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About O LeveL

ACCOUNTING
(7707)

(TOPICAL)

About **Trouble**SHOOTER

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	2014 to 2025
contents	June & December, Paper 1 & 2, Worked Solutions
form	Topic By Topic
compiled for	O Levels
special features	**Trouble**SHOOTER *[Working Indicator]*

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CONTENTS

Topic 1

The Double Entry System of Book-keeping

Multiple Choice Questions

1. Which is a liability of a business?

A amount owing by credit customers
B amount owing to credit suppliers
C long term loan to employee
D property tax paid in advance

[J14/P1/Q2]

Trouble SHOOTER

Option A, C and D are assets. Credit suppliers are account payables whom the business is liable to pay.

Answer: B

2. A business bought a computer for office use and paid by cheque. How will the business record the transaction?

	account to be debited	account to be credited
A	bank	office equipment
B	office equipment	bank
C	bank	purchases
D	purchases	bank

[J14/P1/Q3]

Trouble SHOOTER

Computer is an asset and increase in asset is Dr. Payment made by cheque reduces the asset bank thus bank is Cr.

Answer: B

3. Amina is a wholesaler selling shoes to retailers. Which is a revenue receipt?

A capital introduced
B long-term bank loan
C proceeds of sale of shelving at book value
D proceeds of sale of shoes at list price

[J14/P1/Q11]

Trouble SHOOTER

Option A, B and C are capital receipts. Sale of inventory (in this case shoes) is an e.g. of revenue receipt.

Answer: D

4. A trader maintains a provision for doubtful debts of 2½ %.
The provision on 1 January 2013 was $250.
Trade receivables on 31 December 2013 were $28 000.
At what value were trade receivables shown in the statement of financial position on 31 December 2013?

A $27 050
B $27 300
C $27 750
D $28 700

[J14/P1/Q17]

Trouble SHOOTER

End of year provision for doubtful debts

$= 28000 \times 2\frac{1}{2}\% = 700$

Value of trade receivables in the balance sheet
$= 28000 - 700 = \$27\ 300$

Answer: B

5. Businesses make use of both book-keeping and accounting procedures.
What is the purpose of book-keeping?

A to interpret the double entry records
B to prepare financial statements at regular intervals
C to record all the financial transactions of the business
D to summarise the financial position of the business

[N14/P1/Q1]

Trouble SHOOTER

Recording of financial transaction in the books of accounts is book-keeping. Options A, B and D are uses of accounting procedures.

Answer: C

6. A trader purchased a motor vehicle for his business using a cheque from his personal bank account.
How is this recorded in the books of the business?

	account to be debited	account to be credited
A	bank	motor vehicles
B	capital	motor vehicles
C	motor vehicles	bank
D	motor vehicles	capital

[N14/P1/Q3]

Trouble **SHOOTER**

Any payment made by the trader for the business from his private money increases the holders capital in the firm.

Answer: ***D***

7. Rashid maintains a provision for doubtful debts of 5% of the trade receivables at the end of each year.
Trade receivables owed $40 000 on 31 December 2012.
Trade receivables owed $46 000 on 31 December 2013.
Which journal entry should Rashid make on 31 December 2013?

		debit $	credit $
A	income statement	300	
	provision for doubtful debts		300
B	income statement	2300	
	provision for doubtful debts		2300
C	provision for doubtful debts	300	
	income statement		300
D	provision for doubtful debts	2300	
	income statement		2300

[N14/P1/Q14]

Trouble **SHOOTER**

Provision for doubtful debts:
31 Dec 2012 40 000 × 5% = 2000
31 Dec 2012 46 000 × 5% = 2300
Increase in provision $300
Entry: *Income statement 300*
Provision for doubtful debt 300

Answer: ***A***

8. An item of capital expenditure has been incorrectly treated as revenue expenditure.
What is the effect of this error?

	assets	profit for the year
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

[N14/P1/Q15]

Trouble **SHOOTER**

Fixed assets are understated. Expenses will be overstated as a result profit will be understated.

Answer: ***D***

9. Which item affects gross profit?

A carriage outwards
B discounts allowed
C discounts received
D goods taken by owner

[N14/P1/Q18]

Trouble **SHOOTER**

Options A, B and C are operating expenses which affects the net profit. Goods taken by owner decreases purchases which in turns decreased cost of sales. As a result gross profit increase.

Answer: ***D***

10. How should the owner of a business use his financial statements?

A to calculate the cash drawings for the year
B to determine the amount due to trade payables
C to measure the change in the bank balance
D to monitor the progress of the business

[J15/P1/Q1]

Trouble **SHOOTER**

The main use of financial statements is to determine the profitability of the business or monitor the progress of the firm.

Answer: ***D***

11. Gail's statement of financial position included the following.

	$
non-current assets	100 000
current assets	50 000
current liabilities	2 000

What was Gail's capital?

A \$100 000 **B** \$148 000

C \$150 000 **D** \$152 000

[J15/P1/Q3]

Trouble ***SHOOTER***

Capital
= total assets – total liabilities
= (\$100 000 + \$50 000) – \$2 000 = \$148 000

Answer: ***B***

12. At the end of her financial year Annie decided to reduce her provision for doubtful debts.

Which entry recorded this?

	debit	credit
A	bad debts	provision for doubtful debts
B	income statement	provision for doubtful debts
C	provision for doubtful debts	bad debts
D	provision for doubtful debts	Income statement

[J15/P1/Q11]

Trouble ***SHOOTER***

When provision is decreased expenses are reduced. Income statement is credited and provision for doubtful debt is debited.

Answer: ***D***

13. Which transaction is a capital receipt?

A cash received from sale of goods
B interest received from bank
C proceeds of sale of equipment
D rent received from tenant

[J15/P1/Q12]

Trouble ***SHOOTER***

*Option **A**, **B** and **D** are examples of revenue receipts. Option **C** is a transaction involving capital receipts. Cash received from sale of fixed assets are capital receipts.*

Answer: ***C***

14. What is prepared by a book-keeper?

A appropriation account
B cash book
C income statement
D statement of financial position

[N15/P1/Q1]

Trouble ***SHOOTER***

Book-keeper prepares the books of prime entry. Cash book is one of them.

Answer: ***B***

15. Which item would be recorded by a credit entry in an account?

A a decrease in capital
B a decrease in liabilities
C an increase in assets
D an increase in capital

[N15/P1/Q3]

Trouble ***SHOOTER***

*Option **A**, **B** and **C** are recorded by Dr entry. When capital increases, the amount is Cr in the account.*

Answer: ***D***

16. A trader decides to change his provision for doubtful debts from 2% to 3% of trade receivables.

Which entry is made to record this?

	debit	credit
A	bad debts	income statement
B	income statement	bad debts
C	income statement	provision for doubtful debts
D	provision for doubtful debts	income statement

[N15/P1/Q12]

Trouble ***SHOOTER***

Increase in provision for doubtful debts results in increase in expenses. Income statement will be debited and provision for doubtful debts will be credited.

Answer: ***C***

17. Which item is a capital receipt for the owner of a bakery?

A cash discount from a supplier of flour
B cash from sale of a wedding cake
C proceeds from the sale of an oven
D refund of rent from the landlord

[N15/P1/Q13]

Trouble ***SHOOTER***

*Capital receipts is the amount received from sale of fixed assets. Option **A**, **B**, and **C** are revenue receipts.*

Answer: ***C***

18. Which task would **not** be carried out by a book-keeper?

A posting cash receipts
B preparing financial statements
C recording entries in the purchases ledger
D writing up the sales returns journal

[J16/P1/Q1]

Trouble➳ ***SHOOTER***

A book keeper only posts transaction in books of prime entry and ledgers. An accountant prepares financial statement and analyzing it.

Answer: ***B***

19. A company employs a book-keeper and an accountant.

Which task would the accountant perform?

A extracting balances from the ledger accounts to produce a trial balance
B making entries in the journal to adjust a provision for doubtful debts
C preparing a monthly report that analyses the profitability of the company
D recording sales and purchase invoices in the books of prime (original) entry

[N16/P1/Q1]

Trouble➳ ***SHOOTER***

The job of the book-keeper is to draw out books of accounts. The accountant uses these accounts to prepare monthly reports and analyse profitability liquidity etc. of the company.

Answer: ***C***

20. Why does the owner of a business calculate profit?

A to find the return on capital
B to find the total expenses
C to know how much he can borrow from the bank
D to know the loan interest he can afford to pay

[N16/P1/Q2]

Trouble➳ ***SHOOTER***

The main aim of the owner of a business is to earn a profit. Profit is used to calculate the percentage of return on capital invested.

Answer: ***A***

21. Melanie provided the following information.

	$
non-current assets	14 000
amount owing by credit customers	1 250
amount owing to credit suppliers	850
inventory	1 875
bank overdraft	365

What was Melanie's capital?

A $12 160 **B** $15 110
C $15 910 **D** $16 640

[N16/P1/Q3]

Trouble➳ ***SHOOTER***

Capital = total assets – total liability
= $14 000 + $1250 + $1875 – $850 – $365
= $15 910

Answer: ***C***

22. Jamal bought goods from Sanjay, paying in cash.

How would Jamal record this transaction?

	account to be debited	account to be credited
A	cash	purchases
B	cash	Sanjay
C	purchases	cash
D	Sanjay	cash

[N16/P1/Q4]

Trouble➳ ***SHOOTER***

Jamal bought goods for cash. So purchases account will be debited whereas cash account will be credited.

