14 400
sales proceeds	6 800

What was the accumulated depreciation on the non-current asset sold?

- A** \$1600      **B** \$2400      **C** \$7600      **D** \$12800
6. A sales ledger control account was prepared. An irrecoverable debt of \$40 was omitted and a discount allowed of \$68 was entered as \$86.

What was the total effect of these errors on the closing balance of the sales ledger control account?

- A** \$22 overstated  
**B** \$22 understated  
**C** \$58 overstated  
**D** \$58 understated
7. The total of trade payables balances in Konrad's purchases ledger was \$57400. The following errors were then discovered.

	\$
discount allowed overcast in cash book	2000
returns outwards omitted in a supplier's account	350
payments to trade payables undercast in cash book	137
purchases journal overcast	500

What is the correct total of trade payables balances?

- A** \$54 413      **B** \$54 913      **C** \$55 050      **D** \$57 050
8. The debit balance on a company's sales ledger control account was \$125 000. The following errors were then discovered.
- 1 A bad debt of \$800 had not been entered in the sales ledger control account.
  - 2 An increase in the provision for doubtful debts of \$500 was required.
  - 3 The sales journal had been overcast by \$1000.

What was the total of the balances in the sales ledger?

- A** \$122 700      **B** \$123 200      **C** \$124 000      **D** \$125 200

9. The trial balance totals are as follows:

debit    \$500 150                      credit    \$500 000

Which error could have caused the difference?

- A** A cash sale has only been recorded in the sales account.  
**B** A credit purchase has only been recorded in a supplier's account.  
**C** A credit sale has not been recorded.  
**D** A credit sale has only been recorded in a customer's account.
10. A business's suspense account appears as follows.

	\$		\$
discount allowed	150	opening balance	100
		sales	50
	150		150

Which statements are correct?

- 1 Total debits had been \$100 less than total credits in the trial balance.
- 2 The sales account had been overcast by \$50.
- 3 The discount allowed account had been overcast by \$150.

**A** 1 and 2      **B** 1 only      **C** 2 and 3      **D** 3 only

11. The draft profit for the year for a sole trader was \$108 000 before the following were taken into account.

- 1 The provision brought forward for doubtful debts was \$1850. The provision to carry forward should be \$2250.
- 2 Depreciation of non-current assets had been undercharged by \$2000.
- 3 An accrual of \$600 for repairs had been treated as a prepayment.

What was the correct profit for the year?

**A** \$104 400      **B** \$105 200      **C** \$109 000      **D** \$111 600

12. A business maintains a provision for doubtful debts of 5% per annum. It has trade receivables balances of \$560 000 at the start and \$468 000 at the end of the financial year.

Which statements are correct?

- 1 Customers' accounts have been credited with \$4600.
- 2 \$4600 is treated as income in the income statement.
- 3 \$4600 is deducted from current assets in the statement of financial position.

**A** 1, 2 and 3      **B** 1 only      **C** 2 only      **D** 2 and 3 only

13. At 31 December the following information was available.

	\$
non-current assets at net book value	10 000
current assets	5 000
provision for doubtful debts	(1 500)
current liabilities	(3 000)

It was decided to reduce the provision for doubtful debts to \$800.

Which effects will this adjustment have on the profit for the year and on net assets?

	profit for the year	net assets
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

14. The statement of the financial position of a company shows the following:

	\$
tangible non-current assets	20 600
intangible non-current assets	5 700
trade receivables	8 600
trade payables	3 200
loan repayable in three years	4 000
bank balance	5 200 credit
inventory	6 900

What is total working capital?

- A** \$3100      **B** \$7100      **C** \$17 500      **D** \$29 400

15. An inexperienced bookkeeper calculated a draft profit for the year ended 31 December 2015 of \$578 500. He had not accounted for the following:

	1 January 2015 \$	31 December 2015 \$
provision for doubtful debts	12 800	11 300
provision for depreciation	95 000	126 200

What was the revised profit for the year?

- A** \$441 000      **B** \$463 600      **C** \$545 800      **D** \$548 800

16. A computer used for demonstration to customers was treated as capital expenditure.

At the end of the year a customer purchased the computer in the ordinary course of business.

Which entries are needed to adjust the cost of sales?

	account to be debited	account to be credited
<b>A</b>	inventory	demonstration equipment
<b>B</b>	purchases	demonstration equipment
<b>C</b>	sales	inventory
<b>D</b>	selling expenses	sales

17. What would be treated as part of the capital cost of the purchase of a building?
- 1 cost of purchase
  - 2 insurance of the building
  - 3 installation of air conditioning needed for the machinery in the building
- A** 1 only      **B** 1, 2 and 3      **C** 1 and 3 only      **D** 2 and 3 only

18. A business makes up its financial statements to 30 April each year.

Included in the ledger account balances on 1 May 2014 was insurance (debit) \$800.

On 31 October 2014 an insurance premium of \$2100 was paid for the year ended 31 October 2015.

