

About

ACCOUNTING

(7707)

*(TOPICAL)**About* **TroubleSHOOTER**






It interprets and explains the tricky areas of the questions because 'the difficulty in Accounting lies not in the subject itself, but in the way the questions are being set'

TroubleSHOOTER can be found in the questions.

About **[Working Indicator]**

It links an answer to its detailed working INSTANTLY.

[Working Indicator] can be found in the worked solutions.

 Period	2010 to 2022
 Contents	June & December, Paper 1 & 2, Worked Solutions
 Form	Topic By Topic
 compiled for	O Levels
 special features	TroubleSHOOTER [Working Indicator]

*Appointed Agents & Wholesalers in PAKISTAN:***BOOK LAND**

Urdu Bazaar, Lahore. Tel: 042-37124656

NATIONAL BOOK SERVICE

Urdu Bazaar, Lahore. Tel: 042-37247310.

LAROSH BOOKS

Urdu Bazaar Lahore. Tel: 042-37312126.

BURHANI BOOK CENTRE

New Urdu Bazar, Karachi, Tel: 021-32634718

MARYAM ACADEMY

Urdu Bazaar, Karachi, Tel: 0331-2425264

TARIQ BOOK TOWN

Samar Garden, Hydari North nazimzbad, Karachi

Tel: 021-34555918, 36649425

REHMAN BOOKS

College Road, Rawalpindi

Tel: 051-5770603, 0313-5618976

WELCOME BOOKS

Soneri Masjid Road, Peshawar Cantt.

Tel: 091-5274932, 0300-5860068

© REDSPOT PUBLISHING

☎ Tel No: 042-35201010

☎ Mobile No: 0300-8447654

✉ E-Mail: info@redspot.com.pk


🌐 Website: www.redspot.com.pk

📍 Address: P.O. Box 5041, Model Town, Lahore, Pakistan.

All rights reserved. No part of this publication may be reproduced, copied or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording, or any information storage and retrieval system, without permission in writing from the publisher/distributor.

O Level Accounting 7707 (Topical)

C O N T E N T S

 *Revised Syllabus*

- Topic 1** *The Double Entry System of Book-Keeping*
- Topic 2** *Accounting Principles, Objectives and Policies*
- Topic 3** *Books of Prime Entry & Business Documents*
- Topic 4** *Accounting for Depreciation*
- Topic 5** *Bank Reconciliation*
- Topic 6** *Control Accounts*
- Topic 7** *The Trial Balance & Correction of Errors*
- Topic 8** *Financial Statements of Sole Trader
& Adjustments to Ledger Accounts*
- Topic 9** *Single Entry & Incomplete Records*
- Topic 10** *Clubs and Societies*
- Topic 11** *Partnership Accounting*
- Topic 12** *Limited Companies*
- Topic 13** *Manufacturing Accounts*
- Topic 14** *Ratio Analysis and Interpretation*

Revision

June / November 2021 Paper 1 & 2

Topic 3

Books of Prime Entry & Business Documents

Multiple Choice Questions

1. Which is recorded in the sales ledger?

- A cash sales
- B cheque paid to a creditor
- C cheque received from a debtor
- D sale of fixed assets

[J10/P1/Q3]

Trouble → SHOOTER

Sales ledger has accounts of debtors. Options A, B and D are not related to debtors.

Answer: C

2. Which document does a trader send to a credit customer to summarise the transactions for the month?

- A credit note
- B debit note
- C receipt
- D statement of account

[J10/P1/Q4]

Trouble → SHOOTER

Statement of account records all credit sales, receipts returns. It states the balance owing by customers at the month end.

Answer: D

3. On 1 April the bank column in Miriam's cash book showed a debit balance of \$150.

During April the following transactions took place.

	\$
receipts from sales banked	4210
dividends banked	180
cheques paid to suppliers	3270

What was the bank balance on 1 May?

- A \$790 credit
- B \$910 credit
- C \$970 debit
- D \$1270 debit

[J10/P1/Q5]

	Trouble → SHOOTER
	\$
Balance at Bank	150
Add: Sales	4210
Dividends	180
	<hr/>
	4540
Less: Cheques paid to suppliers	3270
	<hr/>
Debit Balance	1270
	<hr/> <hr/>

Answer: D

4. Which is entered in a business's general journal?

- A purchase of a new motor vehicle on credit
- B return of faulty goods by a credit customer
- C standing order for payment of insurance premium
- D transfer of surplus office cash into the bank

[J10/P1/Q6]

Trouble → SHOOTER

Option B — Sales returns journal

Option C — Cash book

Option D — Cash book

Answer: A

5. On 1 March a business owed its suppliers \$9500. During March the following transactions took place.

	\$
goods purchased on credit	10 000
goods returned to suppliers	200
cheques paid to suppliers	8900
cash discounts received	100

How much did the business owe its suppliers on 31 March?