Answer: ***C***

23. Winston sold goods on credit to Leroy.

Which entries should Winston make in his ledgers?

	sales ledger	general ledger
A	credit Leroy account	debit sales account
B	credit sales account	debit Leroy account
C	debit Leroy account	credit sales account
D	debit sales account	credit Leroy account

[N16/P1/Q5]

78. Which action is an example of double entry book-keeping?

A making a journal entry to record the correction of an error made in the ledger

B making entries in the sales journal and the sales ledger to record goods sold on credit

C recording a cheque paid to a trade payable in the cash book and purchases ledger

D recording the purchase of goods on credit in the purchases journal and purchases account

[J23/P1/Q5]

Trouble **SHOOTER**

Option A, B and D are recording entries in books of prime entry and posting in ledger.

Option C: Trade payables is Dr in the ledger and bank is Cr is the cash book. This action is an example of double entry book-keeping.

Answer: ***C***

79. On 2 January, Razia wrote off $450 owed to her by Annette, a credit customer, as irrecoverable.

On 2 October, Annette paid $100 by cheque in part settlement of that debt.

Which entries would Razia make on 2 October?

	account to be debited	account to be credited
A	bank	debts recovered
B	bank	irrecoverable debts
C	debts recovered	bank
D	irrecoverable debts	bank

[J23/P1/Q18]

Trouble **SHOOTER**

When debts written off are recovered the amount received increases the bank account. Bank would be debited. On the other hand bad debts recovered is a revenue account which is also increasing. Thus Bad debt recovered, an income would be credited.

Answer: ***A***

80. Which actions are examples of book-keeping?

1 entering details of a cheque received from a customer in the cash book

2 entering details of goods purchased on credit in the purchases journal

3 producing an income statement to calculate the profit for the year

4 recording details of credit sales in the account of a credit customer

A 1, 2 and 3 **B** 1, 2 and 4

C 1 and 2 only **D** 3 and 4

[N23/P1/Q1]

Trouble **SHOOTER**

Book-keeping is entering details of goods purchased on credit in the purchases journal.

Answer: ***B***

81. A trader supplied the following information at her year end.

	$
non-current assets	4000
inventory	350
trade receivables	180
cash at bank	650 debit
trade payables	280

What was the trader's capital?

A $4900 **B** $5100

C $5180 **D** $5460

[N23/P1/Q2]

Trouble **SHOOTER**

Capital = non-current assets + inventory + trade receivables + cash at bank – trade payables

= $4000 + $350 + $180 + $650 – $280

= $4900

Answer: ***A***

82. Imran maintains a provision for doubtful debts of 5% of the trade receivables at the end of each financial year.

The balance on his provision for doubtful debts account on 1 January 2022 was $700.

Trade receivables on 31 December 2022 owed $2000 more than they owed on 31 December 2021.

How did the change in the provision for doubtful debts affect the profit for the year ended 31 December 2022?

A $100 decrease **B** $100 increase

C $800 decrease **D** $800 increase

[N23/P1/Q18]

Trouble **SHOOTER**

Provision for year end = $700 + $100 ($2000×5%) = $800

Provision increased by $100 (from $700 to $800) as a result, profit will decrease by $100.

Answer: ***A***

83. How does a trader use the information provided by financial statements?

A to calculate the amount of cash drawings taken

B to calculate the amount that is owed by trade receivables

C to check the balance shown on a bank statement

D to compare the business performance over a number of years

[J24/P1/Q1]

*Trouble➻ **SHOOTER***

Option A, B and C are sources of information for financial statements. The main use of information provided by financial statements is to compare the business performance over a number of years.

Answer: ***D***

84. The balances remaining on the books of a business after the preparation of the income statement included the following:

	$
loan from XYY Finance	10 000
wages due	620
rent prepaid	240
trade receivables	3 300
trade payables	4 650
motor vehicles	8 000
provision for depreciation of motor vehicles	2 000

What was the total of the liabilities?

A $13 920 **B** $14 890

C $15 270 **D** $17 270

[J24/P1/Q2]

*Trouble➻ **SHOOTER***

Total of liabilities = $10 000 + $620 + $4 650
= $15 270

Answer: ***C***

85. Devendra prepared the following journal entry.

	debit $	credit $
irrecoverable debts	714	
Tobias		714

Which statement is correct?

A Devendra has provided for a doubtful debt owed by Tobias.

B Devendra has received the amount due from Tobias.

C Tobias cannot pay the amount due to Devendra.

D Tobias paid an amount previously written off by Devendra.

[J24/P1/Q18]

*Trouble➻ **SHOOTER***

When the customer or trade receivables cannot pay a certain amount, it is converted into bad debts or irrecoverable debts. Tobias cannot pay the amount of $714 due to Devendra.

Answer: ***C***

86. A company's financial year ends on 31 March.

On 31 March 2021 trade receivables were $45 000. On 31 March 2022 trade receivables were $41000. An irrecoverable debt of $1000 is yet to be written off at 31 March 2022.

The provision for doubtful debts is to be maintained at 5%.

What is the effect of the irrecoverable debt and the adjustment to the provision for doubtful debts on the profit for the year ended 31 March 2022?

A decrease $750 **B** decrease $800

C decrease $1200 **D** decrease $1250

[J24/P1/Q25]

*Trouble➻ **SHOOTER***

B/d (31 March 2021) = $45 000 × 5% = $2250
c/d (31 March 2022) = ($41 000 – $1000) × 5%
= $2000
decrease in provision = $250
Effect on profit = increase in profit $250 (provsion) + decrease in proft $1000 (irrecoverable debt)
Net effect = profit decrease by $750

Answer: ***A***

87. A trader prepares financial statements each year.

What do these help the trader to do?

A calculate the amount owing to credit suppliers

B calculate the cash drawings

C check the bank statement balance

D make decisions about the future

[N24/P1/Q1]

*Trouble➻ **SHOOTER***

A trader prepares financial statements each year so the financial data can be used to make decisions about the future of the business.

Answer: ***D***

88. A trader bought new fixtures. He paid half the purchase price in cash and agreed to pay the balance at a later date.

How does this purchase affect the accounting equation?

	assets	owner's equity	liabilities
A	decrease	decrease	no effect
B	decrease	no effect	increase
C	increase	decrease	increase
D	increase	no effect	increase

[N24/P1/Q2]

Trouble SHOOTER

Asset will increase due to purchase of fixtures.

Owner's equity will not be effected as increase in asset (fixtures) is equal to decrease in asset (cash) and increase in liability (trade payables).

Liabilities will increase due to increase in trader's payables.

Answer: D

Topic 1

The Double Entry System of Book-keeping

Theory Questions

Question 1

Sofea provided the following information about her trade receivables.

1 On 28 February 2016 Wade Designs, which owed Sofea $5100, was declared bankrupt. A cheque for $1800 was received. The balance of the debt was irrecoverable.

2 On 29 February 2016 the remaining trade receivables were:

Age of debt ⇛3 (Months)	Amount $	Provision for doubtful debts percentage (%)
Up to 1 month	18 000	2
1 to 3 months	12 200	5
3 to 6 months	3 300	10
Over 6 months	2 200	20
	35 700	

On 1 March 2015 the provision for doubtful debts account was $2050.

REQUIRED

(e) Prepare the general journal to record the entries for Wade Designs on 28 February 2016. A narrative is **not** required. [3]

(f) Calculate the provision for doubtful debts on 29 February 2016. [1]

(g) Prepare the provision for doubtful debts account for the year ended 29 February 2016. Balance the account and bring down the balance on 1 March 2016.

Provision for doubtful debts account

Date	Details	$	Date	Details	$

[3]

(h) Name **one** accounting concept applied by Sofea in providing for doubtful debts. [1]

[J16/P2/Q2 e,f,g,h]

SOLUTION

(e) General journal

	Debit $	Credit $
Bank	1800	
Bad debt	3300	
Account receivable – Wade Designs		5100

(f)

up to 1 month	$18000	×	2%	=	$360
1 to 3 months	$12200	×	5%	=	$610
3 to 6 months	$3300	×	10%	=	$330
over 6 months	$2200	×	20%	=	$440
Total trade receivables	$35700	Prov. for doubtful debts			$1740

(g) Provision for doubtful debts account

Date	Details	$	Date	Details	$
2016			2015		
Feb 29	Income statement ***[w1]***	310	Mar 1	Balance b/d	2050
Feb 29	Balance c/d	1740			
		2050			2050
			2016		
			Mar 1	Balance b/d	1740

(h) 1. Prudence concept.
2. Matching or accrual concept

WORKINGS

[w1] $2050 – $1740 = $310 reduction in provision for doubtful debts.

Question 2

Umar sells goods on credit and maintains a sales ledger control account. The following information is available for the month ended 31 March 2017.

2017		$
March 1	Amount owing by credit customers - ➳***1***	36 000
31	Cheques from credit customers	53 800
	Dishonoured cheque (included in cheques received) - ➳***2***	2 080
	Cash sales - ➳***3***	4 500
	Credit sales	51 270
	Credit notes issued to customers	1 750
	Discount allowed	950
	Bad debt	1 450

***Trouble*SHOOTER**

➳***1***

Amount owing by credit customers is balance at beginning of the month.