Which amount was charged for insurance in the income statement for the year ended 30 April 2015?

- A** \$1050      **B** \$1850      **C** \$2100      **D** \$2900
19. The following balance appeared on a trial balance at 31 December 2015, after the preparation of the company's financial statements.

	\$
stationery	8000 debit

What did this represent?

- A** an amount due to the company's stationery supplier for 2015
- B** a prepayment made to the stationery supplier at 31 December 2015
- C** inventory of stationery at 31 December 2014
- D** the annual stationery charge for 2015
20. A bank statement shows a credit balance of \$1500.
- A payment of \$500 and a receipt of \$1250 were included in the cash book but have not yet appeared on the bank statement.
- Bank interest payable of \$1100 had been correctly recorded in the cash book but due to a bank error had been recorded in the bank statement as \$1000.

What is the cash book balance?

- A** \$650      **B** \$850      **C** \$2150      **D** \$3350

## Section B Structured Questions

## Question 1

Jing is a sole trader. He does not maintain full accounting records. All sales and purchases are on credit.

He provided the following information for the year ended 30 April 2015.

	\$
Cheques received from credit customers	96 300
Cheques paid to credit suppliers	73 540
Rent paid	5 500
Electricity paid	345
Carriage inwards	630
Carriage outwards	950
Other operating expenses	95
Irrecoverable debts written off	200
Purchases returns	2 480

Jing had the following assets and liabilities.

	At 30 April 2014	At 30 April 2015
	\$	\$
Equipment	?	?
Inventory	15 000	11 500
Trade receivables	3 750	2 250
Rent prepaid	500	400
Electricity owing	35	40
Trade payables	3 460	1 790

All equipment was originally purchased for \$2700 on 1 May 2013. Jing depreciates his equipment using the reducing balance method at a rate of 10% per annum.

**REQUIRED**

- (a) (i) Calculate the sales for the year ended 30 April 2015.
- (ii) Calculate the purchases for the year ended 30 April 2015.
- (iii) Prepare Jing's income statement for the year ended 30 April 2015.

**Additional information**

After preparing the financial statements, Jing remembered the following:

He had paid his cleaner \$60 cash, out of his own money, to clean the offices and his house. He agreed that this should be split in the ratio 3 : 2 respectively.

**REQUIRED**

- (b) Prepare the journal entry to record this transaction. A narrative is **not** required.
- (c) State **two** types of entries, other than the correction of errors, which would usually be recorded in the general journal.



**Question 2**

Raheem is a trader who makes all his sales on credit. He prepared the following sales ledger control account for the month of December 2015:

	\$		\$
Balance b/d	22 380	Sales returns journal	1 440
Sales journal	16 910	Bank	17 380
	<u>39 290</u>	Balance c/d	<u>20 470</u>
Balance b/d	20 470		<u>39 290</u>

Raheem extracted a list of customer account balances from the sales ledger at 31 December 2015 totaling \$18 740. This did not agree with the balance on the control account.

The following errors were found:

- 1 A sales invoice for \$960 had been correctly recorded in the sales journal, but had not been posted to the customer's ledger account.
- 2 A customer's irrecoverable debt of \$250 had not been written off in any of Raheem's books of account.
- 3 A cheque received, \$670, from a customer had been correctly recorded in the cash book. It had been entered on the debit side of the customer's ledger account as \$760.
- 4 A cheque received, \$200, from a customer had been returned unpaid by the customer's bank. No entry in respect of the returned cheque had been made in any of Raheem's books of account.
- 5 Discounts allowed of \$830 had not been entered in the control account. They had been entered in the customers' ledger accounts.
- 6 A contra to the purchases ledger of \$1370 had been entered in the customer's sales ledger account, but had not been included in the control account.

**REQUIRED**

- (a) Prepare the updated sales ledger control account for the month of December 2015. Start your answer with the balance brought down of \$20 470.
- (b) Prepare a statement to reconcile the original total of sales ledger balances of \$18 740 with the closing balance on the amended sales ledger control account.
- (c) State **three** advantages to a business of maintaining a sales ledger control account.
- (d) State **two** types of errors that will **not** be identified by producing a sales ledger control account.

**Question 3**

Contador, a sole trader, has provided the following extract from the trial balance for the year ended 31 March 2015. He does not maintain control accounts as part of his accounting records.

	\$
Debit balances	112 375
Credit balances	120 835

**REQUIRED**

- (a) (i) State the use of a suspense account.
- (ii) State **three** advantages to a business of maintaining a sales ledger control account.

**Additional information**

The following errors have been identified:

- 1 The sales journal had been overcast by \$26 350.
- 2 Motor expenses of \$5270 had been posted to the motor vehicles account. Motor vehicles had been depreciated at 20% per annum.
- 3 Interest received of \$8945 had been debited to both the bank account and the interest received account.

**REQUIRED**

- (b) Prepare journal entries to correct all of the errors identified. Narratives are **not** required.

Accounting Department