

IGCSE Accounting Books of Original Entry



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1 (a) Abdul started a business by transferring his own vehicle to the business at a valuation of \$9000 and introducing a sum of cash.

In the first year of trading profit was \$2000. At the end of the first year the balance on his capital account was \$51 000.

How much cash did Abdul introduce?

- A\$40 000

B\$44 000

C\$58 000

D\$62 000
- ☐

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(b) Agnes and Brian operate in similar businesses. They provide the following information.

	Agnes	Brian
Trade receivables collection period	31 days	40 days

Which statement is true?

- A

Agnes receives money from customers sooner than Brian.
- B

Agnes pays her suppliers sooner than Brian.
- C

Brian receives money from customers sooner than Agnes.
- D

Brian pays his suppliers sooner than Agnes.
- ☐

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(c) The following account appeared in Andrew’s ledger.

Andrew Advertising account					
2015		\$	2014		\$
30 April	Bank	4000	1 May	Balance b/d	500
			2015		
			30 April	Income statement	2800
				Balance c/d	700
		<u>4000</u>			<u>4000</u>
2015					
1 May	Balance b/d	700			

Which statement is correct?

- A

Andrew earned \$2800 from advertising during the year.
- B

Andrew had prepaid \$700 for advertising on 1 May 2015.
- C

Andrew owed \$700 for advertising on 1 May 2015.
- D

Andrew paid \$2800 for advertising during the year.
- ☐

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2 (a) Name two books of prime (original) entry which a trader may keep. In each case name a source document for that book. An example has been provided.

Book of prime (original) entry	Source document
Cash book	Cheque counterfoil

(b) State one reason why a trader might use books of prime (original) entry.

.....

.....

(c) Name the two accounts which are posted with the totals from a three column cash book.

1

2

3 Lamoudi has an accounting year end of 31 December.

On 1 April 2013 he paid \$1200, by cheque, for a year’s insurance starting on that date.
On 1 April 2014 he paid \$1440, by cheque, for insurance for twelve months to 31 March 2015.

REQUIRED

(a) Prepare Lamoudi’s insurance account for the year ended 31 December 2014. Balance the account and bring down the balance on 1 January 2015.

Lamoudi
Insurance account

Date	Details	\$	Date	Details	\$
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.....
.....
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.....
.....

5 Abdoulaye withdrew \$200 from the bank for personal use.

REQUIRED

State how this is recorded in the books of account.

Account debited	Account credited

6 Farhad and Ali are traders. On 1 January 2015 Farhad owed Ali \$300. The following transactions took place.

- 5January
- Ali sold goods, \$250, to Farhad.
- 8January
- Farhad returned half of the goods bought on 5 January.
- 19January
- Farhad paid the amount owed on 1 January, by cheque, having deducted 3% cash discount.

REQUIRED

(a) Prepare Farhad’s account in the books of Ali. Balance the account and bring down the balance on 1February 2015.

Ali
Farhad account

Date	Details	\$	Date	Details	\$
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.....

(b) Complete the following table. Name the document sent by Ali to Farhad on 5 January and on 8 January and state his reason for sending each document.

	Document	Reason
5 January		
8 January		

(c) Complete the following table. Name the book of prime (original) entry in which Ali would record the transactions listed.

	Book of prime (original) entry
Ali sold goods, \$250, to Farhad	
Farhad returned half of the goods bought on 5 January	
Farhad paid the amount owed on 1 January having deducted 3% cash discount	

7 During February 2015 the following transactions took place.

- 1 Took out long term bank loan, \$10 000.
- 2 Bought delivery van, \$8000, paying by cheque.
- 3 Bought inventory, \$300, from John on credit.
- 4 Sold goods for cash, \$80 (cost \$50).

REQUIRED

Complete the following table to show the double entry needed to record each transaction.

Transaction	Account debited	\$	Account credited	\$
1				
2
3
4

8 Kuda Maposa had the following transactions on 31 March 2015.

- 1 Took goods costing \$300 for personal use.
- 2 Purchased a motor vehicle, \$12 000, for business use, using a cheque drawn on her personal bank account.
- 3 Received an invoice from Valley Machines for \$990. This included \$865 for a new machine. The balance was for repairs to existing machine.

REQUIRED

(a) Prepare journal entries to record the above transactions. Narratives are required. See next page.

Kuda Maposa
Journal

		Debit \$	Credit \$
1

2

3

9 (a) Insert the missing figures in the following document.

<div>CREDIT NOTE</div> <div>Jai Kapur</div> <div>44 West Street</div> <div>Hightown</div> <div>Vijay Singh</div> <div>11 North Road</div> <div>Lowtown</div> <div>25 April 2015</div>			
Quantity	Description	Unit price	Amount
4	External doors	\$ 55	\$ 220
	Less (i).....% trade discount		33
			(ii)
20 metres	Floorboards	1.50	....30...
			(iii).....

(b) Name the person who issued the credit note.

.....

(c) Suggest one reason for the issue of the credit note.

.....

(d) Name the document which would have been issued to request a credit note.

.....

(e) Complete the following table to show where the credit note would be recorded.

Books of Jai Kapur		Books of Vijay Singh	
Account debited	Account credited	Account debited	Account credited
.....
.....

10 On 30 March 2015 Akhtar Hussain received an invoice for \$9360 from PJ Autos Limited. This included \$360 for repairs to a motor vehicle. The remainder was the cost of a new motor vehicle.

REQUIRED

Prepare a journal entry to record this transaction. A narrative is required.

Akhtar Hussain Journal		
	Debit \$	Credit \$
.....
.....
.....
.....
.....

11 Nirmal Singh is a trader. He maintains a full set of accounting records. All purchases are made on credit terms. His purchases journal and purchases returns journal for February 2015 are shown below.

Purchases Journal		
Date	Name	Amount \$
2015 Feb 8	Ansari Stores (after 20% trade discount)	640
Feb 19	T Marks	480

Purchases Returns Journal		
Date	Name	Amount \$
2015 Feb 14	Ansari Stores (after 20% trade discount)	280

REQUIRED

(a) Calculate the list price of the goods purchased by Ansari Stores on 8 February.

.....

.....

(b) State why trade discount was deducted from the goods returned on 14 February.

.....

.....

11 On 1 February 2015 Nirmal Singh’s purchases ledger included the following accounts.

	\$
Ansari Stores	560 credit
T Marks	200 credit

The following additional transactions took place in February 2015.

- Feb4 Paid \$200 by cheque to T Marks
- 10 The bank dishonoured the cheque paid to T Marks on 4 February
- 26 Paid \$546 to Ansari Stores by cheque in full settlement of the balance owing on 1 February 2015
- 28 T Marks charged \$10 interest on the overdue account.

REQUIRED

(a) Name the business document Nirmal Singh would use to record the following transactions. You can find the transactions on page 5 and 6.

February	Transaction	Document
4	Payment	
8	Purchases	
14	Purchases returns	

(b) Prepare the following accounts in the ledger of Nirmal Singh for the month of February 2015. Balance the accounts and bring down the balances on 1 March 2015.

Nirmal Singh

Ansari Stores account

Date	Details	\$	Date	Details	\$
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.....
.....
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.....
.....

T Marks account

Date	Details	\$	Date	Details	\$
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12 Amla Khan is a trader. Her financial year ends on 31 December.

Amla Khan maintains one combined account for rates and insurance. She provided the following information.

On 1 January 2014 three months' rates, \$480, was outstanding and four months' insurance, totalling \$700, was prepaid.

During the year ended 31 December 2014 the following payments were made by cheque.

	\$
Rates 16 months to 31 January 2015	2560
Insurance 12 months to 30 April 2015	2400

REQUIRED

(a) Prepare the rates and insurance account in the ledger of Amla Khan for the year ended 31 December 2014. Balance the account and bring down the balances on 1 January 2015.

See next page.

Amla Khan
Rates and insurance account

Date	Details	\$	Date	Details	\$
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(b) Name the section of the statement of financial position at 31 December 2014 in which the balance on the rates and insurance account would appear.

Give a reason for your answer.

Section of statement of financial position _____

Reason_____

13 Joda Limited provided the following information for the year ended 31 January 2015.

1 The total revenue was

	\$
Cash sales	9 600
Credit sales	154 400

Credit customers are allowed a credit period of 30 days.

2 The total of the trade receivables on 31 January 2015 amounted to \$15 300.

REQUIRED

(a) Calculate the collection period for trade receivables. Round your answer up to the next whole day.

(b) State whether Joda Limited would be satisfied with the collection period for trade receivables. Give a reason for your answer.

Satisfied or unsatisfied _____

Reason _____

14 (a) State what is meant by a book of prime (original) entry.

(b) Name two of the books of prime (original) entry which a business may maintain.

1. _____
2. _____

15 Neel started a business on 1 June. The following transactions took place in June.

- 1 Opened a business bank account with \$8000 of his own money.
- 2 Received a bank loan, \$2000.
- 3 Bought a delivery van, \$5200, from A1 Motors on credit.
- 4 Bought inventory, \$3700, paying by cheque.
- 5 Paid shop rent, \$1000, by standing order.
- 6 Withdrew cash, \$100, to start up an imprest system.

REQUIRED

(a) Complete the following table showing how these transactions were recorded. The first has been completed as an example. See next page.

	Debit entry		Credit entry	
		\$		\$
1	Bank account	8000	Capital account	8000
2				
3				
4				
5				
6				

(b) Calculate the balance on Neel's bank account after these transactions.

16 State the purpose of each of the following business documents.

debit note _____

credit note _____

statement of account _____

17 The following incomplete statement of account was available on 31 August 2015.

STATEMENT OF ACCOUNT				
Shahid Ayub 44 Narrow Lane, Anytown				
Mariam Soliman The Avenue Weston			31 August 2015	
Date	Reference	Debit \$	Credit \$	Balance \$
2015 August 1	Balance due			520
9	Goods	340		860
13	Returns		24	?
24	Payment		507	?
	Discount		13	?

REQUIRED

(a) (i) Calculate the balance due on 31 August.

(ii) State the name of the trader who owes the balance at 31 August.

(b) State the business document and the book of prime (original) entry Shahid Ayub would use to record the following transactions which appear on the statement of account.

Transaction	Document	Book of prime (original) entry
August 9 Goods
13 Returns
24 Payment

(c) Prepare the account of Shahid Ayub as it would appear in the ledger of Mariam Soliman. Balance the account and bring down the balance on 1 September 2015.

Mariam Soliman
Shahid Ayub account

Date	Details	\$	Date	Details	\$
.....
.....
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.....
.....
.....
.....

18 Kelbrook Limited provided the following information for the year ended 30 September 2015.

	\$
Credit sales	45 000
Cash sales	5 000

Credit customers are allowed 60 days credit.

REQUIRED

(a) Calculate the collection period for trade receivables. Round up your answer to the next whole day.

(b) Comment on the collection period for trade receivables.

Kelbrook Limited is allowed 30 days credit by their credit suppliers. For the year ended 30 September 2015 the payment period was 52 days.

REQUIRED

(c) Comment on the payment period for trade payables.

19 Paul Chew sells goods on credit terms to Kim Chan.

REQUIRED

Complete the table to name the business document and the books of prime (original) entry for each of the following transactions.

If the document is not recorded in a book of prime (original) entry write “No entry”. The first transaction has been completed as an example. Turn page.

	Document	Paul Chew's book of prime (original) entry	Kim Chan's book of prime (original) entry
Paul Chew received payment from Kim Chan	<i>Cheque</i>	<i>Cash book</i>	<i>Cash book</i>
Paul Chew sold goods on credit to Kim Chan			
Kim Chan notified Paul Chew of an overcharge			
Paul Chew notified Kim Chan that he agreed the overcharge			
Paul Chew sent Kim Chan a summary of the month's transactions			

19 On 1 September 2014 Ishmael Makumbo owed \$274 for motor expenses. He paid this by cheque on 7 September 2014.

On 1 February 2015 Ishmael Makumbo paid \$96 in cash for motor expenses.

On 30 August 2015 Ishmael Makumbo received an invoice for motor expenses, \$113. He paid this invoice in September 2015.

REQUIRED

(a) Prepare the motor expenses account for the year ended 31 August 2015. Balance the account and bring down the balance on 1 September 2015. See next page.

Ishmael Makumbo
Motor expenses account

Date	Details	\$	Date	Details	\$
.....				
.....				
.....				
.....				
.....				
.....				
.....				
.....				