- A \$800
- B \$1000
- C \$10 300
- D \$10 500

[J10/P1/Q8]

Trouble ⇒ SHOOTER

Suppliers A/C			
March 31	Purchases		
	returns	200	
March 31	Bank	8900	
March 31	Discount		
	received	100	
March 31	c/d	10300	
		<u>19500</u>	
			<u>19500</u>
			b/d 10300

Answer: C

6. Which transaction is recorded in the purchases ledger?

- A cash purchases
- B cheque paid to a creditor
- C cheque received from a debtor
- D purchase of non-current (fixed) assets

[N10/P1/Q4]

Trouble ⇒ SHOOTER

Option A and C — Cash book

Option D — journal.

Option B — Purchases Ledger records purchases from and payments to creditors.

Answer: B

7. Which document may be sent by a purchaser to a supplier when damaged goods are returned?

- A credit note
- B debit note
- C invoice
- D statement of account

[N10/P1/Q5]

Trouble ⇒ SHOOTER

For the purchaser goods returned reduce liability so a debit note is issued.

Answer: B

8. Where is the total of the purchases journal posted?

- A credit income statement (trading account)
- B debit income statement (trading account)
- C credit purchases account
- D debit purchases account

[N10/P1/Q6]

Trouble ⇒ SHOOTER

Total of purchases day book shows a total of credit purchases posted on debit side of purchases account.

Answer: D

9. Wayne sold goods with a list of price \$5000 to a credit customer. The customer was allowed a 5% trade discount and a further $2\frac{1}{2}$ % cash discount if payment was made within 20 days of the invoice date.

How much did Wayne credit to his sales account?

- A \$4625
- B \$4631
- C \$4750
- D \$4875

[N10/P1/Q7]

Trouble ⇒ SHOOTER

$$C = 5000 - 5\% \text{ of } 5000 = 5000 - 250 = 4750$$

Cash discount is recorded at the time of payment not sale.

Answer: C

10. The totals of the discount columns in a trader's cash book were as follows.

\$200 debit
\$150 credit

Which entry did the trader make in the discount allowed account?

- A \$150 credit
- B \$150 debit
- C \$200 credit
- D \$200 debit

[N10/P1/Q8]

Trouble ⇒ SHOOTER

Discount allowed is Dr. in cash book and discount received is Cr. in cash book.

Answer: D

11. Sarah bought a motor vehicle on credit from Ace Motors for \$8000.

Which journal entry did Sarah make to record this?

		debit \$	credit \$
A	Ace Motors	8000	
	Motor vehicles		8000
B	Bank	8000	
	Motor vehicles		8000
C	Motor Vehicles	8000	
	Ace Motors		8000
D	Motor vehicles	8000	
	Bank		8000

[N10/P1/Q10]

Trouble ⇒ SHOOTER

Purchase of motor vehicle increases assets, so it is Dr. Liability also increases so it is Cr.

Answer: C

12. The following incomplete account appears in Singh's sales ledger.

Bashir account

2010		debit \$	credit \$	balance \$
June 1	Balance			800dr
5	Sales	620		?
12	Sales returns		30	?
29	Bank		800	?

What was the balance on Bashir's account on 30 June?

- A \$590 credit
- B \$590 debit
- C \$1010 credit
- D \$1010 debit

[N10/P1/Q11]

Trouble → SHOOTER

Balance at 30 June = 800 + 620 - 30 - 800 = 590 Dr.

Answer: B

13. The following account appears in the ledger of Chan.

Fu account			
2010	\$	2010	\$
Aug 28 Bank	100	Aug 1 Balance b/d	100
31 Balance c/d	<u>250</u>	12 Purchases	<u>250</u>
	<u>350</u>		<u>350</u>

Which statement is true?

- A Chan is owed \$100 by Fu on 1 August.
- B Chan paid Fu \$100 by cheque on 28 August.
- C Fu is a debtor of Chan for \$250 on 31 August.
- D Fu purchased goods, \$250, from Chan on 12 August.