➳***2***

Dishonoured cheque has not been recorded in the trade receivable account. It should be debited in the sale ledger control account.

➳***3***

Sales ledger control account is drawn for credit customer. Cash sales is not included in the account.

REQUIRED

(a) State **two** benefits of using control accounts. [2]

(b) Prepare the sales ledger control account for March 2017. Balance the account and bring down the balance on 1 April 2017.

Sales ledger control account

Date	Details	$	Date	Details	$

[9]

On 1 April 2016 the balance on the provision for doubtful debts account was $1900.

Umar maintains a provision for doubtful debts at 5%.

REQUIRED

(c) Prepare the provision for doubtful debts account for the year ended 31 March 2017. Balance the account and bring down the balance on 1 April 2017.

Provision for doubtful debts account

Date	Details	$	Date	Details	$

[4]

(d) Name **one** accounting concept or principle that supports the use of a provision for doubtful debts. [1]

On 15 April 2017 Umar was advised that Horner, a credit customer who owed $1250, was bankrupt. Umar received a cheque for $500 in final settlement. The balance was written off as irrecoverable. *4*

*Trouble*SHOOTER

4

When the term irrecoverable is used it means bad debts have to be recorded.

REQUIRED

(e) Prepare the journal entry made by Umar to record the bankruptcy of Horner. A narrative **is** required.

General journal

	Dr	Cr
	$	$

[4]

[J17/P2/Q2]

SOLUTION

(a) 1. It provides the total of Trade receivables and Trade payables.

2. It helps to locate errors.

(b)

Sales ledger control account

Date	Details	$	Date	Details	$
2017			2017		
March 1	Balance b/d	36 000	March 31	Bank	53 800
March 1	Sales	51 270	31	Sales returns	1 750
March 31	Bank (dishonoured cheque)	2 080	31	Discount allowed	950
			31	Bad debts	1 450
			31	Balance c/d	31 400
		89 350			89 350
April 1	Balance b/d	31 400			

(c)

Provision for doubtful debts account

Date	Details	$	Date	Details	$
2017			2016		
March 31	Income statement ***[w1]***	330	April 1	Balance c/d	1900
	Balance c/d	1570			
		1900			1900
			2017 April 1	Balance b/d	1570

(d) Prudence concept and Accrual (matching) concept.

(e)

General journal

	Dr	Cr
	$	$
Bad debts	750	
Bank	500	
Horner-Trade receivable.		1250
Horner, a trade receivable was declared bankrupt. Received $500 in full settlement of $1250 debt.		

WORKINGS

[w1] Current year provision = $31400×5% = $1570

Decrease in provision = $1570 vs $1900 = $330

Question 3

An inexperienced book-keeper prepared the following trial balance for Alia's business on 31 August 2018. The trial balance did not balance.

Trial Balance at 31 August 2018

	Debit	Credit
	$	$
Revenue		19 600
Purchases	9 800	
Inventory at 31 August 2018 - ⇛1	730	
Rent receivable - ⇛2	400	
Rent payable	800	
General expenses	230	
Non-current assets (at cost)	18 750	
Provision for depreciation		3 970
Bank overdraft - ⇛3	30	
Motor vehicle expenses - ⇛4		650
Trade receivables	2 990	
Trade payables		1 090
Capital		9 000
	33 730	34 310

Additional information

Inventory at 1 August 2018 was $870. - ⇛1

REQUIRED

(a) Prepare the corrected trial balance.

*Trouble*SHOOTER⇛

⇛*1*

Opening inventory of 1 August 2018 should be recorded in trial balance.

Closing Inventory is recorded after the trial balance.

⇛*2*

Rent receivable is an income and should be credited.

⇛*3*

Bank overdraft is a current liability should be credited.

⇛*4*

Motor vehicle expenses are debited.

Trial Balance at 31 August 2018

	Debit	Credit
	$	$
Revenue		
Purchases		
Inventory		
Rent receivable		
Rent payable		
General expenses		
Non-current assets (at cost)		
Provision for depreciation		
Bank overdraft		
Motor vehicle expenses		
Trade receivables		
Trade payables		
Capital		

[5]

Alia's brother Roshan also runs a business.

Roshan provided the following information for the month of September 2018.

September	1	Balances	Computer maintenance expenses account	$720
			KK Computers account	$450 Credit
	8	Roshan paid $425 to KK Computers by cheque in full settlement of the balance owing on 1 September 2018.		
	19	Roshan received an invoice for $750 from KK Computers for computer maintenance.		
	30	Roshan prepared the financial statements for the year. It was estimated that $70 of computer maintenance expenses were prepaid.		

REQUIRED

(b) Prepare the following accounts for the month of September 2018. Complete the appropriate transfer. Balance the accounts and bring down the balances on 1 October 2018.

Computer maintenance expenses account

Date	Details	$	Date	Details	$

KK Computers account

Date	Details	$	Date	Details	$

[9]

On 15 October 2018 Roshan sold a computer (non-current asset) to Jones on a 20-day credit for $200. The computer had cost Roshan $250 and had accumulated depreciation of $70.

On 30 October Jones still owed $200.

REQUIRED

(c) **(i)** Name the book of prime (original) entry in which Roshan would record the sale. [1]

(ii) Name the document that Roshan sent to Jones on 15 October. [1]

(iii) Name the document that Roshan sent to Jones on 30 October. [1]

On 2 November Jones paid Roshan $195 in full settlement of the debt for the computer.

REQUIRED

(d) **(i)** Name the type of discount given to Jones. [1]

(ii) Calculate the amount of the profit or loss that Roshan made on the sale of the computer. [2]

[N18/P2/Q1]

SOLUTION

(a)

Trial Balance at 31 August 2018

	Debit	Credit
	$	$
Revenue		19600
Purchases	9800	
Inventory	870	
Rent receivable		400
Rent payable	800	
General expenses	230	
Non-current assets (at cost)	18750	
Provision for depreciation		3970
Bank overdraft		30
Motor vehicle expenses	650	
Trade receivables	2990	
Trade payables		1090
Capital		9000
	34090	34090

(b) Computer maintenance expenses account

Date	Details	$	Date	Details	$
Sep 1	Balance b/d	720	Sep 30	Income statement	1400
19	KK computers	750	30	Balance c/d	70
		1470			1470
Oct 1	Balance b/d	70			

KK Computers account

Date	Details	$	Date	Details	$
Sep 8	Bank	425	Sep 1	Balance b/d	450
	Discount Received	25	19	Computer Maintenance expenses	750
30	Balance c/d	750			
		1200			1200
			Oct 1	Balance b/d	750

(c) **(i)** General Journal.
(ii) Sales invoice.
(iii) Statement of Account.

(d) **(i)** Cash discount.
(ii) Book value = $250 – $70 = $180
Profit or Loss = $200 – $180 = $20 Profit.

Question 4

Nala is a trader who buys and sells stationery.
She provided the following information about her inventory at 28 February 2022. - ⇛1

Item	Number of units	Cost per unit $	Carriage inwards per unit $	Selling expenses per unit $	Selling price per unit $
Packs of paper	240	4.50	–	–	8.00
Packs of envelopes	225	5.50	1.00	1.50	10.00
Notepads	150	4.00	2.00	–	5.00
Boxes of pencils	96	3.50	–	–	6.00

REQUIRED

(a) **(i)** Calculate the value of Nala's inventory at 28 February 2022. - ⇛2 [6]

(ii) State the accounting principle used to value inventory. [1]

*Trouble*SHOOTER⇛

⇛1
NRV (Net realisable value – Selling expenses)

⇛2
Compare cost with NRV. Value inventory at the lower amount.

Topic 7

The Trial Balance & Correction of Errors

Multiple Choice Questions

1. Which error would cause the trial balance totals to disagree?

A Business stationery purchased by cheque had not been recorded.

B Goods purchased on credit had been debited to the supplier's account.

C Goods sold on credit had been debited to the account of the wrong customer.

D The purchase of a new machine had been debited to the purchases account.

[J14/P1/Q9]

Trouble ⇛ ***SHOOTER***

Trial balance totals disagree when the error is on one side i.e. either on the Dr. or Cr. side. In option B; error is in one account i.e. suppliers account. Option A, C and D have errors on both side Dr. and Cr.

Answer: B

2. Zaffor sold $300 of goods to Yasmin on credit. Zaffor prepared an invoice but posted it as a credit note.

Which entry will Zaffor make to correct this error?

	account to be debited	$	account to be credited	$
A	sales	600	Yasmin sales returns	300 300
B	sales returns sales	300 300	Yasmin	600
C	Yasmin	600	sales returns sales	300 300
D	Yasmin sales returns	300 300	sales	600

[N14/P1/Q9]

Trouble ⇛ ***SHOOTER***

Zaffor was supposed to record
Dr. Yasmin 300
Cr. sales 300

Incorrect Entry: ***Dr. sales returns 300***
Cr. Yasmin 300

Correcting Entry: ***Dr. Yasmin 600***
Cr. sales 300
Cr. sales returns 300

Answer: ***C***

3. What is the purpose of preparing a trial balance?

A to calculate the profit for the year

B to check the arithmetical accuracy of the double entry

C to locate any errors made in the ledgers

D to provide a summary of the assets and liabilities

[N14/P1/Q11]

Trouble ⇛ ***SHOOTER***

Trial balance is a list of balances extracted from ledger accounts to check the arithmetical accuracy of the double entry.