During the year ended 31 August 2015 Ishmael Makumbo took goods, cost \$300, for his own use. This was not entered in the accounting records.

The telephone expenses for the year ended 31 August 2015 amounted to \$432. It was estimated that one quarter of this was for Ishmael’s personal use. No adjustment had been made for this.

REQUIRED

(b) Prepare the journal entries Ishmael Makumbo would make to record the above. Narratives are required.

Ishmael Makumbo
Journal

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

20 (a) State the accounting equation.

(b) State what is meant by the following terms.

Asset

Liability

Inventory

(c) Name the accounting principle applied when using the double entry system of book-keeping.

(d) State the double entry needed to record each of the following in the books of Taha, a trader.

	debit account	credit account
Taha receives a cheque from Michael, a credit customer		
Taha writes off a debt owed by Zoe		

(e) Name the division of Taha’s ledger in which Michael’s account appears.

(f) Complete the following table, indicating with a tick (✓) if each statement about an increase in a provision for doubtful debts is true or false. The first one has been completed as an example.

	true	false
it will increase the total of the non-current assets		✓
it will increase the total of current assets		
it will decrease cash and bank		
it will require a credit entry in the provision for doubtful debts account		
it will have no effect on profit for the year		

21 Andy sells furniture on credit. Fred is a credit customer.

REQUIRED

(a) Complete the following invoice.

Andy Factory Street Toptown			Invoice no 1001
Fred Shop Road Toptown			22 May 2017
Quantity	Details	Unit price	Amount
			\$
20	Standard chair	\$50	......
10	Luxury chair	.....	......
	10% trade discount		1750

(b) State which value from the invoice is recorded in Fred’s account.

(c) Name the document Andy issues if Fred returns any chairs.

(d) State the difference between Andy’s business and a service business.

21 Zameer has a financial year end of 28 February.

He extracted the following ledger balances from his books of account on 21 February 2017.

\$	
Purchases	67 210 debit
Rent payable	6 600 debit

REQUIRED

State why the purchases account has a debit balance.

22 A business provided the following information.

	\$
Inventory at start of year	4 000
Purchases	76 000
Inventory at end of year	8 000
Mark-up	60%

What were the sales for the year?

- A \$115 200
- B \$128 000
- C \$180 000
- D \$200 000

23 Harum is a trader. All goods are bought and sold on credit terms. On 1 March 2017 Kalgi, a credit customer, owed Harum \$520. The following took place during March 2017.

- March 4 Harum sold goods on credit to Kalgi, list price \$280, less 20% trade discount
- 10 Kalgi paid the balance due on 1 March by cheque
- 12 Kalgi returned goods, list price \$120, purchased on 4 March
- 18 The bank returned Kalgi’s cheque received on 10 March because of insufficient funds in his account.
- 28 Kalgi paid \$600 in cash
- 30 Harum wrote off the balance on Kalgi’s account

REQUIRED

(a) Name the source document which Harum would use to record the following:

	Document
March 4 Sold goods on credit to Kalgi
12 Kalgi returned goods

(b) Name the book of prime (original) entry in which Harum would record the following:

	Book of prime (original) entry
March 18 The bank returned Kalgi’s cheque
30 The balance of Kalgi’s account was written off

(c) Write up the account of Kalgi as it would appear in the ledger of Harum for the month of March 2017.

Harum
Kalgi account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....
.....

(d) Suggest two ways in which Harum could reduce the possibility of bad debts.

1. _____
2. _____

24 Waheed is a trader. He maintains a full set of accounting records and prepares control accounts at the end of each month.

REQUIRED

(a) Name the book of prime (original) entry which Waheed would use to obtain the following information when preparing his sales ledger control account.

	Book of prime (original) entry
Discount allowed	
Bad debts	
Contra	
Returns	

(b) State the meaning of a contra entry in connection with control accounts. State why Waheed may make such an entry.

Meaning_____

Reason_____

25 An invoice for \$100 sent to Ahmed was entered in the sales journal as \$10. What was the double entry needed to correct this error?

	debit entry		credit entry	
		\$		\$
A	Ahmed	90	sales	90
B	sales	90	Ahmed	90
C	sales	90	suspense	90
D	suspense	90	sales	90

26 A disposal account showed the following.

Disposal account

	\$		\$
Machinery	6200	Provision for depreciation	2100
		Bank	3800
		Income statement	300
	6200		6200

Which book of prime entry was used to transfer the \$300 to the income statement and how was it treated there?

	book of prime entry	treatment in income statement
A	general journal	as a loss
B	general journal	as a profit
C	sales journal	as a loss
D	sales journal	as a profit

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27 Jason is a trader. His financial year ends on 31 May.

On 1 May 2017 his ledger included the following balances.

	\$
Purchases	19 620
Purchases returns	850

Jason’s purchases journal and purchases returns journal for the month of May 2017 were as follows.

Purchases journal			
2017			\$
May 2	Asnee	400	
5	Botan	610	
7	Chaitali	388	
19	Asnee	190	
24	Dae	517	
		<u>2105</u>	

Purchases returns journal			
2017			\$
May 4	Asnee	105	
15	Chaitali	55	
		<u>160</u>	

REQUIRED

(a) Complete the following table, naming the source document used by Jason on each date, and the person who issued the document.

Date	Source document	Issued by
May 2		
May 4		

(b) Prepare the following ledger accounts in the books of Jason for the month of May 2017. Show the transfers to the income statement.

Jason
Purchases account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....

Purchases returns account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....

Jason owed Asnee \$480 on 1 May 2017. He paid this balance by cheque on 6 May after deducting 2½% discount.

REQUIRED

(c) Prepare Asnee’s account in Jason’s purchases ledger for the month of May 2017. Include entries for the relevant transactions recorded in Jason’s journals.

Jason Asnee account					
Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....
.....
.....

Before preparing the financial statements Jason prepared a trial balance. The totals of the trial balance did not agree.

REQUIRED

(d) State what is meant by the term ‘trial balance’.

(e) Name and explain two errors which would not affect the balancing of the trial balance.

Error 1

Name_____

Explanation_____

Error 2

Name_____

Explanation_____

Jason prepared a sales ledger control account and a purchases ledger control account for the year.

REQUIRED

(f) Explain why the preparation of control accounts would have helped Jason discover why the totals of the trial balance did not agree.

28 Ben opened a retail store on 1 April 2017. He introduced the following into the business.

	\$
Inventory	15 200
Shop fittings	14 300
Cash	17 900 (of which \$17 400 was paid into a business bank account)

On the same day, Ben received a business start-up loan of \$15 000 which was paid into the business bank account. Interest at 5% per annum was payable at six-monthly intervals.

REQUIRED

(a) Prepare the opening journal entry. A narrative is **not** required.

Ben Journal		
	Debit \$	Credit \$
.....
.....
.....
.....
.....
.....
.....
.....
.....

The following transactions took place in September 2017.

September 3 Invoice received from EF Limited for office equipment, \$1900

28 Goods taken by Ben for personal use, \$430

REQUIRED

(b) Prepare journal entries to record these transactions. Narratives are required. See next page.

Ben
Journal

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

- 29** Harry is a trader in farm machinery. He maintains a full set of accounting records. His financial year ends on 31 March.

Harry made the following entries in his purchases journal and purchases returns journal in March 2018.

Harry
Purchases Journal

2018		\$	\$
March 15	AX Limited		
	Goods	3250	
	Less Trade discount	<u>650</u>	2600
24	FM Limited		
	Goods	1820	
	Less Trade discount	<u>273</u>	1547
31	Total for month		<u>4147</u>

Purchases Returns Journal

2018		\$	\$
March 17	AX Limited		
	Goods	450	
	Less Trade discount	<u>90</u>	360
28	FM Limited		
	Goods	200	
	Less Trade discount	<u>30</u>	170
31	Total for month		<u>530</u>

Harry made the following payments by cheque.

- 2018
- March 4

AX Limited, \$2425, in full settlement of the amount due on that date.
- 30

FM Limited to settle the amount due on that date. No cash discount was received.

REQUIRED

- (a) Enter the transactions for March in the following ledger accounts.
- Close the accounts on 31 March 2018 by balancing or by making a transfer to the income statement.

Some entries have already been made in the accounts during the year.

Harry
AX Limited account

Date	Details	\$	Date	Details	\$
.....	2018 Mar 1	Balance b/d	2500
.....
.....
.....
.....
.....
.....
.....

FM Limited account

Date	Details	\$	Date	Details	\$
.....	2018 Mar 1	<i>Balance b/d</i>	750
.....
.....
.....
.....

Purchases account

Date	Details	\$	Date	Details	\$
2018 Feb 28	<i>Total to date</i>	43 000	.....	.....	.....
.....
.....
.....

Purchases returns account

Date	Details	\$	Date	Details	\$
.....	2018 Feb 28	<i>Total to date</i>	5020
.....
.....
.....

(b) (i) Suggest one reason why AX Limited allowed Harry trade discount on his purchases on 15 March 2018.

(ii) Calculate the percentage of trade discount AX Limited allowed Harry on his purchases on 15 March 2018.

- (c) Name the following documents:
- (i) the document issued by AX Limited on 15 March 2018

 - (ii) the document issued by Harry on 17 March 2018

 - (iii) the document which AX Limited may issue on 31 March 2018

30 Mary keeps a full set of accounting records including books of prime (original) entry.

REQUIRED

(a) State two reasons why Mary uses books of prime (original) entry.

- 1.....

 2.....

On 1 November 2017 the balance in Mary’s cash book (bank columns) was \$838 overdrawn.

Mary banks all cash sales at the end of each week.

Mary had the following transactions during November.

- 1 Sold goods, \$220, for cash
- 2 Returned goods costing \$440, bought on credit from Jane
- 3 Purchased a motor vehicle on credit, \$12 400, including road tax of \$300, from Speedy Motors
- 4 Received a cheque from Tan, a credit customer, in settlement of an invoice for \$400 after deduction of 2% cash discount
- 5 Took goods for own use, \$120

REQUIRED

(b) Name the book of prime (original) entry where each of the transactions 1, 2 and 3 would be recorded.

- 1.....
 2.....
 3.....

(c) Complete the following table to show how **each** transaction was recorded by Mary. The first one has been completed as an example.

	Account(s) debited	\$	Account(s) credited	\$
1	Cash	220	Sales	220
2				
3				
4				
5				

(d) Calculate the bank balance at 30 November 2017.

.....

.....

(e) Name the ledger in which Mary maintains:

- (i) Tan’s account

.....
- (ii) Motor vehicles account

.....

31 On 1 March 2017 Nabil started a business buying and selling office supplies on credit.

Nabil opened a business bank account on 1 March 2017 with capital, \$155 000 and a loan from AB Loans, \$80 000. On the same day he purchased premises, \$200 000, fixtures and fittings, \$22 000, and inventory, \$5500, paying by cheque.

REQUIRED

(a) Prepare a journal entry to include all the above information to open the books of the business on 1 March 2017.

A narrative is required.

Nabil
Journal

Date 2017	Details	Debit \$	Credit \$
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

(b) Name two uses of the general journal, apart from opening entries.

- 1
- 2

32 J Smith is a wholesaler. He provided the following incomplete document on 28 February 2018.

J Smith Wholesale Supplier 112 Long Road Westown				
W Jones High Street Eastford		28 February 2018		
Date	Reference	Debit \$	Credit \$	Balance \$
2018 Feb 1	Balance due			700
11	Goods	450		?
19	Returns		115	?
28	Payment		686	?
	Discount		14	?

REQUIRED

(a) (i) State the name of the document.

.....

(ii) Calculate the balance on the document at the end of February 2018.

.....

(iii) Calculate the percentage of the discount on 28 February.

.....

.....

.....

(iv) Name the type of discount on 28 February.

.....

(b) Complete the following table by placing a tick (3) in the correct column to indicate how J Smith would record the issue of this document in his accounting records.

debit entry in ledger account of W Jones	credit entry in ledger account of W Jones	no entry would be made

(c) Complete the following table relating to the transaction of 11 February.

document issued	name of person issuing document	entries made by W Jones	
		account debited	account credited
.....

(d) Name the book of prime (original) entry in which each trader would record the transaction of 19 February.

book of prime (original) entry used by J Smith	.....
book of prime (original) entry used by W Jones	.....