[N10/P1/Q12]

Trouble → SHOOTER

Fu is a creditor. Chan owes money to Fu for goods purchased. \$100 was paid to Fu by cheque.

Answer: B

14. Wayne has sent the following business documents to Len, a customer.

	\$
Jan 1 invoice	250
Jan 12 invoice	370
Jan 14 credit note	90
Jan 18 invoice	480
Feb 2 invoice	670

There was no opening balance on Len's account and no payments made by Len during January.

What is the amount to be paid by Len to clear his January account?

- A \$1010
- B \$1190
- C \$1680
- D \$1860

[J11/P1/Q6]

Trouble → SHOOTER

Len

	\$		\$
Jan 1 Sales	250	Jan 14 Return	
Jan 12 Sales	370	inwards	90
Jan 18 Sales	480	Jan 31 bal c/d	1010
	<u>1100</u>		<u>1100</u>

Len has to pay \$1100 to clear his Journal account.

Answer: A

15. Which document is issued to a customer to show all the transactions that have taken place during a month?

- A credit note
- B invoice
- C receipt
- D statement

[J11/P1/Q7]

Trouble → SHOOTER

Option A — records returns

Option B — records sales

Option C — records an invoice

Answer: D

16. Hassan maintains a sales journal, purchases journal, sales returns journal and a purchases returns journal.

At the end of his first month's trading, Hassan transfers the total of each of these journals to the general ledger.

Which entries will Hassan make in his general ledger to record these totals?

	account to be debited	account to be credited
A	purchases returns sales	purchases sales returns
B	purchases returns sales returns	purchases sales
C	purchases sales	purchases returns sales returns
D	purchases sales returns	purchases returns sales

[J11/P1/Q8]

Trouble ⇒ SHOOTER

*Purchases and sales returns increase stock and are Dr.
Purchases returns and sales decrease stock and are Cr.*

Answer: D

17. Ann is a trader. On 1 April 2011 Cindy's account in Ann's ledger showed a credit balance of \$520. The following transactions took place during April 2011.

- April 2 Ann returned goods, \$30, to Cindy
- 14 Ann bought goods, \$210, from Cindy, and paid in cash

Which statement is true about the balance on Cindy's account in Ann's ledger on 30 April 2011?

- A Ann owes Cindy \$490.
- B Ann owes Cindy \$700.
- C Cindy owes Ann \$490.
- D Cindy owes Ann \$700.

[J11/P1/Q10]

Trouble ⇒ SHOOTER

Cindy Account			
2011	\$	2011	\$
April 2 Return outwards	30	April 1 bal b/d	520
April 30 bal c/d	490		
	520		520
	520		520

Cindy is a creditor. Cash purchases are not recorded in creditors account.

Answer: A

18. Eli buys goods on credit from Mona. What entries should Eli make in his ledgers?

	general ledger	purchases ledger
A	credit Mona	debit purchases
B	credit purchases	debit Mona
C	debit Mona	credit purchases
D	debit purchases	credit Mona

[N11/P1/Q3]

Trouble ⇒ SHOOTER

Journal entry is:

Purchases Dr:

Mona Cr:

Mona's account in Purchases Ledger will be Cr. and Purchases Account in General Ledger will be Dr.

Answer: D

19. Raoul trades with Christine. They exchange the following documents.

Which document would normally be issued first?

- A credit note
- B debit note
- C invoice
- D statement

[N11/P1/Q4]

Trouble ⇒ SHOOTER

Invoice is issued at the time of sale. For the seller, it is sales invoice; For the buyer it is Purchases invoice.

Answer: C

20. Zoran was given the following discounts by his supplier when he bought goods, list price \$4000.

- trade discount 25 %
- cash discount 5 %

Which amount would be entered in the discount received column of Zoran's cash book when payment was made?

- A \$150
- B \$200
- C \$1000
- D \$1200

[N11/P1/Q5]

Trouble ⇒ SHOOTER

*List price \$4000 – Trade discount 25%(\$1000) = \$3000
Discount received = \$3000 × 5% = \$150*

Answer: A

21. Why is the general journal used to correct errors in the ledger?

- A to avoid making alterations in the ledger
- B to complete the double entry
- C to provide a record explaining ledger entries
- D to save the book-keeper's time

[N11/P1/Q8]

Trouble ⇒ SHOOTER

Journal is used to correct errors, as it explains the posting in the Ledger accounts.