Answer: ***B***

4. After preparing a trial balance the following errors were discovered.

Error 1: Goods returned to Ken Loo had been debited to Ken Lao.

Error 2: Repairs to motor vehicles had been debited to the motor vehicles account.

Which types of error have been made?

	error 1	error 2
A	commission	principle
B	compensating	reversal
C	principle	commission
D	reversal	compensating

[N14/P1/Q12]

Trouble ⇛ ***SHOOTER***

Error 1 is posting in right class of account i.e. debtors but the wrong debtors account. — error of commission.

Error 2 is posting in wrong class of account i.e. expense account posted to fixed asset account. — error of principle.

Answer: ***A***

5. The difference on a trial balance was posted to a suspense account. It was later found that a cheque for $800 paid to Rafiq, a supplier, had been entered correctly in the cash book, but credited in the purchases account.

Which entry will correct this error?

	account to be debited	$	account to be credited	$
A	purchases	800	suspense	800
B	purchases Rafiq	800 800	suspense	1600
C	suspense	800	purchases	800
D	suspense	1600	purchases Rafiq	800 800

[N14/P1/Q16]

Trouble ➺ ***SHOOTER***

Rafiq a supplier was not debited and purchases account was incorrectly credited. In order to correct the error, suspense will be credited by $1600. Rafiq and purchases will by Dr. by $800 each.

Answer: ***B***

6. Which error would be revealed by a trial balance?

A a cheque for $78 entered on the correct sides in both W's account and the cash book as $87

B goods returned by a customer, $300, not entered in the books

C goods sold to Y for $650 correctly entered in the sales account and credited to Y's account

D the purchase of a machine, $3500, debited to the purchases account

[J15/P1/Q8]

Trouble ➺ ***SHOOTER***

When the error is on both sides of the account with the same amount, trial balance is not affected.

When the error is on one side like option C error is only in the debtor Y's account, it will be revealed by trial balance.

Answer: ***C***

7. Repairs to a motor vehicle were debited in error to the motor vehicles account.

How does this affect the profit for the year and the non-current assets in the statement of financial position?

	profit for the year	non-current assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

[J15/P1/Q13]

Trouble ➺ ***SHOOTER***

Motor repair expenses not recorded will undercast total expenses and thus overcast profit.
Motor vehicles amount will be over-casted under non-current assets as it is wrongly recorded.

Answer: ***A***

8. The owner of a business took goods for his own use but failed to make an entry in the accounts.

What was the effect of this error?

	profit for the year	capital employed
A	overstated	no effect
B	overstated	understated
C	understated	no effect
D	understated	overstated

[J15/P1/Q19]

Trouble ➺ ***SHOOTER***

The error has overcasted purchases and thus profit is under-casted. There will be no effect on the capital because drawings were not recorded and profit is under-casted.

Answer: ***C***

9. What is a trial balance?

A a statement of assets and liabilities on a particular date

B a statement of income and expenditure for a particular period

C a statement of ledger balances on a particular date

D a statement of profit or loss for a particular period

[J16/P1/Q7]

Trouble ➺ ***SHOOTER***

A trial balance is a list of balances extracted from the ledger accounts on a particular date. It has a debit and credit balance.

Answer: ***C***

10. A trial balance did not balance.
Which error caused this?

A A cheque, $300, received from M. Green was credited in the cash book and debited in M. Green's account.

B Purchase of goods from J. Black, $750, was debited in the purchases account and credited in J. Blackshaw's account.

C Repairs, $500, were debited in the premises account.

D The sales journal was overcast by $1000.

[J16/P1/Q8]

Trouble ***SHOOTER***

In option A, B and C error is on the Dr and Cr side of an equal amount. In the above cases both the Dr and Cr side of trial balance will balance. When error is only on one side Dr or Cr like in option D, then trial balance will not balance.

Answer: ***D***

11. Motor repairs, $250, have been posted in error to the motor vehicles account.
What is the effect on the financial statements?

	profit for the year	non-current assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

[J16/P1/Q10]

Trouble ***SHOOTER***

Motor repair expense has not been recorded in accounts, as a result profit for the year will be overstated. Motor vehicle account has been wrongly debited with the amount of motor repairs. This will result in overstating of motor vehicles or non current assets.

Answer: ***A***

12. A business allowed Lee, a customer, $40 cash discount. The discount was entered in the discount allowed account but omitted from Lee's account.
A suspense account was opened.
What are the correcting entries?

	account to be debited	account to be credited
A	discount allowed	Lee
B	Lee	discount allowed
C	Lee	suspense
D	suspense	Lee

[J16/P1/Q11]

Trouble ***SHOOTER***

When payment is received from a trade receivable discount is allowed. The debtor is credited with the amount due from him to reduce his account.

Answer: ***D***

13. Which error is a compensating error?

A cheque received from J. Wilks credited to the account of J. Wilson

B drawings debited to the cash account and credited to the drawings account

C purchase of a motor vehicle debited to the motor expenses account

D sales account and purchases account both undercast by the same amount.

[N16/P1/Q11]

Trouble ***SHOOTER***

Compensating error is when two different clauses of account are under or overcasted by the same amount. In option D sales is a revenue account whereas purchases is a cost account.

Answer: ***D***

14. A trader takes cash drawings from the business.
How will this affect the profit for the year and the current assets?

	profit for the year	current assets
A	decrease	no effect
B	increase	no effect
C	no effect	decrease
D	no effect	increase

[N16/P1/Q19]

Trouble ***SHOOTER***

Drawings do not affect the profit of the business. Cash withdrawn decreases the asset. Cash is recorded under current assets so current asstes will decrease.

Answer: ***C***

15. Which is an error of omission?

A No entries have been made for the purchase of stationery by cheque.

B Purchase of stationery has been entered only in the cash book.

C Purchase of stationery has been entered only in the stationery account.

D The stationery account has been omitted from the trial balance.

[J17/P1/Q9]

Trouble⋙ ***SHOOTER***

Error of omission is when debit and credit entry both are not recorded. In option B, C and D error is only in one account. Whereas in option A error is on the debit and credit side.

Answer: ***A***

16. The totals of a trial balance did not agree and a suspense account was opened. It was later found that the total of the discount allowed column in the cash book, $100, had been credited to the discount allowed account.

Which journal entry corrects this error?

		debit $	credit $
A	discount allowed suspense	100	 100
B	discount allowed suspense	200	 200
C	suspense discount allowed	100	 100
D	suspense discount allowed	200	 200

[J17/P1/Q15]

Trouble⋙ ***SHOOTER***

Whenever an amount is recorded on the wrong side of the account, it is recorded on the right side with double the amount.

Discount allowed is debited with double the amount.

Answer: ***B***

17. The totals of a trial balance agreed.

What does this mean?

A All the arithmetic in the ledger is correct.

B All transactions have been entered in the correct ledger accounts.

C All transactions have been entered on the correct sides of the ledger.

D Total debit balances equal total credit balances in the ledger.

[N17/P1/Q8]

Trouble⋙ ***SHOOTER***

The totals of a trial balance agree means that their is no arithmetical error. The debit balance is equal to the credit balance in the trial balance.

Answer: ***D***

18. A business purchased a motor vehicle and included it as a business expense in the income statement. How did this affect the financial statements?

	profit for the year	non-current assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

[N17/P1/Q13]

Trouble⋙ ***SHOOTER***

Business expenses were overstated, as a result profit for the year was understated.

Motor Vehicle was not included in non-current asstes, as a result, total of non-current assets in the balance sheet was understated.

Answer: ***D***

19. The totals of a trial balance did not agree. The total of the debit column was $13 400.

It was found that the purchases journal had been overcast by $195 and goods bought from supplier X for $85 had been incorrectly credited to Y.

What was the total of the credit column of the trial balance?

A $13 120 **B** $13 205

C $13 595 **D** $13 680

[J18/P1/Q8]

Trouble⋙ ***SHOOTER***

Error 1. ***Purchases overcasted by 195 means Dr side of trial balance overcasted.***

Error 2. ***Is error of commission which does not effect trial balance agreement.***

If Dr side of trial balance is $13400, Cr side will be $13400 – $195 = $13205.

Answer: ***B***

20. A draft income statement showed a gross profit of $12 200.

It was later found that carriage on purchases, $260, and carriage on sales, $230, had both been included as expenses in the profit and loss section of the income statement.

What was the corrected gross profit?

A $11 710 **B** $11 940

C $12 460 **D** $12 690

[N18/P1/Q14]

*Trouble➳ **SHOOTER***

Corrected gross profit = $12200 – $260 = $11940

Carriage on purchases increases cost of sales and decreases gross profit.

Carriage on sales is an expense and should be recorded in the profit and loss section of the income statement.

Answer: ***B***

21. After preparing a trial balance it was found that a cheque, $300, received from Oliver, had been debited in Oliver's account and credited in the bank account.

No other errors were found.

Which statement about the trial balance **before** correcting the error is correct?

A The credit column was equal to the debit column.

B The credit column was $300 more than the debit column.

C The debit column was $300 more than the credit column.

D The debit column was $600 more than the credit column.