33 In January 2016 the following transactions took place between Ali and Deepa.

- January 6 Ali bought goods, list price \$1000, after taking a trade discount of 20%.
- 8 Ali paid by cheque the amount owing on 31 December after deducting 3% cash discount.
- 10 Ali returned goods, list price \$150, bought on 6 January.

REQUIRED

(a) Prepare Ali’s account in Deepa’s ledger for the month of January 2016. Balance the account and bring down the balance on 1 February 2016.

Deepa
Ali account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....
.....
.....

(b) State **one** advantage and **one** disadvantage to a business of reducing its level of inventory.

Advantage

.....

Disadvantage

.....

(c) Name the section of the statement of financial position where inventory is shown.

.....

(d) Name **one** item which might appear in the non-current liabilities section of a statement of financial position.

.....

34 Lewis had the following transactions.

- 1 Bought goods, \$1000, on credit from Pamela.
- 2 Bought delivery van, \$17 000, from AM Motors, paying \$12 000 by cheque with the balance to be paid after six months.
- 3 Paid wages, \$250, by cheque.
- 4 Sold goods, cost \$600, for \$960 on credit to Ali.
- 5 Withdrew \$110 cash from the business bank account to increase cash in hand.

REQUIRED

(a) Complete the following table showing how each of these transactions was recorded in Lewis’s books of account. The first has been completed as an example.

	Account(s) debited	\$	Account(s) credited	\$
1	Purchases	1000	Pamela	1000
2				
3				
4				
5				

(b) Identify the transaction which decreased Lewis’s capital.

Transaction number

(c) Identify the transaction which increased Lewis’s capital. State the amount by which it was increased.

Transaction number

Amount

(d) Identify the transaction which would be classified as a contra.

Transaction number

(e) State how capital employed is calculated.

.....

(f) Name the book of prime (original) entry used when a trader brings cash into the business as capital introduced.

.....

(g) Name the book of prime (original) entry used when a trader transfers his private vehicle to the business.

.....

- 4 Bamber is a manufacturer. He knows that it is important to distinguish between capital expenditure and revenue expenditure.

REQUIRED

- (a) (i) Explain the effect on Bamber's income statement of recording capital expenditure as revenue expenditure.

.....

.....

.....

..... [2]

- (ii) Explain the effect on Bamber's balance sheet of recording capital expenditure as revenue expenditure.

.....

.....

.....

..... [2]

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On 1 April 2011 Bamber bought a new computer for his business costing \$4800. He also bought a new laser printer costing \$750.

On 1 January 2012 Bamber replaced the hard disk in the computer as the existing one had failed. The cost was \$450.

REQUIRED

- (b) In the table below, place a tick (✓) under the most appropriate heading to show whether the item is capital or revenue.

	Capital expenditure	Revenue expenditure
Purchase of new computer		
Purchase of new laser printer		
Replacement of hard disk in computer		

[3]

Bamber decided to depreciate the capital items using the straight line method. He considered the useful life of the items would be three years and that they would have a total scrap value of \$600 at the end of this time.

For
Examiner's
Use

REQUIRED

- (c) (i) Calculate the depreciation for the year ended 31 March 2012.
Show your workings.

.....

.....

.....

.....

..... [4]

- (ii) Calculate the net book value of the assets at 31 March 2012.
Show your workings.

.....

.....

.....

..... [2]

When preparing his balance sheet, Bamber wishes to show his assets in the correct category.

REQUIRED

- (d) In the following table, place a tick (✓) under the heading to show the correct category of each asset.

	Non-current tangible asset	Non-current intangible asset	Current asset
Office building			
Motor vehicle			
Goodwill			
Work in progress			

[4]

[Total: 17]

IGCSE Accounting Cash Book & Petty Cash Book

www.igcseaccounts.com



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(a) A bank statement showed a credit balance of \$300 on 31 March. On that date unpresented cheques amounted to \$120.

What was the cash book balance on 31 March?

- A \$180 credit

B \$180 debit

C \$420 credit

D \$420 debit
- ☐
☐
☐
☐

(b) Pedro spent \$8410 buying a new vehicle. The invoice showed

	\$
Vehicle	8000
Number plates	50
Insurance for 24 months	360

How much was the capital expenditure?

- A \$8050

B \$8180

C \$8230

D \$8360
- ☐
☐
☐
☐

(c) Samuel buys a new computer and pays the following amounts.

	\$
Computer system	8000
Ink cartridges	350
5 year maintenance contract	1200
Delivery cost	70

How much is capital expenditure?

- A \$8070

B \$8240

C \$8420

D \$9620
- ☐
☐
☐
☐

1 Kuda Maposa maintains a petty cash book using the imprest system.

REQUIRED

(a) State one advantage of the imprest system of petty cash.

On 1 March 2015 the balance of Kuda Maposa’s petty cash book was \$100 which was equal to the amount of the imprest.

Her transactions for the month of March 2015 were as follows.

		\$
March	6 Paid for postage costs	13
	11 Bought tea and coffee	5
	14 Purchased stationery	27
	18 Paid T Masuka, a credit supplier	15
	21 Received refund for damaged stationery	10
	26 Paid window cleaner	12
	29 Paid P Zhonga, a credit supplier	16

REQUIRED

(b) Enter these transactions in Kuda Maposa’s petty cash book on the page opposite.

Balance the petty cash book and bring down the balance on 1 April 2015.

Kuda Maposa – Petty Cash Book

[illegible]

(c) (i) State the amount required to restore the imprest on 1 April 2015.

(ii) Name the account which would be credited with this amount.

(iii) Name the ledger account in which the transaction of 21 March would be recorded.

2 On 31 January 2015 David Jones balanced his cash book and brought down a debit balance of \$114 on 1 February. The bank statement showed a credit balance of \$154 on 31 January 2015.

A comparison of the cash book and the bank statement revealed the following.

	\$
1 Items appearing only in the cash book	
Cash from sales paid into the bank on 28 January	235
Cheque paid to M Sharp, a credit supplier	490
2 Items appearing only on the bank statement	
Bank charges	62
Cheque received from K Taylor, a credit customer, dishonoured	143
Insurance premium paid by standing order	40
Interest on deposit account paid directly into the bank	130
3 The total of the debit side of the cash book had been overcast	100

REQUIRED

(a) Update the cash book of David Jones. Bring down the updated bank balance on 1 February 2015.

David Jones
Cash book (bank columns only)

Date	Details	\$	Date	Details	\$
2015 Feb 1	Balance b/d	114
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(b) Prepare a bank reconciliation statement for David Jones at 31 January 2015.

David Jones
Bank Reconciliation Statement at 31 January 2015

	\$
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(c) (i) State whether the cash book balance or the bank statement balance should be shown in David Jones’ statement of financial position at 31 January 2015.

(ii) Give a reason for your answer in (i).

(d) State two reasons why David Jones’ bank manager would be interested in his financial statements.

1

2

3 John is a trader. On 1 February his bank account had a debit balance of \$450. The following transactions then took place.

- February 1 Bought goods, \$600, on credit from Abdul.
- 2 Made cash sales of goods, \$150, cost \$90.
- 3 Paid cash, \$100, into the bank.
- 4 Took drawings, \$50, in cash.
- 5 Sold goods, cost \$300, on credit to Sara for \$510.
- 6 Paid Abdul in full by cheque.

(a) Prepare John’s cash book (bank columns only) for the first week of February. Balance the cash book and bring down the balance on 8 February.

John
Cash book (bank columns)

Date	Details	\$	Date	Details	\$
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.....
.....
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.....

(b) Identify the transaction which reduced John’s capital.

4 Paul Chew is a trader. He made the following entries in his cash book in September 2015.

Paul Chew									
Cash Book for September 2015									
		Discount	Cash	Bank			Discount	Cash	Bank
Sept		\$	\$	\$	Sept		\$	\$	\$
1	Balances b/d		30	117	4	W Law			
11	Bank		70			(dishonoured			
27	Sales		20	560		cheque)			90
30	Yeung & Co	3		267	11	Cash			70
					19	General			
						expenses		80	
					24	K Tan	13		507

REQUIRED

(a) (i) Suggest one reason why the cheque on 4 September was dishonoured.

(ii) Explain the entry on 11 September.

(iii) Explain the entry on 27 September.

(iv) Calculate the percentage of the discount on 24 September.

(v) State how the total of the discount column on the debit side of the cash book would be entered in the ledger on 30 September.

(vi) Calculate the bank balance on 30 September.

On 30 September 2015 Paul Chew’s bank statement showed an overdrawn balance of \$43.

On comparing the bank statement and the cash book it was found that the bank had not recorded the transactions shown in the cash book on the following dates:

- 24 September
- 27 September
- 30 September

REQUIRED

(b) Prepare a bank reconciliation statement at 30 September 2015.

Paul Chew
Bank Reconciliation Statement at 30 September 2015

- 4 Shahid Ayub is a trader who maintains a full set of accounting records including a three column cash book.

On 1 August 2015 Shahid Ayub had the following balances in his cash book:

	\$
Cash	50
Bank overdraft	7150

Shahid Ayub's transactions for August 2015 included the following.

August 9	A cheque received in July for \$362 from El Nil Supply Company was dishonoured by the bank
18	Paid \$54 by cheque for fuel of private motor vehicle
24	Received a cheque from Mariam Soliman to settle her debt of \$520, less 2½% cash discount
30	Cash sales, \$3224
31	Paid all the remaining cash into the bank except \$100

REQUIRED

(a) Complete Shahid Ayub's cash book on the page opposite.

Balance the cash book and bring down the balances on 1 September 2015.

Shahid Ayub - Cash Book

[illegible]

- 5** Elliott started a business selling machinery on 1 May 2015. He opened a business bank account with \$12 000 of his own money and transferred his own vehicle to be retained and used in the business at a valuation of \$1800.

He provided the following summary of the transactions in the first month of trading.

Paid \$3000 by standing order for three months' rent.

Bought 6 machines at \$300 each and 8 machines at \$400 each, paying by credit transfer.

Sold 5 of the cheaper machines for \$450 each in cash.

Sold 6 of the more expensive machines for \$700 each receiving the funds by cheque.

Withdrew \$3600 from the bank as drawings.

Paid sundry expenses, \$150, in cash.

Paid cash, \$2000, into the bank.

Used, but did not pay for, electricity, \$80.

REQUIRED

- (a)** Prepare Elliott's cash book for May 2015. Balance the cash book and bring down the balances on 1 June 2015. The cash book is on the opposite page.

[illegible]

(b) Calculate the following for May 2015.

Cost of sales

Expenses

Profit for the month

(c) Prepare Elliott’s statement of financial position at the end of the first month of trading.

Elliott
Statement of Financial Position at 31 May 2015

	\$	\$
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(d) Suggest one reason, based on your answer to (c), why Elliott might face financial difficulties in the future.

6 Give one example of each of the following.

(a) An item in the cash book not in the bank statement

(b) An item in the bank statement not in the cash book.

7 The total of the discount received column of the cash book, \$80, was posted in error to the credit side of the discount allowed account.

Which entries correct this error?

	debit account(s)	\$	credit account(s)	\$	
A	discount allowed	80	discount received	80	<input type="checkbox"/>
B	discount allowed suspense	80 80	discount received	160	<input type="checkbox"/>
C	discount allowed	160	discount received suspense	80 80	<input type="checkbox"/>
D	discount received	80	discount allowed	80	<input type="checkbox"/>

8 Zameer’s purchases journal for the week ended 28 February 2017 was as follows:

Zameer Purchases Journal		
Date	Name	\$
Feb 22	Qasim	500
25	Farid	270
27	Qasim	190
		<u>960</u>

Zameer’s cash book recorded a payment, \$1800, made on 25 February by credit transfer. This payment was for rent for the three months ending 30 April 2017.

REQUIRED

(a) Name the type of book of which the cash book and the purchases journal are examples.

(b) Prepare the following ledger accounts in the books of Zameer. Balance the accounts and where necessary show any balance brought down on 1 March 2017.

Zameer
Purchases account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....

Rent payable account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....

(c) State whether Zameer’s payments were capital expenditure or revenue expenditure.

Purchases_____

Rent_____

(d) (i) Give one example of a revenue receipt.

(ii) Give one example of a capital receipt.

9 Yeo is a trader. On 30 April 2017 his cash book showed cash in the bank, \$2890. When he compared this with the bank statement balance at the same date he found the following.