Answer: C

22. There is a credit balance of \$100 on Yasmin's account in Shula's purchases ledger.

What does this mean?

- A Shula owes \$100 to Yasmin
- B Shula has returned goods, \$100, to Yasmin
- C Yasmin has paid \$100 to Shula
- D Yasmin owes \$100 to Shula

[N11/P1/Q10]

Trouble ⇒ SHOOTER

Creditors accounts are maintained in the Purchases Ledger. Cr. balance on Yasmin's account (a creditor) means Shula owes money to Yasmin.

Answer: A

23. Anna keeps a full set of accounting records.

Goods purchased by Anna from Winston were returned before they were paid for.

Where will Anna record the return of goods?

- A cash book and purchases ledger
- B general ledger only
- C general ledger and purchases ledger
- D purchases ledger only

[J12/P1/Q3]

Trouble ⇒ SHOOTER

Goods returned is Returns outward which is recorded in purchases ledger (Accounts payable) and total account of Return outwards.

Answer: C

24. What is true about a statement of account issued by a business?

- 1 It is a source document for the purchases journal.
- 2 It is a source document for the sales journal.
- 3 It is sent by a customer to a supplier.
- 4 It is sent by a supplier to a customer.

- A 1 and 3
- B 2 and 4
- C 3 only
- D 4 only

[J12/P1/Q4]

Trouble ⇒ SHOOTER

Statement of accounts states the total amount owed by the customer or trade receivable.

Answer: D

25. Hasina buys radios from Nazneen at a list price of \$10 each. Hasina bought 12 radios and was offered 20% trade discount and 4% cash discount. Two radios were faulty and returned to Nazneen.

What was the total of the credit note issued by Nazneen?

- A \$15.36
- B \$16.00
- C \$19.20
- D \$20.00

[J12/P1/Q5]

Trouble ⇒ SHOOTER

	\$
Cost of 2 faulty radios (2 × 10)	20.00
Less trade discount 20%	4.00
Total for credit note	16.00

Answer: B

26. A trader posts the total of her purchases returns journal to the ledger at the end of each month.

On 30 April 2012 the purchases returns journal showed the following totals.

	gross	trade discount	net
2012	\$	\$	\$
April 30 totals for month	1200	240	960

Which entry should be made in the purchases returns account on 30 April 2012?

- A credit \$960
- B credit \$1200
- C debit \$960
- D debit \$1200

[J12/P1/Q6]

Trouble ⇒ SHOOTER

Purchases returns increase on the credit side. Net amount i.e. after deducting trade discount is recorded in purchases returns account.

Answer: A

27. Which item is recorded in the general journal before it is entered in the ledger?

- A bad debt written off
- B cash sales
- C equipment purchased by cheque
- D purchases returns

[J12/P1/Q9]

Trouble ⇒ SHOOTER

Option B — Recorded in cash book.

Option C — Recorded in cash book.

Option D — Recorded in Purchases returns journal.

Answer: A

28. What is the purpose of an invoice?

- A to confirm that a payment has been received
- B to confirm that damaged goods have been returned
- C to show details of all transactions with a customer during the month
- D to show details of goods that have been supplied on credit

[N12/P1/Q4]

Trouble ⇒ SHOOTER

Invoice is a receipt to acknowledge the goods supplied i.e. their quantity, price, discount, etc.

Answer: D

Topic 3

Books of Prime Entry & Business Documents

Theory Questions

Question 1

Place a tick (P) in the appropriate box to show whether **each** of the following is an account, a book of prime entry or both an account and a book of prime entry. The first item has been completed as an example.

	ledger account	book of prime entry	a ledger account and a book of prime entry
Inventory	✓		
Purchases journal			
Cash book			
Provision for depreciation			

[3]

[J11/P2/Q1 d]

SOLUTION

	ledger account	book of prime entry	a ledger account and a book of prime entry
Inventory	✓		
Purchases journal		✓	
Cash book			✓
Provision for depreciation	✓		

Question 2

Savvas is a supplier of goods to Akmal. Savvas allows 15% trade discount on all purchases made by Akmal.

The following transactions took place in September 2011.