[J19/P1/Q9]

*Trouble➳ **SHOOTER***

This is complete reversal entry. When both the Dr and Cr Entries are posted on the wrong side of the accounts the error is of an equal amount on the Dr and Cr Side. The trial balance shall balance.

Answer: ***A***

22. Which item is revenue expenditure for a manufacturer?

A buying new office equipment

B extending the factory

C purchasing motor vehicles

D repairing machinery

[J19/P1/Q12]

*Trouble➳ **SHOOTER***

Option A, B and C are items of capital expenditure.

Repairing machinery is listed under revenue expenditure. It is a day to day running expense.

Answer: ***D***

23. An item of revenue expenditure was treated as an item of capital expenditure.

What was the effect of this error?

	profit for the year	non-current assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

[J19/P1/Q13]

*Trouble➳ **SHOOTER***

The error will result in

- ***understating expenses thus overstating profit***
- ***overstating non current (fixed) assets.***

Answer: ***A***

24. A cheque received from D Pawson, a trade receivable, was correctly debited to the bank account but was credited to the account of P Dawson, a trade payable.

What was the effect of correcting this error?

	trade receivables	trade payables
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

[J19/P1/Q16]

*Trouble➳ **SHOOTER***

Trade receivable will be decreased and trade payable will also be decreased (it was incorrectly increased).

Answer: ***A***

25. After preparing her income statement Emma found that:

1 a bad debt, $1500, should have been written off

2 no adjustment had been made for rent prepaid by her of $2800.

The draft profit for the year was $35 000.

What was the profit for the year after these adjustments?

A $30 700 **B** $33 700

C $36 300 **D** $39 300

[N19/P1/Q21]

Trouble➳ ***SHOOTER***

Draft profit	*$35000*
Add : no adjustment for prepaid	*$2800*
	$37800
Less : bad debts written off	*$1500*
Profit after adjustments	*$36300*

Answer: ***C***

26. Sita discovers that $1000 received from the sale of fixtures had been entered in the sales account.

Which journal entry corrected this error?

		debit $	credit $
A	bank	1000	
	disposal of fixtures		1000
B	bank	1000	
	fixtures		1000
C	sales	1000	
	disposal of fixtures		1000
D	sales	1000	
	fixtures		1000

[J20/P1/Q10]

Trouble➳ ***SHOOTER***

Sales will be Dr to reduce them or rectify the error. Disposal A/c will be Cr to record selling price received from sale of fixtures.

Answer: ***C***

27. The totals of a trial balance did not agree and $200 was debited to a suspense account. On checking the books it was found that two errors had been made.

1. A sales invoice for $700 had been recorded in the sales journal as $770.
2. The sales journal had been totalled incorrectly.

What was the error made in totalling the sales journal?

A overcast by $130
B overcast by $200
C undercast by $130
D undercast by $200

[J20/P1/Q11]

Trouble➳ ***SHOOTER***

Error one would effect the sales and Trade receivables thus suspense A/c not effected.

Error two means sales were overcasted by $200 resulting in a deficit of $200 on the debit side. Correction entry would be:

Sales $200 Dr
Suspense $200 Cr

Answer: ***B***

28. The income statement of a business showed a loss for the year of $16 000. On checking the books the following errors were discovered.

1. No adjustment had been made for insurance prepaid, $480.
2. No entry had been made for bank charges, $620.

What was the correct loss for the year?

A $14 900 **B** $15 860
C $16 140 **D** $17 100

[J20/P1/Q12]

Trouble➳ ***SHOOTER***

Correct loss for the year = $16 000 – $480 + $620
= $16 140

Prepaid insurance reduces expenses thus increases profit, so it will be deducted from loss. Bank charges reduces profit and increases loss.

Answer: ***C***

29. Joel's inventory on 31 December 2019 was valued at $4800. It was discovered that:

1. Goods, cost $100, had not been included.
2. Goods, cost $170, had been included at net realisable value $210.

What was the **effect** of the **incorrect** inventory valuation on Joel's financial statements at 31 December 2019?

	profit for the year	$	inventory	$	equity	$
A	overstated	40	understated	40	nil	
B	overstated	60	understated	60	nil	
C	understated	40	understated	40	understated	40
D	understated	60	understated	60	understated	60

[J20/P1/Q20]

Trouble➳ ***SHOOTER***

Inventory value calculation,

$4800 + $100 – $40 ($210 – $170) = $4860

Inventory understated = $100 – 40 = $60

Result : Inventory understated by $60.

Answer: ***D***

Topic 7

The Trial Balance & Correction of Errors

Theory Questions

Question 1

On inspection of Yee's ledger, she discovered the following errors:

1. A cheque received from D Moy, $450, had been posted to the account of D Kay.
2. An invoice for goods received from G Fallen, costing $790, had been recorded in the purchases journal as $970.
3. Discount received, $45, had been debited to the discount received account and credited to F Tay.
4. Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account.

REQUIRED

(b) Prepare the journal entries to correct the errors in **1 to 4** above. Narratives are **not** required.

Journal

	Debit $	Credit $
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

[8]

(c) Complete the following table to name the type of error in **1 to 4** on the previous page. The first item has been completed as an example.

	Type of error
1 A cheque received from D Moy, $450, had been posted to the account of D Kay.	*Commission*
2 An invoice for goods received, costing $790, had been recorded in the purchases journal as $970.	
3 Discount received, $45, had been debited to the discount received account and credited to F Tay.	
4 Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account.	

[3]

(d) State **two** reasons why a suspense account would be used. [2]

[J14/P2/Q2 b,c,d]

SOLUTION

(b) Journal

	Debit $	Credit $
1. D Kay	450	
D Moy		450
2. G Fallen	180	
Purchases		180
3. F Tay	90	
Discount received		90
4. Repairs expenses	800	
Fixtures and Fittings		800

(c)

	Type of error
1 A cheque received from D Moy, $450, had been posted to the account of D Kay.	*Commission*
2 An invoice for goods received, costing $790, had been recorded in the purchases journal as $970.	**Original Entry**
3 Discount received, $45, had been debited to the discount received account and credited to F Tay.	**Reversal**
4 Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account.	**Principle**

(d) 1. Suspense account is created when trial balance fails to agree.

2. Suspense account is created to help detect and correct errors.

Question 2

The following balances remained in the books of Fabio at 30 June 2016. He was aware that there were some book-keeping errors and that the trial balance would **not** balance. - ➾*1*

	$
Motor vehicle	9 500
Trade payables	8 500
Inventory	4 850
Revenue (Sales)	22 000
Purchases	14 400
Bank loan	2 000
Bank overdraft - ➾*2*	1 630
Trade receivables	7 250
Capital	3 000

REQUIRED

(a) Complete the trial balance at 30 June 2016, balancing the trial balance by the use of an appropriate account.

Fabio
Trial Balance 30 June 2016

	Debit	Credit
	$	$
Motor vehicle		
Trade payables		
Inventory		
Revenue (Sales)		
Purchases		
Bank loan		
Bank overdraft		
Trade receivables		
Capital		

[4]

On inspection of his books, Fabio located the following errors.

1 A sale of goods, $850, had been correctly recorded in the account of a credit customer, but had been recorded in the revenue (sales) account as $580.

2 A purchase of goods, $700, had been correctly entered in the account of a credit supplier, but had been credited to the purchases account.

*Trouble*SHOOTER➾

➾*1*

When the trial balance does not balance due to book keeping errors suspense account is added in the trial balance.

➾*2*

Bank overdraft is a short term loan. It is recorded on the credit side of the trial balance.

REQUIRED

(b) Prepare the general journal entries to correct errors 1 and 2. Narratives are **not** required.

General journal

	Debit $	Credit $

[4]

[N16/P2/Q1 a,b]

SOLUTION

(a) Fabio

Trial Balance 30 June 2016

	Debit	Credit
	$	$
Motor vehicle	9 500	
Trade payables		8 500
Inventory	4 850	
Revenue (Sales)		22 000
Purchases	14 400	
Bank loan		2 000
Bank overdraft		1 630
Trade receivables	7 250	
Capital		3 000
Suspense Account *[w1]*	1 130	
	37 130	37 130

(b) General journal

	Debit $	Credit $
Suspense Account	270	
Revenue (sales)		270
Purchases	1400	
Suspense		1400

WORKINGS

[w1] When credit side is more than the debit side. Suspense account balance will be posted in the debit side to balance the trial balance.

Question 3

After preparing the draft income statement, which showed a profit for the year of $24 000, Lyana discovered some errors.

REQUIRED

Complete the following table showing the effect on the profit for the year of **correcting** each error. Calculate the revised profit for the year.