- a) A credit transfer for \$340, paid by Yeo, had been recorded in his cash book as \$430.
- b) Bank charges, \$50, were shown on the bank statement but had not been recorded in the cash book.
- c) A cheque to a supplier, \$400, had not been presented.
- d) A cheque paid into the bank, \$180, had not yet been credited.
- e) A cheque, \$200, received from a customer, had been dishonoured.

These items accounted for the difference between the cash book balance and the bank statement balance.

REQUIRED

(a) State what is meant by a bank statement.

(b) State which two items 1 to 5 resulted from timing differences.

(c) Calculate the bank balance in the cash book after it had been updated.

(d) Prepare Yeo’s bank reconciliation statement at 30 April 2017.

Yeo

Bank Reconciliation Statement at 30 April 2017

(e) State the amount for bank which would appear in Yeo’s statement of financial position at 30 April 2017. Name the section of the statement of financial position in which it would be shown.

Amount \$ _____
Section _____

(f) State one reason why a cheque may be dishonoured.

(g) Name one method, other than preparing a bank reconciliation statement, which Yeo could use to check for errors in his books of account.

10 Amjad is a furniture wholesaler. He maintains a three column cash book.
On 1 March the bank column of his cash book showed a debit balance brought down of \$2750. On the same day the bank statement showed a credit balance of \$2750.

REQUIRED

(a) State why the bank statement balance is on the opposite side to that shown in the cash book.

The following transactions took place in March 2017.

March 6 Paid \$950 by cheque. This included \$790 for a new computer system, and the balance was for repairs to existing office equipment

13 Received a cheque from XY Limited for \$196 to settle its account after deducting 2% cash discount

21 Paid Furniture Store a cheque for \$351 in full settlement of the balance owing of \$360

29 Made cash sales, \$2148

30 Paid cash into bank, \$2000

Amjad received his bank statement for March 2017.

The following items appeared on the bank statement but had not been recorded in his accounting records.

	\$
Bank charges	29
Insurance paid directly by the bank	50
A credit customer, Idris, had paid his account by credit transfer	474

(b) Complete Amjad's cash book.

Balance the cash book and bring down the balances on 1 April 2017.

Amjad
Bank Reconciliation Statement at 31 March 2017

This image shows a full page of white paper with ten horizontal dashed lines, typical of primary school handwriting practice paper. The lines are evenly spaced and extend across the entire width of the page. There is no text or other markings on the paper.

Amjad wishes to compare his financial statements with those of another furniture wholesaler. He has been told that financial statements have limitations and will not reveal everything about the other business.

REQUIRED

(d) Explain why Amjad should consider the following when he is looking at the financial statements of the other business.

- (i)** Historical cost _____
- (ii)** Non-financial aspects _____

- 11** Shiromi is a trader in office equipment. She maintains a full set of accounting records. Shiromi made the following entries in her cash book, purchases journal and purchases returns journal in April 2017.

Shiromi Cash Book						
	Cash	Bank		Discount Received	Cash	Bank
April	\$	\$	April	\$	\$	\$
1 Balances b/d	90	2 954	4 Rent and rates			495
21 Sales	600	6 000	10 Motor vehicle			5 500
30 Balance c/d		3 785	18 Lincy	66		3 234
			24 Gail	90		3 510
			26 Drawings		150	
			30 Balance c/d		540	
	<u>690</u>	<u>12 739</u>		<u>156</u>	<u>690</u>	<u>12 739</u>

Shiromi Purchases Journal			
April		\$	\$
5 Lincy			
Goods		4825	
Less Trade discount		<u>965</u>	3860
16 Gail			
Goods		4800	
Less Trade discount		<u>1200</u>	3600
30 Total for month			<u>7460</u>

Shiromi Purchases Returns Journal			
April		\$	\$
7 Lincy			
Goods		700	
Less Trade discount		<u>140</u>	560
30 Total for month			<u>560</u>

REQUIRED

(a) Enter the transactions for April in the following ledger accounts. It is not necessary to balance or total any of the accounts.

Shiromi
General Ledger

Rent and rates account

Date	Details	\$	Date	Details	\$
.....
.....
.....

Motor vehicle account

Date	Details	\$	Date	Details	\$
.....
.....
.....

Sales account

Date	Details	\$	Date	Details	\$
.....
.....
.....

Drawings account

Date	Details	\$	Date	Details	\$
.....
.....
.....

Purchases account

Date	Details	\$	Date	Details	\$
.....
.....
.....

Purchases returns account

Date	Details	\$	Date	Details	\$
.....
.....
.....

Discount received account

Date	Details	\$	Date	Details	\$
.....
.....
.....

Purchases Ledger

Lincy account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....

Gail account

Date	Details	\$	Date	Details	\$
.....
.....
.....

11 A trader compared his cash book (bank column), which had a debit balance of \$70, with his bank statement. He found that bank charges, \$10, had not been recorded in his books, and that a cheque for \$18 which he had issued had not been presented.

What was the balance on his bank statement?

- A \$62 credit
- B \$62 debit
- C \$78 credit
- D \$78 debit

12 On 1 February 2017 Simran had the following transactions.

- 1 Took cash, \$100, as drawings.
- 2 Paid remaining cash into the bank.
- 3 Transferred her private motor vehicle, value \$2500, to the business.
- 4 Sent a cheque, \$48, to Neel, a credit supplier. Simran received 4% cash discount when making this payment.
- 5 Paid wages, \$350, for January 2017, by credit transfer.

REQUIRED

(a) Complete the following table stating the double entry needed to record each transaction. The first has been completed as an example.

	account debited	\$	account credited	\$
1	<i>drawings</i>	<i>100</i>	<i>cash</i>	<i>100</i>
2				
3				
4				
5				

(b) Identify the following:

- (i) the transaction which increased profit and Simran’s capital
Transaction number_____
- (ii) the transaction which increased Simran’s capital but not profit
Transaction number_____
- (iii) the transaction which increased working capital.
Transaction number_____

(c) State where the wages owed at 31 January 2017 were shown in the statement of financial position. Name the item and the section.

Item _____

Section _____

(d) Prepare the bank column of the cash book on 1 February 2017. Bring down the balance on 2 February.

Simran
Cash book (bank column only)

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....

13 Mandeep is a trader who maintains a full set of accounting records including a three column cash book.

His transactions for December 2016 included the following:

- December4 Paid \$387 by cheque for repairs to office equipment
- 11 Received a cheque from Jabin to settle his account of \$300 less 2% cash discount
- 15 Paid a cheque, \$702, to Rama, after deducting a cash discount of 2½%
- 27 Made cash sales, \$6795
- 29 Withdrew cash, \$5000, for personal use
- 31 Paid all the cash into the bank except \$200

REQUIRED

(a) Complete Mandeep’s cash book on the page opposite.

Balance the cash book and bring down the balances on 1 January 2017.

Mandeep
Cash Book

[illegible]

- 14** The bank columns of Kang-Dae's cash book had a debit balance brought down of \$1310 on 1 June 2017. The bank statement at the same date showed a credit balance of \$790. When

Kang-Dae compared the cash book with the bank statement he found the following.

Items on the bank statement not in the cash book bank charges, \$60
credit transfer, \$540, from Nigel, a credit customer standing order for rent payable, \$1000
direct debit paid to electricity company, \$400

Items in the cash book not on the bank statement cheque to Hachiro, a supplier, \$700
cash paid in, \$620

Kang-Dae also discovered that a payment, \$320, for insurance had been entered in the cash book twice in error.

REQUIRED

- (a)** State what is meant by a 'bank statement'.

(b) Update the bank columns of Kang-Dae’s cash book on 1 June 2017. Balance the cash book and bring down the balance.

Kang-Dae
Cash book (bank columns only)

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
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.....
.....
.....

(c) Prepare the bank reconciliation statement at 1 June 2017.

Kang-Dae
Bank reconciliation statement at 1 June 2017

.....

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(d) State two differences between a bank overdraft and a bank loan.

1.....

.....

2.....

.....

(e) Name the section of the statement of financial position where a 5-year bank loan would appear.

- 15** Saffie is a trader. She maintains a three column cash book and also a petty cash book. The imprest amount is \$150. All payments below \$100 are made from petty cash.

Saffie had the following transactions in September 2017.

September 1 Petty cash imprest restored from the business bank account
3 Paid taxi fare, \$12
7 Paid \$461 by cheque for repairs to office machinery
11 Purchased office stationery, \$64
15 A cheque for \$210 received from SL Stores in August was dishonoured by the bank
21 Paid Faariqa, a credit supplier, \$29
26 Received a cheque from Thushari, \$392, in settlement of the amount due less 2% cash discount
24 Cash sales, \$4840, of which \$4800 was immediately paid into the bank
25 Paid Sopitha's account of \$480 after deducting a cash discount of 2½%
26 Paid postage, \$22

REQUIRED

(a) Record the above transactions in the following books which appear on the next page. Balance each book and bring down the balances on 1 October 2017.

- (i) Petty cash book
- (ii) Cash book

Saffie
sh Book

[illegible]

On 30 September 2017 Saffie’s bank statement showed an overdraft of \$4649. She compared the cash book with her bank statement and found that the bank had not recorded the transactions shown in the cash book on the following dates.

September 26
 28
 29

In addition, the bank had debited Saffie’s business bank account with \$50 which should have been debited to her personal bank account.

REQUIRED

- (b) Prepare a bank reconciliation statement at 30 September 2017.

Saffie
Bank Reconciliation Statement at 30 September 2017

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16 Meena is a trader. On 31 December 2017 Meena’s cash book (bank columns) showed an overdrawn balance of \$2450. The balance on the bank statement at the same date was \$2623 debit. Meena checked the cash book against the bank statement and discovered the following differences.

- 1 Cash sales, \$362, paid into the bank on 31 December, did not appear on the bank statement.
- 2 Interest charged by the bank, \$20, had not been recorded in the cash book.
- 3 A cheque for \$94 from a customer, Anjana, had been paid into the bank but had been returned as dishonoured.
- 4 The bank had received \$140 by credit transfer from Rohan, a customer, which had been omitted from the cash book.
- 5 Cheques totalling \$198, issued by Meena, had not been presented for payment.
- 6 The bank had paid a standing order, \$35, to a supplier on 30 December by mistake.

REQUIRED

(a) Update Meena’s cash book (bank columns) at 31 December 2017. Bring down the updated balance on 1 January 2018.

Meena
Cash book (bank columns)

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
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.....

(b) Prepare a bank reconciliation statement at 31 December 2017.

Meena
Bank Reconciliation Statement at 31 December 2017

	\$	\$
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.....

(c) State the amount which will be shown as the bank balance in the statement of financial position at 31 December 2017 and the section in which it will be shown.

Amount \$ _____
Section of statement of financial position _____

(d) State what is meant by a 'dishonoured cheque'. Suggest two possible reasons why a cheque might be dishonoured.

Meaning _____

Reasons _____
1 _____

2 _____

Meena maintains a petty cash book using the imprest system. The amount of the imprest is \$200.

During the month of December Meena paid the following expenses from petty cash.

	\$
Stationery	18
Taxi fares	5
Office tea and biscuits	4

REQUIRED

(e) Explain the meaning of the 'imprest system'.

(f) State the double entry to record the reimbursement to the petty cash imprest on 1 January 2018.

debit entry	\$	credit entry	\$

17 Amira owns an advertising agency. Her financial year ends on 30 April.

On 1 April 2018 she decided to use a petty cash book with a monthly imprest of \$80 which would be restored on the first day of each month.

REQUIRED

(a) State one reason for using a petty cash book.

(b) State one advantage of the imprest system of petty cash.

On 1 April 2018 Amira put \$80 cash in the petty cash box.

Her transactions for the month of April 2018 were as follows.

		\$
April 4	Bought stamps	3
7	Purchased printing paper	8
11	Purchased ink cartridges	12
19	Paid window cleaner	10
22	Paid KK Limited, a trade payable	35
29	Purchased flowers for reception desk	7

REQUIRED

(c) Enter these transactions in Amira's petty cash book.

Balance the petty cash book and bring down the balance on 1 May 2018.

Amira
Petty Cash Book[illegible]

- (d) Complete the following table to show the double entry to restore the petty cash imprest on 1 May 2018.

debit	\$	credit	\$

- (e) Show the entry which would be made in the computer supplies account in April 2018. It is not necessary to close or balance the account.

Amira
Computer supplies account

Date	Details	\$	Date	Details	\$
.....
.....