- September 1 Akmal owed \$1500 to Savvas.
- September 8 Akmal purchased goods from Savvas with a list price of \$800. - ➡1
- September 10 Akmal returned some of the goods purchased on 8 September with a list price of \$240. - ➡2
- September 25 Akmal sent a cheque in full settlement for the amount owing on 1 September, less 4% cash discount.

REQUIRED

- (a) Write up the account of Savvas in the ledger of Akmal. Bring down the balance on 1 October 2011. [7]
- (b) State **one** reason why Savvas offers Akmal a trade discount. [2]
- (c) State the name of the document that Savvas would send to Akmal for the return of goods on 10 September 2011. - ➡3 [1]
- (d) Place a tick (✓) under the correct heading to show the ledger in which Akmal would record **each** of the following accounts. Item (i) has been completed as an example.

	Account	Sales Ledger	Purchase Ledger	Nominal/general Ledger
(i)	Sales			✓
(ii)	Savvas (Supplier)			
(iii)	Heat & light			
(iv)	Capital			
(v)	G.R.G. Ltd (Customer)			

[4]

[N11/P2/Q1 a,b,c,d]

TroubleSHOOTER ➡

➡1

List price is before deduction of trade discount.

➡2

Trade discount has to be deducted from the list price of returns.

➡3

Akmal is Savvas customer. For Savvas, goods returned by Akmal are sales returns.

SOLUTION

(a)

		Akmal			
		Savvas account			
2011		\$		2011	\$
Sept 10	Return outwards [w1]	204		Sept 1	Balance b/d 1500
Sept 25	Bank [w2]	1440		Sept 8	Purchases [W3] 680
Sept 25	Discount received [w4]	60			
Sept 30	Balance c/d	476			
		2180			2180
		2180		Oct 1	Balance b/d 476

(b) Akmal is offered trade discount as he may be buying in bulk. Savvas can also offer trade discount to encourage sales of their product.

(c) Credit note

(d)

	Account	Sales Ledger	Purchase Ledger	Nominal/general Ledger
(i)	Sales			✓
(ii)	Savvas (Supplier)		✓	
(iii)	Heat & light			✓
(iv)	Capital			✓
(v)	G.R.G. Ltd (Customer)	✓		

WORKINGS

[w1] Returns outwards = \$240 - 15% of \$240 = \$204

[w2] Bank = \$1500 - \$60 = \$1440

[w3] Purchases = \$800 - 15% of \$800 = \$680

[w4] Discount received = 1500 × 4% = \$60

Question 3

Giorgos commenced business on 1 May 2012 with the following assets and liabilities.

	\$	
Bank loan	6 000	
Bank	1 000	Dr
Cash	600	
Premises	15 000	
Inventory - ➡1	1 800	
Trade payable – Early Ltd - ➡2	1 200	

REQUIRED

- (a) Complete the opening trial balance showing clearly the value of the capital. - ➡3

Giorgos
Trial Balance at 1 May 2012

	Debit	Credit
	\$	\$
Bank loan		
Bank		
Cash		
Premises		
Inventory		
Trade payable – Early Ltd		
Capital		

[2]

TroubleSHOOTER ➡➡

➡➡1

Inventory is a new terminology for stock.

➡➡2

Trade Payable is the new terminology for creditors.

➡➡3

Capital of a firm = opening assets – opening liabilities

The following were some of the transactions completed in early May:

- May 1 Paid Early Ltd \$570, after deducting \$30 cash discount
- May 2 Bought office furniture on credit for \$3000
- May 3 Paid wages in cash, \$250
- May 4 Customer returned goods selling price \$745 (cost price \$630)

REQUIRED

(b) Complete the following table for the above transactions. The first item has been completed as an example. State clearly if there is no effect on owner's capital.

		Source document	Book of prime entry	Effect on owner's capital
May 1	Paid Early Ltd \$570, after deducting \$30 cash discount	<i>Cheque counterfoil</i>	<i>Cash book</i>	<i>+\$30</i>
May 2	Bought office furniture on credit for \$3000			
May 3	Paid wages in cash, \$250			
May 4	Customer returned goods selling price \$745 (cost price \$630)			

[9]

(c) Prepare the account of Early Ltd. Balance the account on 31 May 2012 and bring down the balance. [3]

(d) On 31 May 2012 Giorgos prepared another trial balance. State **one** use of a trial balance. [2]

[J12/P2/Q1 a,b,c,d]

SOLUTION

(a)