	$	$	$
Profit for the year			24 000
	Increase	Decrease	
Purchases of $500 had not been recorded in the books.			
Goods, $800, had been counted twice in the closing inventory.			
No adjustment had been made for prepaid insurance $950.			
Discount allowed, $1600, had been added to gross profit.			
Equipment costing $15 000 (accumulated depreciation $6600) had been depreciated by 20% on cost. The reducing (diminishing) balance method should have been used at a rate of 20%.			
Commission receivable, $400, had been omitted from the draft income statement.			
Revised profit for the year			

[8]

[N16/P2/Q2 b]

SOLUTION

	$	$	$
Profit for the year			24 000
	Increase	Decrease	
Purchases of $500 had not been recorded in the books.		**500**	**(500)**
Goods, $800, had been counted twice in the closing inventory.		**800**	**(800)**
No adjustment had been made for prepaid insurance $950.	**950**		**950**
Discount allowed, $1600, had been added to gross profit.		**3 200**	**(3 200)**
Equipment costing $15 000 (accumulated depreciation $6600) had been depreciated by 20% on cost. The reducing (diminishing) balance method should have been used at a rate of 20%. ***[w1]***	**1 320**		**1320**
Commission receivable, $400, had been omitted from the draft income statement.	**400**		**400**
	2 670	**4 500**	
Revised profit for the year			**22 170**

WORKINGS

[w1] Equipment depreciation at cost $= \$15000 \times 20\% = \$3000$

Equipment depreciation by reducing balance method: $\$15000 - \$6600 = \$8400$

$\$8400 \times 20\% = \$1680$

Difference in profit $= \$3000 - \$1680 = \$1320$

Profit understated $= 1320$

Question 4

Hannah prepared a trial balance but its totals did not agree. A suspense account was opened.

She later discovered the following errors:

1. Rent receivable, $4900, had been debited to the rent payable account.
2. General expenses paid, $1200, had been correctly entered in the cash book, but had been recorded in the general expenses account as $2100.
3. No debit entry had been made for purchases on credit from Ploy, $3400.

REQUIRED

(a) Prepare the entries in the general journal to correct the errors 1 to 3. Narratives are **not** required.

General journal

	Debit	Credit
	$	$

[7]

(b) Prepare the suspense account showing the original difference in the trial balance. ⇛1

Suspense account

Details	$	Details	$

[4]

Hannah had prepared draft financial statements **before** correcting the errors. Her draft profit was $15 600.

*Trouble*SHOOTER ⇛

⇛1

Difference as per trial balance is the balancing figure in the account. Suspense account balance is posted on the side which is less.

REQUIRED

(c) Complete the following table by calculating the effect of **correcting each** error on the draft profit for the year.

Calculate the revised profit for the year.

Revision of profit

			$
Draft Profit for the year			15600
	Increase	Decrease	
	$	$	
1 Rent receivable, $4900, had been debited to the rent payable account. - ⇛2			
2 General expenses paid, $1200, had been correctly entered in the cash book, but had been recorded in the general expenses account as $2100.			
3 No debit entry had been made for purchases on credit from Ploy, $3400.			
Revised profit for the year			

[5]

(d) State the difference between the following types of errors which would **not** affect the balancing of the trial balance.

(i) Commission and principle

(ii) Compensation and reversal [4]

[N17/P2/Q2]

TroubleSHOOTER ⇛

⇛**2**

Rent receivable income was not recorded and rent payable, an expense was wrongly debited. Both errors have reduced the profit. As a correction, the profit figure will be increased by $9800.

SOLUTION

(a) General journal

	Debit	Credit
	$	$
1. Suspense account	9800	
Rent payable		4900
Rent receivable		4900
2. Suspense account	900	
General expenses		900
3. Purchases	3400	
Suspense account		3400

(b) Suspense account

Details	$	Details	$
Rent payable	4900	Difference as per trial balance ***[w1]***	7300
Rent receivable	4900		
General expenses	900	Purchases	3400
	10700		10700

(c) Revision of profit

			$
Draft Profit for the year			15600
	Increase	Decrease	
	$	$	
1 Rent receivable, $4900, had been debited to the rent payable account.	**9800**		
2 General expenses paid, $1200, had been correctly entered in the cash book, but had been recorded in the general expenses account as $2100.	**900**		
3 No debit entry had been made for purchases on credit from Ploy, $3400.		**3400**	
	10700	**3400**	**7300**
Revised profit for the year			**22900**

(d) **(i)** Error of commission - When amount is posted in the same class or type of account.
Error of principle - When amount is posted in a different class or type of account.

(ii) Compensation error - When more than one error in posting compensates each other.
Reversal entry - This occurs when both the entries are reversed for a single error.

WORKINGS

[w1] Dr side $10 700 – Cr side $3400 = 7300 balance as per trial balance.

Question 5

Zarita prepared a trial balance at 31 March 2018. The trial balance totals agreed.

The following errors were later discovered. - ***1***

1 Sales on credit to Winchester, $830, had been recorded in the sales journal as $380.

2 Discount allowed to Bloom, $60, had been credited in the discount allowed account and debited in Bloom's account. - ***2***

3 Computer expenses, $900, had been recorded in the computer account.

4 A purchase of goods from Stilson, $420, had been posted to the account of Filton.

Trouble SHOOTER

1

The following errors are errors not effecting the trial balance as the error is on the Dr and Cr side.

2

Whenever the error is on the wrong side, bring it to the right side with double the amount.

REQUIRED

(a) Name **each** type of error in 1 to 4. [4]

(b) Explain why the trial balance totals agreed although there were four errors in the books. [2]

(c) Prepare the entries in the general journal to correct errors 1 to 4. Narratives are **not** required. [8]

Before Zarita corrected the errors she had calculated a draft profit for the year of $6800.

REQUIRED

(d) Complete the following table to show the effect of **correcting each** error on the draft profit for the year.

Where there is no effect write 'No Effect'.

Calculate the revised profit for the year.

Statement of Corrected Profit for the year ended 31 March 2018

Error		Increase	Decrease	
		$	$	$
	Draft profit for the year			6800
1	Sales on credit to Winchester, $830, had been recorded in the sales journal as $380			
2	Discount allowed to Bloom, $60, had been credited in the discount allowed account and debited in Bloom's account.			
3	Computer expenses, $900, had been recorded in the computer account.			
4	A purchase of goods from Stilson, $420, had been posted to the account of Filton			
	Revised profit for the year			

[6]

[J18/P2/Q2]

SOLUTION

(a) 1. Error of original entry
2. Error of reversal entry
3. Error of principle
4. Error of commission

(b) The above four errors do not effect trial balance totals. The reason being that both debit and credit entry is incorrect with equal amounts.

(c)

General journal

	Debit $	Credit $
Winchester (Trade receivable)	450	
Sales		450
Discount allowed	120	
Bloom - (Trade receivable)		120
Computer expenses	900	
Computer		900
Filton - (Trade payable)	420	
Stilson - (Trade payable)		420

(d)

Error		Increase	Decrease	
		$	$	$
	Draft profit for the year			6800
1	Sales on credit to Winchester, $830, had been recorded in the sales journal as $380	450		
2	Discount allowed to Bloom, $60, had been credited in the discount allowed account and debited in Bloom's account.		120	
3	Computer expenses, $900, had been recorded in the computer account.		900	
4	A purchase of goods from Stilson, $420, had been posted to the account of Filton	No effect		
		450	1020	(570)
	Revised profit for the year			6230

Topic 12

Limited Companies

Multiple Choice Questions

1. RST Limited provided the following information.

	$
retained profits at 1 January 2013	200 000
general reserve at 1 January 2013	48 000
profit for the year ended 31 December 2013	102 000
ordinary share dividends paid	24 000
transfer to general reserve	20 000

What was the value of retained profits at 31 December 2013?

A $58 000 **B** $142 000
C $258 000 **D** $306 000

[J14/P1/Q24]

Trouble **SHOOTER**

	$	$
b/d		*200 000*
Add: profit for the year		*102 000*
		302 000
Less: transfer to general reserve	*20 000*	
dividend paid	*24 000*	*44 000*
Retained profits at 31 Dec. 2013		*258 000*

Answer: C

2. The financial year of ABZ Limited ends on 31 March. Debenture interest is paid annually in arrears on 1 April each year.

Where will debenture interest appear in the financial statements for the year ended 31 March 2014?

	income statement	appropriation account	statement of financial position
A	✓		✓
B	✓		
C		✓	✓
D		✓	

[N14/P1/Q25]

Trouble **SHOOTER**

Debenture interest for the current year is an expense which is recorded in the income statement. Arrears of interest on debentures is a current liability to be recorded in the balance sheet.

Answer: **A**

3. Which statement applies to preference share holders?

A They are members of the company.
B They are usually entitled to vote.
C They get a fixed percentage of the profit each year.
D They get a fixed rate of interest each year.

[J15/P1/Q23]

Trouble **SHOOTER**

Preference shares have no voting right and they get a fixed percentage of dividend every year.

Answer: **A**

4. A limited company provided the following information.

		$
January 1	ordinary shares of $1 each	200 000
	retained earnings	12 000
December 31	profit for the year	43 000
	transfer to general reserve	10 000

A dividend of 10 % on ordinary shares was paid during the year.

What were the retained earnings on 31 December?

A $13 000 **B** $23 000
C $25 000 **D** $35 000

[J15/P1/Q24]

Trouble **SHOOTER**

Dividend = $200 000 × 10% = $20 000

Retained earnings at 31 December
= $12 000 + $43 000 – $10 000 – $20 000 = $25 000.

Answer: **C**

5. Which item would be entered in a statement of changes in equity?

A debenture interest accrued
B debenture interest paid
C ordinary dividend paid
D ordinary dividend proposed

[N15/P1/Q26]

Trouble ***SHOOTER***

Option A & B are adjusted in the income statement under finance charges. Option D is shown as a note. Only ordinary dividend paid is deducted from retained earnings in the statement of changes in equity.

Answer: ***C***

6. Zed Limited provided the following information.

	$
issued and paid up share capital	200 000
general reserve	30 000
retained earnings	15 000
10% debentures	20 000

What were total shareholders' funds?