Amira balanced her cash book on 30 April 2018. The bank column showed that she had \$17 620 in the bank.

On the same date the bank statement showed a different balance.

REQUIRED

- (f) State two reasons for preparing a bank reconciliation statement.

Reasons _____

1 _____

2 _____

A comparison of the cash book and the bank statement revealed the following.

	\$
1 Items appearing only on the bank statement	
Bank charges	28
Dishonoured cheque, Jabir	153
Business rates paid by direct debit	95
2 Items appearing only in the cash book	
Cheque received from Shadya	824
Cheque paid to Abasi	1075
3 Debit side of cash book was undercast	100

REQUIRED

(g) Update the cash book of Amira found on the next page.

Bring down the updated balance on 1 May 2018.

Amira
Cash Book (bank columns only)

Date	Details	\$	Date	Details	\$
2018					
April 30	Balance b/d	17 620
.....
.....
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.....

(h) Prepare a bank reconciliation statement for Amira at 30 April 2018 to determine the balance shown on the bank statement.

Amira
Bank Reconciliation Statement at 30 April 2018

	\$
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- (i) State the bank balance which would appear in the statement of financial position on 30 April 2018. Name the section in which it would appear.

Amount of bank balance \$ _____
 Section of statement of financial position _____

- (j) Suggest two possible reasons why the cheque from Jabir was dishonoured.

1 _____

2 _____

- 18 Sophia maintains a full set of books of prime (original) entry including a three column cash book.

REQUIRED

- (a) Explain why Sophia's cash book is both a book of prime (original) entry and also part of the ledger.

The bank columns of Sophia's cash book for the month of April 2018 were as follows.

Cash book (bank columns only)

Date	Details	\$	Date	Details	Cheque number	\$
2018			2018			
April 1	Balance b/d	950	April 2	Petty cash	000198	106
8	Goodfoods	140	15	Expenses	000199	25
28	CD Limited	280	21	Lowlands Farm	000200	44
30	Sales	311	29	FF Limited	000201	90

Sophia's business bank statement for April 2018 was as follows.

Bank Statement for the month of April 2018

2018		Debit	Credit	Balance
		\$	\$	\$
April 1	Balance			850 Cr
5	000198	106		744 Cr
9	Credit		140	884 Cr
12	Standing order (insurance)	50		834 Cr
18	000199	25		809 Cr
20	Dishonoured cheque (Goodfoods)	140		669 Cr
27	000200	44		625 Cr
30	Charges	15		610 Cr
	Direct debit (rates)	400		210 Cr

The following errors were discovered.

- 1 Sophia had brought down the cash book balance on 1 April 2018 incorrectly. It should have been \$850.

2 The bank had incorrectly entered a standing order for insurance in Sophia’s business bank account instead of her personal bank account.

REQUIRED

(b) Select the items required to update Sophia’s cash book on 30 April 2018 and write these items in the table.
Indicate how each item would be entered in the cash book. The first one has been completed as an example.

item	entry required in cash book	
	debit \$	credit \$
cash book error		100

Sophia prepared a bank reconciliation statement on 30 April 2018. She started with the credit balance shown on the bank statement at that date.

REQUIRED

(c) Select the items which would be entered in Sophia’s bank reconciliation statement on 30 April 2018 and write these items in the table.

Place a tick (3) in the correct column to indicate how each item would be recorded in the bank reconciliation statement.

item	entry in bank reconciliation statement	
	added to bank statement balance	deducted from bank statement balance

- 19** Carol is a trader. She maintains a three column cash book and also a petty cash book. The imprest amount is \$100. All payments below \$50 are made from petty cash.

REQUIRED

- (a)** State two reasons for maintaining a petty cash book.

1 _____

2 _____

Carol had the following transactions during April 2016.

- | | | |
|-------|----|---|
| April | 1 | Petty cash imprest restored from the business bank account. |
| | 4 | Purchased tea and coffee for office staff, \$11. |
| | 9 | Paid K Mzolo's account of \$450, by cheque, after deducting a cash discount of 2%. |
| | 16 | Bought stationery, \$25. |
| | 19 | Paid taxi fare, \$8. |
| | 20 | Received a cheque from B Mamba in settlement of his account of \$920, less 2½% cash discount. |
| | 23 | Paid T Nhete, a credit supplier, \$38. |
| | 28 | Cash sales, \$2970. |
| | 29 | Paid all the cash in the main cash account, except \$100, into the bank account. |

REQUIRED

- (b)** Record the above transactions in the following books.

(i) Petty cash book

(ii) Three column cash book

Balance each book and bring down the balances on 1 May 2016.

(i)

Carol
Petty Cash Book

Total received	Date	Details	Total paid	Postage & stationery	General expenses	Ledger accounts
\$ 23	2016 April 1	Balance b/d	\$	\$	\$	\$
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(ii)

Carol
Cash Book

Date	Details	Discount allowed	Cash	Bank	Date	Details	Discount received	Cash	Bank
2016		\$	\$	\$	2016		\$	\$	\$
April 1	Balance b/d	210	April 1	Balance b/d	1437
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20 Sue's cash book for the month of April 2016 was as follows.

Sue Cash Book									
Date 2016	Details	Dis.* \$	Cash \$	Bank \$	Date 2016	Details	Dis.* \$	Cash \$	Bank \$
April 1	Balance b/d		120		April 1	Balance b/d			3842
9	Bank loan			3000	9	J Foy (cheque dishonoured)			116
19	A Meyer	8		392	14	K Mzolo	15		585
28	Sales		1940		21	Repairs		58	
29	Cash			2000	24	Bank charges			211
					29	Bank		2000	

*Dis. stands for Discount

REQUIRED

(a) (i) State the significance of each of the balances on 1 April 2016.

Balance in cash column _____

Balance in bank column _____

(ii) Suggest two possible reasons why the cheque from J Foy was dishonoured on 9 April.

1 _____

2 _____

(iii) State whether Sue allowed or received the discount on 14 April.

(iv) Calculate the percentage the discount on 14 April represents correct to two decimal places.

(v) Explain the entries on 29 April.

(vi) State whether the total of the discount column on the debit side of the cash book is debited or credited to the discount account on 30 April.

(vii) Calculate the balances which would appear in the cash book on 1 May 2016. State whether they would be debit or credit balances.

Balance in cash column on 1 May \$.....

Type of balance (debit or credit)

Balance in bank column on 1 May \$.....

Type of balance (debit or credit)

21 A trader’s cash book had a debit balance of \$50. When the bank statement arrived he saw that a customer’s cheque for \$80 had been dishonoured, and that the bank had charged him \$10 in bank charges.

What was the balance on the cash book when it had been updated?

- A \$20 credit

B \$40 credit

C \$120 debit

D \$140 debit
- ☐

☐

☐

☐

22 Jolindi is a trader who maintains a full set of accounting records including a three column cash book.

Her transactions for September 2016 included the following.

- September 5

Cash sales, \$515, of which \$400 was paid directly into the bank
- 10

A cheque received in August for \$190 from C Barnes was dishonoured
- 27

Received a cheque from H Magagula to settle her debt of \$480, less 2½% cash discount
- 27

Paid \$324 by cheque, for new office equipment, \$280, and repairs to existing office equipment, \$44
- 28

Paid all the cash into the bank except \$50

REQUIRED

(a) Complete Jolindi’s cash book on the page opposite.

Balance the cash book and bring down the balances on 1 October 2016.

Jolindi
Cash Book

[illegible]

(b) State why it is not possible for Jolindi to have a credit balance in the cash column of her cash book.

Jolindi decided to compare the bank column of her cash book with her bank statement and to prepare a bank reconciliation statement.

REQUIRED

(c) State two reasons for preparing a bank reconciliation statement.

1 _____

(d) Suggest two items which may appear in the cash book but not on the bank statement.

1 _____

2 _____

IGCSE Accounting Club Accounts



All questions are the copyright of Cambridge International Examination Board.

- 1 (a) A successful club prepares a trading account and an income and expenditure account.

Which statement is true?

- | | | |
|---|---|--------------------------|
| A | The trading account shows an opening and closing balance and the income and expenditure account shows a profit. | <input type="checkbox"/> |
| B | The trading account shows a profit and the income and expenditure account shows an opening and closing balance. | <input type="checkbox"/> |
| C | The trading account shows a profit and the income and expenditure account shows a surplus. | <input type="checkbox"/> |
| D | The trading account shows a surplus and the income and expenditure account shows a profit. | <input type="checkbox"/> |

- (b) The activities of the Wilhelm Archery club include the running of an equipment shop. On 1 January the accumulated fund of the club amounted to \$16 200 and on 31 December \$18 000.

What does this increase mean?

- | | | |
|---|---|--------------------------|
| A | The non-current assets increased by \$1800. | <input type="checkbox"/> |
| B | There was a surplus for the year of \$1800. | <input type="checkbox"/> |
| C | There was a trading profit from the shop of \$1800. | <input type="checkbox"/> |
| D | The subscriptions received amounted to \$1800. | <input type="checkbox"/> |

- (c) Why does a sports club prepare the trading account section of an income statement?

- | | | |
|---|--|--------------------------|
| A | it has paid staff as well as voluntary workers | <input type="checkbox"/> |
| B | it operates a café | <input type="checkbox"/> |
| C | to calculate subscriptions for the year | <input type="checkbox"/> |
| D | to value the closing inventory | <input type="checkbox"/> |

2 The treasurer of the Hills Road Youth Club provided the following information at the end of the financial year on 31 October 2015.

1 Receipts during the year		
		\$
Subscriptions		6180
Sale of refreshments		3100
2 Payments during the year		\$
Purchase of refreshments		2650
Purchase of equipment		2000
Repairs to equipment		220
Insurance for 15 months to 31 January 2016		1350
Rent of premises for 11 months to 30 September 2015		1430
General expenses		2540
3 Other information	1 November	31 October
	2014	2015
	\$	\$
Subscriptions paid in advance	450	270
Subscriptions accrued	360	-
Inventory of refreshments	280	310
Equipment at valuation	6000	6800

There were no sales of equipment during the year.

REQUIRED

(a) Calculate the subscriptions for the year ended 31 October 2015.

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(b) Prepare the refreshments income statement for the year ended 31 October 2015.

Hills Road Youth Club
Refreshments Income Statement for the year ended 31 October 2015

	\$	\$
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(c) Prepare the income and expenditure account for the year ended 31 October 2015.

Please see next page.

Hills Road Youth Club
Income and Expenditure Account for the year ended 31 October 2015

[illegible]

- (d) Suggest two reasons why the surplus or deficit shown in the income and expenditure account is not equal to the bank balance.

1 _____

2 _____

- (e)** Explain why a club does not distribute a surplus to its members.

- (f)** State how a club's accumulated fund arises.

- 3 Hi-Jump is a sports club which also runs a shop for the use of members only. It provided the following information.

Hi-Jump
Subscriptions account

Date	Details	\$	Date	Details	\$
2016 Jan 1	Balance b/d	1160	2016 Jan 1	Balance b/d	280
Dec 31	Income and expenditure account	52 905	Dec 31	Bank	52 950
	Balance c/d	395		Bad debts	250
		<u>54 460</u>		Balance c/d	980
					<u>54 460</u>
2017 Jan 1	Balance b/d	980	2017 Jan 1	Balance b/d	395

REQUIRED

- (a) State what the balance of \$395 on 1 January 2017 represents.

The receipts and payments account of the club was as follows:

Hi-Jump
Receipts and Payments Account for the year ended 31 December 2016

	\$		\$
Balance b/d	6 100	Shop purchases	15 240
Subscriptions received	52 950	Rent	12 000
Shop sales	13 610	Club expenses	34 200
		New club equipment	5 100
		Balance c/d	6 120
	<u>72 660</u>		<u>72 660</u>

The following additional information was also available.

- | | | | |
|---|-----------------------------|-------------------|---------------------|
| 1 | | at 1 January 2016 | at 31 December 2016 |
| | | \$ | \$ |
| | Shop inventory | 440 | 710 |
| | Club equipment at valuation | 17 100 | 19 900 |
- 2 10% of the rent is allocated to the shop.
- 3 All shop sales and all shop purchases are made on a cash basis.

REQUIRED

(b) Complete the following table to show the values of the current assets and current liabilities which would appear in the statement of financial position of the club on 31 December 2016.