**Giorgos
Trial Balance at 1 May 2012**

	Debit	Credit
	\$	\$
Bank loan		6000
Bank	1000	
Cash	600	
Premises	15 000	
Inventory	18 00	
Trade payable – Early Ltd		1200
Capital [w1]		<u>11 200</u>
	<u>18 400</u>	<u>18 400</u>

(b)

		Source document	Book of prime entry	Effect on owner's capital
May 1	Paid Early Ltd \$570, after deducting \$30 cash discount	<i>Cheque counterfoil</i>	<i>Cash book</i>	+ \$30
May 2	Bought office furniture on credit for \$3000	Invoice	Journal	No effect
May 3	Paid wages in cash, \$250	Payslip	Cash book	– \$250
May 4	Customer returned goods selling price \$745 (cost price \$630)	Credit Note	Returns Inwards Journal	– \$115

(c)

Early Ltd account

2012		\$	2012		\$
May 1	Bank	570	May 1	Balance b/d	1200
May 1	Discount Received	30			
May 31	Balance c/d	600			
		<u>1200</u>			<u>1200</u>
			June 1	Balance b/d	600

(d) Trial balance figures of assets, liabilities etc, provide the framework for preparing financial statements.

Question 4

Jane started business on 1 October 2012 with a motor van, \$1500, shop fixtures, \$250, and cash, \$500. To start the business she had borrowed \$600 from Peter.

REQUIRED

(a) Complete the following trial balance showing clearly the value of the capital. - ➡1

Jane
Trial Balance at 1 October 2012

	Debit	Credit
	\$	\$
Motor van		
Shop fixtures		
Cash		
Peter -loan		
Capital		

[4]

(b) Jane buys and sells goods on credit. She maintains a full set of accounts. The table below contains a list of transactions carried out in the first week of trading. Complete the table below for **each** transaction, stating clearly the amount, if any, of increase or decrease in the value of capital. The first transaction has been completed as an example. - ➡2

Trouble SHOOTER ➡

➡1

Capital =
Total assets – Total liabilities

➡2

Capital is effected by the following:

- Additional investment
- Net profit or loss
- Drawing

Transaction	Book of original entry	Account to be debited	Account to be credited	Effect on capital \$
Purchased goods, \$600, on credit from Punto	Purchases journal	Purchases	Punto	No effect
Sold goods for \$750 (cost price \$300) on credit to Yuen				
Sold all the shop fixtures for cash, \$200				
Paid wages by cash, \$150				
Yuen returned goods, valued at \$100				

[16]
[N12/P2/Q1]

SOLUTION

(a) Jane
Trial Balance at 1 October 2012

	Debit	Credit
	\$	\$
Motor van	1500	
Shop fixtures	250	
Cash	500	
Peter -loan		600
Capital		1650
	<u>2250</u>	<u>2250</u>

(b)

Transaction	Book of original entry	Account to be debited	Account to be credited	Effect on capital \$
Purchased goods, \$600, on credit from Punto	Purchases journal	Purchases	Punto	No effect
Sold goods for \$750 (cost price \$300) on credit to Yuen	Sales journal	Yuen	Sales	+ \$450 [w1]
Sold all the shop fixtures for cash, \$200	Cash book	Cash	Fixtures	- \$50
Paid wages by cash, \$150	Cash book	Wages	Cash	- \$150
Yuen returned goods, valued at \$100	Sales returns journal	Sales returns	Yuen	- \$60 [w2]

WORKINGS

[w1] $750 - 300 = \$450$ profit

[w2] $\frac{450}{750} \times 100 = 60\%$ margin.

Returned goods: $\$100 \times 60\% = \60 profit. Therefore decrease in profit = \$60.

Question 5

- (a) (i) Explain the difference between book-keeping and accounting. [2]
- (ii) Explain the accounting entity principle. [2]

Fashran sells goods to Hajar. On 1 April Hajar owed Fashran \$2100. The following transactions occurred in April 2014.

- 5 April Fashran sold goods on credit to Hajar, list price \$2000, less 20% trade discount. - ➡➡1
- 7 April Hajar returned goods purchased on the 5 April, list price \$240. - ➡➡2
- 18 April Hajar paid the balance of her account at 1 April and was allowed 2% cash discount. - ➡➡3

REQUIRED

- (b) Prepare the account of Hajar in the ledger of Fashran for April 2014. Balance the account and bring down the balance.