A $215 000 **B** $230 000
C $245 000 **D** $265 000

[N15/P1/Q27]

Trouble ***SHOOTER***

Shareholders fund
= issued share capital + all reserves
= $200 000 + $30 000 + $15 000
= $245 000

Answer: ***C***

7. Which item is directly affected by the dividend policy of a limited company?

A general reserve
B ordinary share capital
C preference share capital
D retained earnings

[J16/P1/Q22]

Trouble ***SHOOTER***

Dividends are paid out of retained profits of a company. So dividends directly reduce the retained profit.

Answer: ***D***

8. A limited company provided the following information.

	$
issued share capital – 50 000 ordinary shares of $1 each	50 000
profit for the year ended 30 April 2016	13 000
transfer to general reserve on 30 April 2016	6 000
interim ordinary share dividend paid during the year	3 000

On 30 April 2016 it was decided to use the remaining profit to pay a final ordinary share dividend.

What percentage final dividend would the ordinary shareholders receive?

A 8% **B** 14%
C 20% **D** 26%

[J16/P1/Q23]

Trouble ***SHOOTER***

	$	$
Profit		***13 000***
Less: general reserve	***6 000***	
interim dividend paid	***3 000***	***9 000***
Profit available to pay final dividend to ordinary share-holders		***4 000***

Percentage of final dividend $= \frac{\$4\,000}{\$50\,000} \times 100 = 8\%$

Answer: ***A***

9. What are the main features of debentures?

	return received	rate of return	voting rights
A	dividend	fixed rate	no
B	dividend	varies with profit	yes
C	interest	fixed rate	no
D	interest	varies with profit	yes

[J17/P1/Q26]

Trouble ***SHOOTER***

Return on debentures is fixed rate of interest. Ordinary share holder receive dividend which values with profit. Only ordinary share holders have voting right.

Answer: ***C***

10. Which items are shown in a statement of changes in equity?

	changes in share capital	changes in reserves	changes in long term loans and debentures
A	✓	✓	✓
B	✓	✓	✗
C	✓	✗	✗
D	✗	✗	✓

[J17/P1/Q27]

Trouble ***SHOOTER***

Equity means share capital and all reserves. Long term loans are part of capital employed, i.e. equity + long term loans.

Answer: ***B***

11. The financial year of AB Limited ends on 30 September.
Debenture interest is paid annually in arrears on 1 October each year.
Where did debenture interest appear in the financial statements for the year ended 30 September 2017?

	income statement	statement of changes in equity	statement of financial position
A	✓		✓
B	✓		
C		✓	✓
D		✓	

[N17/P1/Q25]

Trouble ***SHOOTER***

Debenture interest is an expense which will appear in the income statement. Interest accrued will be recorded under current liabilities in the statement of financial position.

Answer: ***A***

12. The issued share capital of CD Limited consists of ordinary shares.

Retained earnings were \$86 000 on 1 September 2016 and \$88 500 on 31 August 2017.

The company made a profit during the year of \$26 000 and made a transfer to general reserve of \$5000.

What was the total ordinary share dividend paid during the year?

A \$18 500 **B** \$23 500
C \$28 500 **D** \$33 500

[N17/P1/Q26]

Trouble ***SHOOTER***

Ordinary dividend paid = retained b/d + profit for the year – transfer to reserve – retained earning c/d
= 86 000 + 26 000 – 5000 – 88 500
= \$18 500

Answer: ***A***

13. Which item would be entered in a statement of changes in equity?

A debenture interest accrued
B debenture interest paid
C ordinary dividend paid for current year
D ordinary dividend proposed for current year

[J18/P1/Q24]

Trouble ***SHOOTER***

Ordinary dividend paid reduces retained earnings in the statement of changes in equity.
Option A — recorded in statement of financial position
Option B — recorded in income statement
Option D — disclosed as a note to the shareholders.

Answer: ***C***

14. On 1 January NH Limited was formed with the issue of 200 000 ordinary shares of \$0.50 each.

During the first year it made a profit of \$21 000. A dividend of \$0.02 per share was paid and \$10 000 was transferred to general reserve.

What was the total of reserves on 31 December?

A \$7000 **B** \$9000
C \$17 000 **D** \$19 000

[J18/P1/Q25]

Trouble ***SHOOTER***

Dividend = 200000 share × \$0.02 = \$4000

Retained earnings	
= (\$21000 – \$4000 – \$10000)	***\$7000***
General reserve	***\$10000***
Total reserves	***\$17000***

Answer: ***C***

15. Which statements about ordinary shares are correct?

1 If a company is wound up ordinary shares are repaid after debentures.
2 Ordinary shares are a non-current liability of the company.
3 The holders of ordinary shares are the owners of the company.

31. During the financial year, AB Limited paid debenture interest of $1400 relating to that financial year. At the end of the year, debenture interest of $700 was accrued.

How was debenture interest shown in the financial statements for the year?

	Income statement $	statement of changes in equity $
A	1400	no entry
B	2100	no entry
C	no entry	1400
D	no entry	2100

[J23/P1/Q26]

Trouble SHOOTER

Debenture interest paid $1400 during the year and accrued interest in expense are recorded under financial charges in the income statement. No entry is made in the statement of changes in equity.

*Answer: **B***

32. Which organisation is the **most** difficult to establish and has to comply with many legal formalities?

A partnership
B sole trader
C limited liability company
D club or society

[N23/P1/Q24]

Trouble SHOOTER

An organization has to fulfill legal formalities and do a lot of documentation to establish a limited liability company.

*Answer: **C***

33. Z Limited has the following types of equity and liabilities.

1 debentures
2 general reserves
3 long-term bank loan
4 ordinary share capital
5 preference share capital (non-redeemable)
6 retained earnings

What is included in the company's shareholders' equity?

A 1, 2, 4 and 5 **B** 1, 3, 4 and 5
C 2, 3, 4 and 6 **D** 2, 4, 5 and 6

[N23/P1/Q25]

Trouble SHOOTER

Company's shareholders equity includes general reserves, ordinary share capital, preference share capital (non-redeemable) and retained profits.

*Answer: **D***

34. T Limited was formed on 1 April 2019. A total of 220 000 shares of $2 each were issued and shareholders were asked to pay 75% of the share value immediately and 25% on 1 April 2020.

By 1 June 2019 holders of 190 000 shares had paid the amount due.

What was the paid up capital on 1 June 2019?

A $285 000 **B** $330 000
C $380 000 **D** $440 000

[J24/P1/Q23]

Trouble SHOOTER

75% of share value = $2 × 75% = $1.50
Paid up capital = $190 000 × $1.50 = $285 000

*Answer: **A***

35. Which items would appear in the statement of changes in equity of X Limited for the year ended 30 June 2020?

1. interim dividend paid on 31 March 2020
2. proposed dividend for the year ended 30 June 2020
3. proposed final dividend for the year ended 30 June 2019 paid on 31 October 2019
4. transfer to general reserve on 30 June 2020

A 1, 3 and 4 **B** 1 and 3 only
C 2, 3 and 4 **D** 2 and 4 only

[J24/P1/Q24]

Trouble SHOOTER

Proposed dividend at the year-end is only disclosed by way of notes. Interim dividend paid, transfer to general reserve and last years final dividend paid in the current year are items that will appear in the statement of changes in equity for the year ended 30 June 2020.

*Answer: **A***

36. X Limited provided the following information.

	$
ordinary share capital	300 000
general reserve	50 000
retained earnings	35 000
8% debenture	60 000

What was the total of the equity?

A $335 000 **B** $350 000

C $385 000 **D** $445 000

[N24/P1/Q24]

Trouble ***SHOOTER***

Total equity = ordinary share capital + general reserve + retained earnings
= $300 000 + $50 000 + $35 000
= $385 000

Answer: ***C***

37. Which item is shown in the income statement **and** in the statement of changes in equity of a limited company?

A accrued interest on debentures

B ordinary share dividend paid

C profit for the year

D transfer to general reserve

[N24/P1/Q25]

Trouble ***SHOOTER***

Profit for the year is recorded in the income statement and also in the retained earnings column in the statement of changes in equity.

Option B and D is only recorded in statement of changes in equity. Option A is only recorded in income statement.

Answer: ***C***

Topic 12

Limited Companies

Theory Questions

Question 1

Cam Limited provided the following information.

	$
At 1 October 2015	
Issued share capital $1 Ordinary shares - ➺1	70 000
General reserve	40 000
Debentures (Repayable 2025) - ➺2	50 000
Retained profits	92 000
For the year ended 30 September 2016	
Profit for the year	75 000
Interim dividend paid on ordinary shares - ➺3	7 000

Additional information

1 On 1 November 2015 an additional 30 000 ordinary shares of $1 each were issued.

2 On 30 September 2016 the directors:
transferred $80 000 to the general reserve,
paid a final ordinary dividend of $0.20 per share on all issued shares.

REQUIRED

(a) Complete the statement of changes in equity for the year ended 30 September 2016.

Cam Limited
Statement of Changes in Equity for the year ended 30 September 2016

	Share Capital $	General Reserve $	Retained Profits $	Total $
Balance at 1 October 2015	70 000	40 000	92 000	202 000
Share issue				
Profit for the year				
Transfer to general reserve				
Dividend paid (interim)				
Dividend paid (final)				
Balance at 30 September 2016				

[8]

(b) Prepare an extract from the statement of financial position showing the equity, reserves and non-current liabilities of Cam Limited at 30 September 2016. [6]

***Trouble*SHOOTER**

➺1

The par value of shares is $1. the number of issued ordinary shares is $70000.