Current assets	\$
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Current liabilities	\$
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(c) Calculate the loss made by the shop in the year ended 31 December 2016.

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(d) Prepare the club’s income and expenditure account for the year ended 31 December 2016.

Hi-Jump
Income and Expenditure Account for the year ended 31 December 2016

	\$	\$

(e) Suggest two reasons why the managing committee continues to run the shop despite it making a loss.

1

2

(f) Explain how the financial statements of the club would be affected if the managing committee decided not to charge the shop with its share of the rent.

- 4 A sports club charges its members an annual fee of \$100. Its subscriptions account for the year was as follows.

Subscriptions account			
	\$		\$
Balance b/d	400	Balance b/d	600
Income and expenditure account	12 000	Bank	11 300
Balance c/d	300	Balance c/d	800
	<u>12 700</u>		<u>12 700</u>
Balance b/d	800	Balance b/d	300

Which statement is true?

- A Four members had paid in advance at the start of the year.
- B 120 members paid their fee during the year.
- C Subscriptions in arrears decreased during the year.
- D The club had 120 members during the year.

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- 5 The A1 Sports Club was formed some years ago.

The club has 100 members. The annual subscription is \$70.

A few years ago the club borrowed \$3000 from a member at 3% per annum interest.

In addition to providing sporting facilities, the club also has a café for members.
All supplies for the café are purchased on credit terms, and all sales are made for cash.

The following information was available for the year ended 30 April 2017.

	\$
At 1 May 2016	
Amount owing to café suppliers	311
Café inventory	298
Loan from member (interest charged at 3% per annum)	3000
Subscriptions in arrears	560
Bank overdraft	3180
Receipts and payments during the year ended 30 April 2017	
Subscriptions for the year ended 30 April 2016	560
for the year ended 30 April 2017	6300
for the year ending 30 April 2018	280
Café sales	?
Payments to café suppliers	3796
Rates of club premises	960
General club expenses	910
Café wages	1040
Loan interest and repayment of half of the loan	1590
Purchase of new sports equipment	4000
Proceeds of sale of old sports equipment (book value \$580)	430
At 30 April 2017	
Bank overdraft	2626
Café inventory	216
Subscriptions in arrears	700
Amount owing to café suppliers	393

REQUIRED

- (a)** Prepare the receipts and payments account for the year ended 30 April 2017. Insert a figure for receipts from café sales.

Balance the account and bring down the balance on 1 May 2017.

A1 Sports Club
Receipts and Payments Account for the year ended 30 April 2017

[illegible]

[illegible]

- Amount \$ _____
- Reason _____

- 1 _____
- 2 _____
- 3 _____
- 4 _____
- 5 _____

6 A group of friends set up LMN Chess Club, on 1 January 2016.

The club hosts chess tournaments, and organises trips for members to attend tournaments elsewhere.

The annual subscription is \$100.

A member made an interest-free loan of \$1000 to the club when it started. Before the end of the first year the treasurer was able to repay half of the loan.

The treasurer provided the following additional information.

For the year ended 31 December 2016

	\$
Subscriptions received	4100
Entry fees received for tournaments	1600
Cost of trophies and prizes for tournaments	670
Receipts for coach travel	980
Travel costs	1020
Equipment purchased	2500
Rent paid	2100
Other expenses	450

At 31 December 2016:

- 1 The club owed \$200 in rent.
- 2 The club held an inventory of trophies and prizes costing \$60.
- 3 Four members had paid their subscription for the year ending 31 December 2017 while one member still owed his subscription for 2016.
- 4 Three members owed the club amounts for coach travel, total \$80.
- 5 The equipment was expected to be used steadily for ten years. At the end of this time it would be sold for an expected amount of \$300.

REQUIRED

- (a)** Prepare the receipts and payments account for the year ended 31 December 2016. Balance the account and bring down the balance on 1 January 2017. See next page.

LMN Chess Club

Receipts and Payments Account for the year ended 31 December 2016

Date		\$	Date		\$
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(b) Prepare the subscriptions account for the year ended 31 December 2016. Balance the account and bring down the balance on 1 January 2017.

Subscriptions Account

Date	Details	\$	Date	Details	\$
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- (c)** Prepare the income and expenditure account for the year ended 31 December 2016.

LMN Chess Club

Income and Expenditure Account for the year ended 31 December 2016

[illegible]

- (d)** State two reasons why the closing balance in the receipts and payments account is different from the final figure in the income and expenditure account. For each reason give one example taken from the question.

Reason 1 _____

Example _____

Reason 2 _____

Example_____

- 8 The financial year of the AS Sports Club ends on 30 September.

In addition to providing sporting facilities, the club also sells sportswear to members. No inventory is held as all goods are bought and sold to order, on a cash basis.

The treasurer provided the following information. At 1 October 2016:

	\$
Equipment at cost	22 000
Provision for depreciation of equipment	4 400
Subscriptions owing by members	600
Cash at bank	610
Insurance prepaid	60
Bank loan (repayable 2020)	7 000
Accumulated fund	?

The receipts and payments account for the year ended 30 September 2017 was as follows.

Receipts	\$	Payments	\$
Balance 1 October 2016	610	Equipment	8 000
Sale of sportswear	3 510	Purchase of sportswear	2 410
Subscriptions	12 540	Rates and insurance	1 500
Receipts from open day	4 180	Expenses of open day	5 250
Balance 30 September 2017	760	Rent of sports ground	1 800
		General expenses	2 640
	<u>21 600</u>		<u>21 600</u>

At 30 September 2017

- 1 Subscriptions owing by members amounted to \$240 and subscriptions prepaid by members amounted to \$180.
- 2 Loan interest at 5% per annum was outstanding.
- 3 The equipment is depreciated at 20% per annum based on the cost of equipment held at the end of each financial year.

REQUIRED

- (a) Calculate the subscriptions for the year ended 30 September 2017.

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(b) Prepare the income and expenditure account for the year ended 30 September 2017.

AS Sports Club
Income and Expenditure Account for the year ended 30 September 2017

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[illegible]

- [illegible]

9 The following is the subscriptions account of a club.

Subscriptions account					
2017			2017		
Jan 1	Balance b/d	\$ 150	Jan 1	Balance b/d	\$ 80
Dec 31	Income and expenditure	3000	Dec 31	Bank	3060
	Balance c/d	50		Balance c/d	60
		<u>3200</u>			<u>3200</u>
2018			2018		
Jan 1	Balance b/d	60	Jan 1	Balance b/d	50

Which statement is correct?

- A** Subscriptions in advance at 1 January 2018 were \$50.
- B** Subscriptions in arrears at 1 January 2017 were \$80.
- C** Subscription income for the year was \$3060.
- D** Subscriptions received during the year were \$3000.

☐
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10 Which term in club or society accounts means the same as capital?

- A** accumulated fund
- B** appropriation account
- C** balance at bank
- D** surplus for the year

☐
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11 The ND Sports Club was formed on 1 January 2017.

As well as providing sporting facilities for members the club also has a café for members and guests. Café supplies are purchased on credit and all café sales are made on cash terms.

The treasurer provided the following information on 31 December 2017.

		\$
Receipts during the year	Subscriptions	14 850
	Receipts from café sales	9 520
	Net income from competition	710
	Interest-free loan from Sport4U	5 000
		<u>30 080</u>
Payments during the year	Sports equipment	6 200
	Café fixtures and fittings	3 500
	Wages – sports coach	6 000
	café assistant	4 000
	General club expenses	540
	Rent and insurance	3 700
	Café suppliers	5 760
		<u>29 700</u>

Additional information

- 1
- At 31 December 2017
Café inventory was valued at \$970. Café suppliers were owed \$130.
Café assistant’s wages accrued amounted to \$160.
- 2
- The payment for rent and insurance included \$1200 for 12 months to 31 January 2018.
- 3
- One quarter of the rent and insurance is to be allocated to the café.
- 4
- The club has 300 members. The annual subscription is \$50. On 31 December 2017 subscriptions were outstanding from 10 members and 7 members had already paid their subscription for 2018.
- 5
- Sports equipment and café fixtures and fittings are to be depreciated by 20% on cost.

REQUIRED

- (a)
- Prepare the café income statement for the year ended 31 December 2017.

ND Sports Club

Café Income Statement for the year ended 31 December 2017

	\$	\$
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(b) Prepare the income and expenditure account for the year ended 31 December 2017.

ND Sports Club
Income and Expenditure Account for the year ended 31 December 2017

	\$	\$

(c) State one item in the list of receipts and payments which does not appear in the income and expenditure account. Give a reason for your answer.

Item_____

Reason_____

(d) State one item in the income and expenditure account which does not appear in the list of receipts and payments. Give a reason for your answer.

Item_____

Reason_____

A member of the club has suggested that any surplus made by the club should be distributed among the members.

REQUIRED

(e) Comment on this suggestion.

The owner of the premises rented by the club has offered to sell them to the club for \$90 000.

A decision has to be made by 31 August 2018.

A member of the committee has suggested increasing subscriptions and holding fund-raising events in order to raise the necessary finance.

REQUIRED

(f) State why the member’s suggestions are not suitable methods of raising the necessary finance.

(g) Suggest one way in which the club could raise the necessary finance.

12 WB Sports Club has 250 members. The annual subscription is \$20. The club provided the following information.

	\$
Subscriptions received in advance on 1 April 2017	120
Subscriptions received during the year ended 31 March 2018	4740
Subscriptions in arrears on 31 March 2018	140

REQUIRED

(a) Prepare the subscriptions account for the year ended 31 March 2018. Balance the account and bring down the balance on 1 April 2018. See next page.

WB Sports Club
Subscriptions account

Date	Details	\$	Date	Details	\$
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WB Sports Club also provided the following information.

On 1 April 2017	\$
Balance at bank (as per cash book)	960 debit
During the year ended 31 March 2018	
Rent paid	2000
Entry fees received for gymnastics competition	900
Cost of prizes for gymnastics competition	220
General expenses	682
Insurance paid	430
Donations received	350
Purchase of sports equipment	2760

REQUIRED

(b) Prepare the receipts and payments account for the year ended 31 March 2018. Balance the account and bring down the balance on 1 April 2018. See next page.

WB Sports Club
Receipts and Payments Account for the year ended 31 March 2018

Date	Details	\$	Date	Details	\$
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WB Sports Club calculated a surplus for the year of \$1568.

The following additional information was provided at 31 March 2018.

	\$
Accumulated fund at 1 April 2017	15 563
Sports equipment at valuation 31 March 2018	15 760
Rent paid in advance	500
General expenses owing	127

REQUIRED

- (c) Prepare the statement of financial position of WB Sports Club at 31 March 2018.

WB Sports Club
Statement of Financial Position at 31 March 2018

	\$	\$
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(d) State how the accumulated fund of WB Sports Club has arisen.

13 The Lodi Sports Club was formed some years ago.

The club has 150 members. The annual subscription is \$100. The club rents a sports centre at a monthly rent of \$300.

A few years ago the club took out a bank loan of \$5000 at 4% per annum interest.

The amounts received and paid during the year ended 31 January 2016 were as follows.

	\$
Subscriptions: for the year ended 31 January 2015 (2 members)	200
for the year ended 31 January 2016 (140 members)	14 000
for the year ending 31 January 2017 (5 members)	500
Rent for the year ended 31 January 2016	3 600
Rent for the year ending 31 January 2017	300
General expenses	1 454
Insurance	1 550
Purchase of new sports equipment	7 200
Proceeds of sale of old sports equipment (book value \$400)	275
Bank interest and repayment of one quarter of the loan	1 400

REQUIRED

(a) Prepare the receipts and payments account for the year ended 31 January 2016. Balance the account and bring down the balance on 1 February 2016. See next page.

Lodi Sports Club
Receipts and Payments Account for the year ended 31 January 2016

Date	Details	\$	Date	Details	\$
.....	2015 Feb 1	Balance b/d	210
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(b) Calculate the total subscriptions which will appear in the income and expenditure account for the year ended 31 January 2016.

.....

.....

(c) Complete the following table to show the entries in the statement of financial position on 31 January 2016.