Hajar account

Date	Details	\$	Date	Details	\$

[5]

- (c) Name the document that Fashran will issue on the following dates:

Date	Details	Document
5 April	Fashran sold goods on credit to Hajar	
7 April	Hajar returned goods to Fashran purchased on the 5 April	
30 April	Fashran issues a summary of Hajar's account for the month of April	

[3]

- (d) State the sub division of the ledger in which the account of Hajar would appear. [1]

The following balances were extracted from the books of Fashran on 30 April 2014.

	\$
Trade payables	6 450
Trade receivables	9 230
Revenue	68 400
Purchases	29 800
Inventory 1 May 2013	5 100
Expenses	22 350
Bank overdraft	830
Non-current assets	24 000
Provision for depreciation – Non-current assets	7 800

Troubleshooting

➡➡1

Trade discount is given at the time of sale to the customer. It is not recorded in the books of accounts.

➡➡2

Trade discount is deducted from the list price of goods returned and then recorded.

➡➡3

Cash discount is availed at the time of payment. It is recorded in the books.

REQUIRED

(e) Prepare the trial balance showing Fashran’s capital at 30 April 2014.

Fashran
Trial Balance at 30 April 2014

	Dr \$	Cr \$
Trade payables		
Trade receivables		
Revenue		
Purchases		
Inventory 1 May 2013		
Bank overdraft		
Expenses		
Non-current assets		
Provision for depreciation – Non-current assets		
Capital		

[5]

[J14/P2/Q1]

SOLUTION

- (a) (i) Book-keeping is classifying and recording data in the books of accounts. Accounting on the other hand is using the data to prepare financial statements and interpreting the results to take financial decisions.
- (ii) Accounting entity concept clearly states that business enterprise transactions and dealings should be kept separately from the owner of the business.

(b) Hajar Account

Date	Details	\$	Date	Details	\$
2014			2014		
April 1	Balance b/d	2100	April 7	Returns inwards [w2]	192
April 5	Sales (credit) [w1]	1600	April 18	Bank/cash [w3]	2058
			April 18	Discount allowed	42
			April 30	Balance c/d	1408
		3700			3700
May 1	Balance b/d	1408			

(c)

Date		Document
5 April	Fashran sold goods on credit to Hajar	Sales Invoice
7 April	Hajar returned goods to Fashran purchased on the 5 April	Credit note
30 April	Fashran issues a summary of Hajar’s account for the month of April	Statement of account

(d) Sales ledger or trade receivable ledger.

(e) Fashran
Trial Balance at 30 April 2014

	Dr \$	Cr \$
Trade payables		6 450
Trade receivables	9 230	
Revenue		68 400
Purchases	29 800	
Inventory 1 May 2013	5 100	
Bank overdraft		830
Expenses	22 350	
Non-current assets	24 000	
Provision for depreciation – Non-current assets		7 800
Capital		7 000
	90 480	90 480

WORKINGS

[w1] Sales: List price \$2000 – 20% trade discount (400) = 1600

[w2] Returns inwards: List price \$240 – 20% trade discount (48) = 192

[w3] Balance 2100 – 2% cash discount (42) = 2058 (Bank)

Question 6

Maria had the following assets and liabilities on 1 May 2014.

	\$
Inventory	1950
Amount payable – Midland Telecoms	400
Bank	550 Dr
5% Bank loan (repayable 30 April 2018)	2500
Fixtures and fittings	1500

REQUIRED

(a) Calculate the following.

(i) Owner’s capital - ⇨1 [1]

(ii) Capital employed - ⇨2 [1]

The following related to the purchase of telephone services for the three months to 31 July 2014.

- 31 May Paid Midland Telecoms’ balance on 1 May 2014 by cheque. - ⇨3
- 26 June Received a telephone bill from Midland Telecoms \$1200. - ⇨4
- 15 July Paid telephone bill received on 26 June by cheque less 2% cash discount.
- 31 July Prepared an income statement for the three months to 31 July 2014. It was estimated that \$130 was owing.

Troubleshooting

⇨1

Owner’s capital is the entrepreneur investment in the firm.

⇨2

Capital employed includes owner’s capital and investment from outside sources..

⇨3

Midland is a trade payable or creditor of the business. Balance of \$400 on 1 May has to be recorded.

⇨4

The entry to record this is
Dr. telephone expense
Cr. Midland Telecom