➺2

Debentures are long term loans or non-current liabilities.

➺3

Interim dividend is half yearly dividend paid to ordinary share holders.

(c) Suggest **two** possible reasons why the directors of Cam Limited transferred $80 000 to the general reserve. [2]

(d) State **two** differences between ordinary shares and debentures. [4]

[N16/P2/Q3]

SOLUTION

(a) Cam Limited

Statement of Changes in Equity for the year ended 30 September 2016

	Share Capital $	General Reserve $	Retained Profits $	Total $
Balance at 1 October 2015	70 000	40 000	92 000	202 000
Share issue	**30 000**			**30 000**
Profit for the year			**75 000**	**75 000**
Transfer to general reserve		**80 000**	**(80 000)**	**-**
Dividend paid (interim)			**(7 000)**	**(7 000)**
Dividend paid (final) ***[w1]***			**(20 000)**	**(20 000)**
Balance at 30 September 2016	**100 000**	**120 000**	**60 000**	**280 000**

(b) **Cam Limited**

Extract from Statement of Financial Position at 30 September 2016

	$	$
Equity and Reserves:		
Ordinary shares		100 000
Reserves:		
General reserve	120 000	
Retained profit	60 000	180 000
Total Equity and Reserves		280 000
Non-current liabilities:		
Debentures (Repayable 2025)		50 000
Total Equity, Reserves and Liabilities		330 000

(c) 1. Funds are retained for capital expenditures such as purchasing non-current or expansion of business.

2. Funds are retained to maintain liquidity and improve working capital.

(d) 1. Ordinary share holders are owners of the company. Debenture holders are non-current liabilities or creditors of the business.

2. Ordinary share holders receive a fixed rate of interest on their loan to the firm.

WORKINGS

[w1] Dividend final = 100 000 × 0.20 per share = $20 000

Question 2

ABC Limited has ordinary share capital consisting of 150 000 shares of $1 each.

The following is an extract from the statement of changes in equity for ABC Limited for the year ended 31 August 2019.

ABC Limited

Statement of Changes in Equity for the year ended 31 August 2019

	Ordinary share capital	General reserve	Retained earnings	Total
	$	$	$	$
Balance 1 September 2018	150 000	25 000	56 000	?
Profit for the year			32 000	32 000
Interim dividend for the year			(3 000) - ➳1	(3 000)
Final dividend for the year			(4 500) - ➳2	(4 500)
Transfer to general reserve		20 000	(20 000) - ➳3	
Balance 31 August 2019 - ➳4	?	?	?	?

Additional balances at 31 August 2019

	$
Trade payables	17 500
Current assets	72 500
Other payables	3 000
5% Debentures (repayable 2025)	50 000 - ➳5
Non-current assets	280 000
4% Bank loan (repayable 2022)	20 000 - ➳6
Bank overdraft	6 500

REQUIRED

(a) State the difference between called-up share capital and paid-up share capital. [2]

(b) State **three** differences between debentures and ordinary shares. [6]

(c) Calculate the total:

(i) equity of ABC Limited on 1 September 2018 [1]

(ii) dividend paid on ordinary shares in cents per share. [2]

(d) State **one** possible reason why ABC Limited would make a transfer to the general reserve. [1]

(e) Prepare an extract from the statement of financial position at 31 August 2019 to show the **equity and liabilities.** [8]

[N19/P2/Q3]

TroubleSHOOTER➳

➳1

Interim dividend is given to the ordinary share holders on their investment after half the year has ended.

➳2

Final dividend is the year end dividend distributed to ordinary share holders.

➳3

Amount is transferred at the end of the year to the general reserves from the retained profits.

➳4

Balances at end are balances of statement of financial position.

➳5

Debentures are non- current liabilities.

➳6

Bank loan is also recorded under non-current liabilities.

SOLUTION

(a) Called-up share capital: Capital that is asked to be paid by the shareholders to the company (part of the par value).

Paid-up Share Capital: Capital that is asked to be paid and is actually paid to the company by shareholders.

(b) 1. Debentures: Long term or non current liabilities.
Ordinary Shares: Owners or equity holders.

2. Debentures: Fixed rate of interest.
Ordinary Shares: Dividend given which varies each year.

3. Debentures: No voting right.
Ordinary Shares: Voting right is used to select board of directors to run the company.

(c) **(i)** Equity = Ordinary share capital + All reserves

$= \$150\,000 + \$25\,000 + \$56\,000 = \$231\,000$

(ii) Dividend paid = Interim + Final

$= \$3000 + \$4500 = \$7500$

$$\text{Dividend paid per share} = \frac{\text{Total dividend paid}}{\text{Total ordinary shares}} = \frac{\$7500}{\$150\,000} = \$0.05$$

(d) To provide funds for expansion or to improve working capital.

(e)

ABC Limited
Extract from the Statement of Financial Position at 31 August 2019

	$	$
Equity and liabilities:		
Ordinary shares	150 000	
General Reserve ($25 000 + $20 000)	45 000	
Retained earnings ($56 000 + $32 000 – $3000 – $4500 – $20000)	60 500	255 500
Non-current liabilities:		
5% Debentures	50 000	
4% Bank Loan	20 000	70 000
Current Liabilities:		
Trade payables	17 500	
Other payables	3 000	
Bank overdraft	6 500	27 000
Total Equity and Liabilities		352 500

Question 3

JP Limited's financial year ended on 30 September 2020.

The following balances were available at that date.

	$
7% debentures (2026) - ➾*1*	20 000
Administrative expenses	44 000
Carriage inwards	1 500
Distribution costs	38 000
Debenture interest paid - ➾*2*	700
Inventory at 1 October 2019	66 000
Non-current assets at book value at 1 October 2019 - ➾*3*	610 000
Provision for doubtful debts	1 000
Purchases	263 000
Revenue	529 500
Trade receivables	80 500

*Trouble*SHOOTER

➾*1*

Debentures are loan stock on which 7% interest will be paid by the company.

➾*2*

Debenture interest paid is amount actually given to debenture holders.

➾*3*

Bookvalue of non-current assets means cost – depreciation.

Additional information

1 Inventory at 30 September 2020 was valued at $59 000.
2 Interest on the 7% debentures (2026) had been paid up to 31 March 2020. - ➳4
3 Administrative expenses included rates of $1200 for the six months ending 31 March 2021.
4 Distribution costs of $800 were outstanding at 30 September 2020.
5 Non-current assets should be depreciated by 10% per annum using the reducing balance method. - ➳5
6 Irrecoverable debts of $500 are to be written off. - ➳6
7 The directors wish to maintain the provision for doubtful debts at 2% of trade receivables.

REQUIRED

(a) Calculate the cost of sales for the year ended 30 September 2020. [2]

(b) Calculate the increase or decrease in the provision for doubtful debts at 30 September 2020. [2]

(c) Prepare the income statement for the year ended 30 September 2020. [12]

(d) Complete the table by placing a tick (✓) in the correct column to indicate the effect on the equity of JP Limited of **each** of the following. The first one has been completed as an example.

	Increase	Decrease	No effect
Issue additional debentures			✓
Issue additional ordinary shares			
Payment of ordinary share dividend - ➳7			
Proposal of ordinary share dividend			
Transfer from retained earnings to general reserve - ➳8			

[4]

[N20/P2/Q3]

TroubleSHOOTER

➳4
6 months interest is paid and 6 months interest is accrued.

➳5
10% to be charged on book value.

➳6
Irrecoverable debts are bad debts.

➳7
Ordinary shares holders are paid dividend for the last year in the current financial year.

➳8
Proposed or final dividend is declared for the current year but paid next year. Proposed dividend is not recorded anywhere in the financial statements. It is disclosed by way of a note only.

SOLUTION

(a)

	$	$
Opening Inventory		66 000
Add: Purchases	263 000	
Carriage inwards	1 500	264 500
		330 500
Less: Closing inventory		59 000
Cost of Sales		271 500

(b)

	$
Provision at 30 September 2020	
[($80 500 – $500) × 2%]	1 600
Less: Provision at 10 October 2019	1 000
Increase in provision for doubtful debts	600

(c)

JP Limited
Income Statement for the year ended 30 September 2020

	$	$
Revenue/Sales		529 500
Less: Cost of sales		271 500
Gross Profit		258 000
Less: Expenses		
Administrative expenses ***[w1]***	42 800	
Distribution costs ***[w2]***	38 800	
Irrecoverable debts	500	
Provision for doubtful debt	600	
Depreciation – Non-current assets	61 000	143 700
Profit from operations		114 300
Debenture Interest ***[w3]***		1 400
Profit for the year		112 900

(d)

	Increase	Decrease	No effect
Issue additional debentures			✓
Issue additional ordinary shares	✓		
Payment of ordinary share dividend		✓	
Proposal of ordinary share dividend			✓
Transfer from retained earnings to general reserve			✓

WORKINGS

[w1] Administrative expenses = $44,000 – $1200 = $42,800

[w2] Distribution cost = $38,000 + $800 = $38,800

[w3] Debenture interest = $20,000 × 7% = $1400