	Statement of financial position	
	section	amount (\$)
Bank loan		
Interest on bank loan		
Rent		

14 The Cambridge Club is a football club which also runs a shop for members. It provided the following information.

	\$
At 31 March 2015	
Bank balance	6 100 debit
Subscriptions in arrears	200
Amount due to suppliers for shop goods	350
Inventory of shop	710
Sports equipment at valuation	3 600
During the year ended 31 March 2016	
Subscriptions received	10 100
Receipts from shop sales	3 550
Payments to suppliers for shop goods	2 800
Payment for purchases of new sports equipment	3 920
Rent paid for sports ground	2 400
Wages of football coach paid	2 750
Other operating expenses paid	1 880
At 31 March 2016	
Bank balance	?
Subscriptions in arrears	100
Amount due to suppliers for shop goods	510
Inventory of shop	560
Sports equipment at valuation	5 920

REQUIRED

(a) Calculate the closing balance on the receipts and payments account for the year ended 31 March 2016.

.....

.....

.....

(b) Prepare the subscriptions account for the year ended 31 March 2016. Bring down the balance on 1 April 2016.

Cambridge Club
Subscriptions account

Date	Details	\$	Date	Details	\$
.....
.....
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.....
.....

(c) Calculate the shop profit for the year ended 31 March 2016.

.....

.....

.....

.....

(d) Prepare the income and expenditure account for the year ended 31 March 2016. Turn page.

28

[illegible]

REQUIRED

15 The financial year of the Hillcrest Athletics Club ends on 30 April.

In addition to providing training facilities for members, the club also runs a café for members and visitors.

The treasurer provided the following information.

	At 1 May 2015	At 30 April 2016
	\$	\$
Subscriptions prepaid	1045	-
Subscriptions accrued	760	285
Rent, rates and insurance prepaid	155	180
Café inventory	790	850
Café suppliers	1292	1137

During the year ended 30 April 2016:

Amounts received	\$	Amounts paid	\$
Subscriptions	16 910	Café suppliers	7 998
Café sales	10 430	Rent, rates and insurance	4 860
Proceeds of sale of old equipment	1 059	New equipment	16 300
		General expenses	14 794

During the year, all the equipment was sold and was replaced by new equipment. At the date of sale, the net book value of equipment was \$956.

Equipment is depreciated by 15% per annum on the cost of equipment held at the end of each year. No deprecation is charged in the year of disposal.

REQUIRED

(a) Prepare the income statement for the café for the year ended 30 April 2016.

Hillcrest Athletics Club
Café Income Statement for the year ended 30 April 2016

	\$	\$
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.....

(b) Calculate the subscriptions for the year ended 30 April 2016.

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.....

(c) Prepare the income and expenditure account for the year ended 30 April 2016.

Hillcrest Athletics Club

Income and Expenditure Account for the year ended 30 April 2016

	\$	\$
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- 16** A club has 200 members paying an annual subscription of \$50. It provided the following information.

	\$
subscriptions received	9800
new equipment purchased	1120
depreciation of equipment	850
other running costs	8280

What was the surplus for the year?

- A** \$400
B \$600
C \$670
D \$870

☐
☐
☐
☐

- 17** The Chess Club also runs a shop for its members. Its receipts and payments account for the year ended 31 December 2015 is as follows.

Chess Club
Receipts and Payments Account for the year ended 31 December 2015

	\$		\$
Balance b/d	4 100	Rent	4 800
Subscriptions	17 700	Purchases	5 700
Shop sales	6 700	Wages – shop	1 200
		Wages – club	8 400
		Club equipment	3 800
		Club expenses	4 300
		Balance c/d	300
	<u>28 500</u>		<u>28 500</u>

Other information is as follows.

	1 January 2015	31 December 2015
	\$	\$
Subscriptions in arrears	550	950
Club equipment at valuation	3100	5150
Shop inventory	580	310
Amounts owed to shop suppliers	170	350

REQUIRED

- (a)** Prepare the shop income statement for the year ended 31 December 2015. See next page.

Chess Club
Income Statement for the year ended 31 December 2015

	\$	\$
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.....

(b) Prepare the club’s income and expenditure account for the year ended 31 December 2015.

Chess Club
Income and Expenditure Account for the year ended 31 December 2015

	\$	\$
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(c) Calculate, to two decimal places, the mark-up being applied on the sale of goods in the shop.

.....

.....

A member of the committee has suggested hiring a computerised system for use in the shop. This would cost \$500 a year. This would enable the shop staff to ensure that all goods were sold at a standard mark-up of 40%. If this was implemented, staff would no longer be paid a set wage but instead earn a commission of 20% of sales value.

REQUIRED

(d) Calculate the profit or loss which would be earned in the shop if the committee went ahead with this suggestion. Assume sales volume is unchanged.

Chess Club
Statement of revised profit

	\$	\$
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.....
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(e) Suggest two other ways in which the committee might try to improve the financial position of the club.

1

2

(f) Explain why club members are not entitled to drawings.

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.....
.....

18 The Bolton Road Music Club was formed on 1 September 2015. The club has 60 members and the annual subscription is \$100. The club provides musical instruments for members to use. In addition the club also has a shop selling CDs.

The treasurer provided the following information for the year ended 31 August 2016.

The treasurer provided the following information for the year ended 31 August 2016.

Amounts received	\$	Amounts paid	\$
Subscriptions	6 300	Purchases of CDs for shop	12 422
Revenue from shop	15 520	Wages of shop assistant	1 850
Loan from Music4all received on 1 March 2016	20 000	Insurance	1 200
		Rent and rates	3 300
		Purchase of musical instruments	4 800
		Repairs to musical instruments	197
		General expenses of club	2 293

At 31 August 2016

- 1 The shop suppliers were owed \$1112.
- 2 Shop inventory was valued at \$1964.
- 3 Five members had paid their subscription for the following financial year.
- 4 Two members had not paid their subscription for the current financial year.
- 5 10% of the insurance relates to the shop.
- 6 Rent and rates accrued amounted to \$300. Half of the rent and rates relates to the shop.
- 7 A loan of \$100 to the shop assistant is included in the wages.
- 8 Interest of 4% per annum was accrued on the loan from Music4all.
- 9 Musical instruments are to be depreciated at 15% per annum on cost.

REQUIRED

(a) State the meaning of the following terms. Subscriptions

.....
.....

Accumulated fund

.....
.....

Receipts and payments account

.....
.....

(b) Prepare the shop income statement for the year ended 31 August 2016.

	\$	\$
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.....

(c) Prepare the income and expenditure account for the year ended 31 August 2016.

Bolton Road Music Club
Income and Expenditure Account for the year ended 31 August 2016

	\$	\$
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IGCSE Accounting Control Accounts



All questions are the copyright of Cambridge International Examination Board.

- 1 Vijay Singh maintains a full set of accounting records and prepares control accounts at the end of each month.

He provided the following information.

2015		\$
April	1 Debit balance on sales ledger control account	475
	30 Totals for the month	
	Sales journal	590
	Sales returns journal	46
	Cash sales	614
	Cheques received from credit customers	387
	Cheque received from credit customer (included in the above figure) later dishonoured	26
	Cheques paid to credit suppliers	469
	Discounts allowed	13
	Discounts received	34
	Bad debts written off	32
	Interest charged to credit customer	8
	Contra entry to purchases ledger	150
May	1 Debit balance on sales ledger control account	?
	Credit balance on sales ledger control account	21

REQUIRED

- (a) Select the relevant figures and prepare Vijay Singh's sales ledger control account for the month ended 30 April 2015.

Vijay Singh Sales ledger control account

Date	Details	\$	Date	Details	\$
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(b) Explain the contra entry to the purchases ledger.

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.....

(c) Suggest why Vijay Singh charged a credit customer interest.

.....

(d) State one reason why Vijay Singh prepares a monthly sales ledger control account.

.....

(e) State two reasons why Vijay Singh does not use the information contained in the sales ledger to prepare the sales ledger control account.

1

.....

2

.....

2 (a) Where is discount received shown?

- A

credit side of the purchases ledger control account

☐
- B

debit side of the purchases ledger control account

☐
- C

credit side of the sales ledger control account

☐
- D

debit side of the sales ledger control account

☐

(b) Why is inventory valued at net realisable value when this is lower than cost?

- A

to calculate the rate of inventory turnover

☐
- B

to ensure the balancing of the statement of financial position

☐
- C

to prevent profit being recorded before it is earned

☐
- D

to recognise losses as soon as they are incurred

☐

3 Kriti provided the following information.

At 1 January 2014	Trade receivables balances	\$ 13 400 debit
	Inventory	120 credit 21 600
For the year ended 31 December 2014	Cash sales	44 400
	Credit sales	165 600
	Bad debts written off	2 800
	Receipts from credit customers	155 010
	Discount allowed to credit customers	4 560
	Contra with supplier's account	1 300
	Cheque refund to a credit customer	90
At 1 January 2015	Trade receivables balances	? debit
	Inventory	200 credit 28 800

Mark up on goods sold 50%.

REQUIRED

(a) Calculate Kriti's purchases for the year.

(b) Prepare the sales ledger control account for the year ended 31 December 2014. Balance the account and bring down the balance on 1 January 2015. See next page.

Kriti
Sales ledger control account

Date	Details	\$	Date	Details	\$
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(c) State two reasons why Kriti maintains a sales ledger control account.

1 _____

2 _____

(d) State one reason why a credit balance on a sales ledger control account can arise.

(e) State why a sales ledger control account does not contain an entry for a provision for doubtful debts.

4 Esme provided the following information.

At 1 January 2014	\$
Trade payables	7 000
Trade receivables	9 500

For the year ended 31 December 2014

Sales (all credit)	95 100
Sales returns	1 050
Purchases (all credit)	63 600
Purchases returns	1 950
Receipts from credit customers	92 750
Payments to credit suppliers	59 000
Refund to credit customer	450
Discount allowed	2 100
Discount received	850
Bad debt written off	300

Additional information at 31 December 2014

- 1 Esme owed \$100 to a supplier who also owed \$180 to Esme. It was agreed to record this as a setoff in the control accounts.
- 2 Esme owed \$50 to a credit customer who had overpaid.

REQUIRED

(a) Prepare the sales ledger control account and the purchases ledger control account for the year. Balance the accounts and bring down the balances on 1 January 2015. See next page.

Esme
Sales ledger control account

Date	Details	\$	Date	Details	\$
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Purchases ledger control account

Date	Details	\$	Date	Details	\$
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(b) State one reason why Esme maintains a sales ledger control account.

(c) State why the discount allowed was given.

5 The sales journal for March 2017 was destroyed, but Waheed was able to provide the following information.

2017		\$
March 1	Debit balances in sales ledger	2346
	Credit balances in sales ledger	140
March 31	Totals for the month	
	Cheques received from credit customers	2145
	Cheques paid to credit suppliers	3013
	Cheque received from credit customer (included in the cheques received), later dishonoured	350
	Discount allowed	55
	Discount received	90
	Returns by credit customers	276
	Returns to credit suppliers	198
	Contra entry	182
	Bad debts written off	62
April 1	Debit balances in sales ledger	2670
	Credit balances in sales ledger	86

REQUIRED

(a) Select the relevant figures and prepare the sales ledger control account for the month of March 2017. Insert a figure for credit sales.

Balance the account and bring down the balances on 1 April 2017. See next page.

Waheed
Sales ledger control account

[illegible]

(b) Suggest two reasons why the sales ledger control account had a credit balance on 1 April 2017.

1

.....

2

.....

6 Simran had further transactions in the period 2 February to 28 February 2017. These were as follows:

	\$
Credit sales	6300
Cheques received from credit customers	5830
Returns from credit customers	190

The cheques received included one for \$95 from Paul which was later dishonoured. Paul then paid Simran \$20 in cash and she wrote the remaining amount off as a bad debt.

REQUIRED

- (f)** Prepare the sales ledger control account for February, starting with the balance on 1 February of \$1300. Balance the account and bring down the balance on 1 March.

Simran
Sales ledger control account for February 2017

Date	Details	\$	Date	Details	\$
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7 Which item would be recorded as a credit entry in a purchases ledger control account?

- A amounts paid to credit suppliers
- B contra with the sales ledger control account
- C discount received from credit suppliers
- D interest charged on late payment

☐

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8 Kumu purchases goods for resale on both cash and credit terms.

Kumu’s credit suppliers allow 30 days for payment of invoices.

Kumu provided the following information for the year ended 30 April 2018.

	\$
Trade payables 1 May 2017	19 800
Trade payables 30 April 2018	22 200
Discount allowed	480
Discount received	330
Interest charged by suppliers	122
Credit purchases	180 870
Cash purchases	26 400
Sales ledger balances set off against purchases ledger balances	400

REQUIRED

(a) Select the relevant items and prepare the purchases ledger control account for the year ended 30 April 2018. Insert the amount paid to credit suppliers. See next page.

Kumu
Purchases ledger control account

Date	Details	\$	Date	Details	\$
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(b) State the formula for calculating the trade payables payment period.

.....

.....

(c) Calculate the trade payables payment period for the year ended 30 April 2018. Round up your answer to the next whole day.

.....

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(d) State whether Kumu’s suppliers would be satisfied with her trade payables payment period.

Give a reason for your answer.

Satisfied?

Reason

.....

.....

(e) State two problems Kumu may face if her trade payables payment period is unsatisfactory.

1.....

.....

2.....

.....

9 Which item appears on the debit side of a sales ledger control account?

A discount received

☐

B dishonoured cheque from customer

☐

C provision for doubtful debts

☐

D sales returns

☐

10 Where are bad debts recorded in the control accounts?

A on the credit side of the purchases ledger control account

☐

B on the credit side of the sales ledger control account

☐

C on the debit side of the purchases ledger control account

☐

D on the debit side of the sales ledger control account

☐

11 Jared buys goods from Winston. On 1 August 2016 Jared owed Winston \$300.

During August 2016 the following took place.

August 3 Jared bought goods, list price \$600, after deducting 20% trade discount.

6 Jared returned goods, list price \$50.

9 Jared paid, by cheque, the balance due on 1 August after deducting 3% cash discount.

18 Jared purchased further goods, list price \$400, after deducting trade discount as before.

REQUIRED

(a) Prepare Jared's account in Winston's sales ledger for the month of August 2016. Balance the account and bring down the balance on 1 September 2016. See next page.

Winston
Sales ledger
Jared account

Date	Details	\$	Date	Details	\$
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Winston also buys goods from Jared and on 31 August 2016 he owed Jared \$40. Winston decided to make a contra entry on 1 September 2016 to set off the accounts in the sales and purchases ledgers.

REQUIRED

(b) State the double entry needed to set off the accounts.

account debited	account credited

(c) Name the accounting term Winston uses for his partially finished products.

.....

(d) Complete the following table, indicating with a tick (✓) where each item would appear in Winston’s financial statements. The first has been completed as an example.

	manufacturing account	income statement
purchases of raw materials	✓	
salesmen’s wages		
carriage outwards		
purchases of finished goods		
machine operators’ wages		
factory supervisor’s salary		
inventory of raw materials		
carriage inwards		
inventory of finished goods		

12 Amira’s financial year ends on 30 September. She buys and sells on both cash and credit terms and maintains a full set of accounting records.

Control accounts are prepared at the end of each month.

REQUIRED

(a) Name the book of prime (original) entry which Amira would use to obtain the following information when preparing her sales ledger control account.

	Book of prime (original) entry
Cheque refund to credit customer	
Bad debts written off	
Returns by credit customers	
Interest charged on customer’s overdue account	

(b) State two reasons why Amira prepares a purchases ledger control account.

- 1
.....
-
- 2
.....
-

Amira provided the following information for September 2016.

		\$
September 1	Debit balances in purchases ledger	93
	Credit balances in purchases ledger	4210
September 30	Totals for the month	
	Credit purchases	5366
	Cash purchases	1469
	Cheques paid to credit suppliers	3705
	Cheques received from credit customers	6102
	Discount allowed	204
	Discount received	95
	Returns to credit suppliers	197
	Interest charged by supplier on overdue account	12
	Cash refund received from credit supplier	150
	Contra entry	494
October 1	Debit balances in purchases ledger	68
	Credit balances in purchases ledger	?

REQUIRED

(c) Select the relevant figures and prepare the purchases ledger control account for the month of September. Balance the account and bring down the balances on 1 October 2016. See next page.

Amira
Purchases ledger control account

Date	Details	\$	Date	Details	\$
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(d) Suggest one advantage of paying credit suppliers before the due date.

.....

.....

(e) Suggest one disadvantage of paying credit suppliers before the due date.

.....

.....

13 Which statement is true about a sales ledger control account?

- A Discount allowed appears on the credit side.
- B Discount allowed appears on the debit side.
- C Discount received appears on the credit side.
- D Discount received appears on the debit side.

☐

☐

☐

☐

14 How do discount received and sales ledger contras appear in a purchases ledger control account?

	discount received	contras
A	as a credit	as a credit
B	as a credit	as a debit
C	as a debit	as a credit
D	as a debit	as a debit

☐

☐

☐

☐

15 Paul is a trader. He maintains a full set of accounting records. His ledger is divided into a sales ledger, a purchases ledger and a nominal (general) ledger.

REQUIRED

(a) State one advantage of dividing the ledger into these three sections.

.....

.....

(b) Name the ledger in which each of the following accounts would appear.

- (i) J Smithson, a credit supplier, accountledger
- (ii) Sales returns account..... ledger
- (iii) Discount allowed account.....ledger

IGCSE Accounting Depreciation

www.igcseaccounts.com



All questions are the copyright of Cambridge International Examination Board.

- 1 Peter bought a non-current asset for \$5000 and depreciated it at 10% per annum on the straight line basis. At the end of year 2 he sold it for \$4100.

What was the profit or loss on disposal?

- A \$50 loss
- B \$50 profit
- C \$100 loss
- D \$100 profit

☐
☐
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- 2 Safir bought a machine for \$10 000 and depreciated it at the rate of 30% per annum on the reducing (diminishing) balance basis.

What was the net book value at the end of year 2?

- A \$4000
- B \$4900
- C \$5100
- D \$6000

☐
☐
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☐

- 3 Why is depreciation provided?

- A to estimate the cost to the business of wear and tear
- B to set aside funds for future repairs to the asset
- C to show market values in the statement of financial position
- D to spread the cost of an asset over its useful life

☐
☐
☐
☐

- 4 On 1 January 2014 Alex had a motor vehicle with an original cost of \$17000 on which depreciation of \$6800 had been provided.

On 1 April 2014 he bought a new vehicle, costing \$24 000. He sold the old one and received a cheque for \$9400.

Alex provides depreciation on motor vehicles at the rate of 40% per annum on the reducing (diminishing) balance basis. He allows a full year's depreciation in the year of purchase and none in the year of disposal.

REQUIRED

- (a) Prepare the following ledger accounts for the year ended 31 December 2014. Balance the account(s) where necessary and bring down the balance(s) on 1 January 2015.

Alex
Provision for depreciation of motor vehicles account

Date	Details	\$	Date	Details	\$
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Motor vehicle disposal account

Date	Details	\$	Date	Details	\$
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- (b) Prepare an extract from the statement of financial position at 31 December 2014 showing the entries for motor vehicles.

Alex
Statement of Financial Position (extract) at 31 December 2014

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.....

(c) Calculate the depreciation which will be provided on the new vehicle in the year ending 31 December 2015.

.....

.....

(d) Name the two books of prime entry used in preparing the disposal account.

1
2

(e) State the meaning of the term revenue expenditure. Give one example.

.....

.....

5 (a) State two causes of depreciation of non-current assets.

1
2

(b) Explain the straight line method of depreciation.

.....

.....

(c) Explain the reducing (diminishing) balance method of depreciation.

.....

.....

(d) Explain how charging depreciation is an example of the application of the principle of prudence.

.....

.....

(e) Name one other accounting principle which is applied when charging depreciation.

.....

.....

6 On 1 October 2013 Natasha Salim started a business altering and mending clothes. On that date she purchased a machine, \$4000, paying by cheque.

On 1 January 2014 she purchased another machine, \$6000, on credit from ABC Machines.

She decided to depreciate the machines using the reducing (diminishing) balance method at 20% per annum. A whole year’s depreciation was to be charged in the year of purchase, but no depreciation in the year of sale.

On 1 February 2015 Natasha Salim decided that the machine purchased on 1 October 2013 was no longer required. She sold it for \$2100, cash.

REQUIRED

(a) Prepare the following accounts in the ledger of Natasha Salim for each of the two years ended 30 September 2014 and 30 September 2015.

Balance the accounts and bring down the balances on 1 October 2014 and 1 October 2015.

Natasha Salim
Machinery account

Date	Details	\$	Date	Details	\$
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Provision for depreciation of machinery account

Date	Details	\$	Date	Details	\$
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(b) Calculate the profit or loss on the disposal of the machine on 1 February 2015.

.....

.....

7 Asma bought a motor vehicle for \$10 000. She depreciated it at the rate of 10% per annum on cost, calculated monthly.

After 18 months she sold the motor vehicle for \$9200.

What was the profit on disposal?

- A \$200
- B \$650
- C \$700
- D \$1200

☐

☐

☐

☐

- 8 The directors of the company know that the factory machinery is very old and they are considering replacing it at a cost of \$100 000. They provide the following information.
- 1 The old machinery was being depreciated at \$6000 per annum. This machinery would be sold at net book value.
 - 2 The new machinery would be depreciated in equal instalments over ten years.
 - 3 The purchase of the new machinery would be financed by a loan on which annual interest of 8% would be paid.
 - 4 The cost of raw material used would decrease by 4% if the new machinery was purchased.
 - 5 Machinery repairs would be reduced by \$9000 a year if the new machinery was purchased.

REQUIRED

(a) Complete the following table to calculate the change in profit for the year if the new machinery was purchased.

Savings	\$
.....
.....
.....

Less additional costs	
.....
.....
.....

Increase/(decrease) in profit	.....

- 9 Bradley is a wholesaler. His financial year ends on 31 December.
- On 1 January 2015 Bradley had a delivery vehicle A which had cost \$35 000 and had been depreciated by \$13 125.
- On 1 October 2015 he purchased delivery vehicle B for \$40 000 by cheque.
- On 1 July 2016 he purchased delivery vehicle C on credit from XZ Motors for \$28 000.
- All the delivery vehicles are depreciated by 25% per annum on cost calculated from the date of purchase.

- Balance the accounts and bring down the balances on 1 January 2016 and 1 January 2017.

Bradley
Delivery vehicles account

[illegible]

Provision for depreciation of delivery vehicles account

[illegible]

On 1 January 2017 it was decided that delivery vehicle C (purchased on 1 July 2016) was unsuitable. The delivery vehicle was sold on credit to DDE Transport for \$25 500.

REQUIRED

(b) Prepare journal entries on 1 January 2017 to record the disposal of delivery vehicle.

Narratives are not required.

Bradley Journal

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

10 The financial year of Doshi Manufacturing Company ends on 31 January. The following trial balance was extracted from the books on 31 January 2017.

	\$	\$
Inventory 1 February 2016		
Raw materials	49 500	
Work in progress	28 750	
Finished goods	63 100	
Revenue		1 246 850
Returns inwards	12 250	
Purchases		
Raw materials	394 600	
Finished goods	21 700	
Returns of purchases of raw materials		16 400
Carriage inwards on purchases of finished goods	1 500	
Wages		

Factory operatives	297 100	
Factory supervisors	152 000	
Office and sales staff	108 700	
General expenses	160 000	
Premises at cost	366 000	
Factory machinery at cost	250 000	
Office equipment at cost	72 000	
Loose tools at valuation	21 150	
Provision for depreciation 1 February 2016		
Factory machinery		122 000
Office equipment		32 400
Capital 1 February 2016		630 000
Drawings	96 750	
Trade receivables	76 150	
Trade payables		41 500
Interest-free short term loan		50 000
Bank overdraft		32 100
	<u>2 171 250</u>	<u>2 171 250</u>

The following additional information is available.

- At 31 January

		\$
inventory	raw materials	41 100
	work in progress	31 250
	finished goods	59 100
wages accrued	factory supervisors	12 000
	office staff	4 300
value of loose tools		19 050
- The factory machinery is being depreciated at 20% per annum on the reducing (diminishing) balance method.
- The office equipment is being depreciated at 15% per annum on the straight line (equal instalment) method.
- The loose tools are revalued at the end of each financial year.
- The general expenses are to be apportioned $\frac{3}{5}$ to the factory and $\frac{2}{5}$ to the office.

REQUIRED

- (a)** Select the relevant figures and prepare the manufacturing account for the year ended 31 January 2017.

Doshi Manufacturing Company
Manufacturing Account for the year ended 31 January 2017

[illegible]

- (b)** Select the relevant figures and prepare the income statement for the 31 January 2017.
See next page.

Doshi Manufacturing Company
Income Statement for the year ended 31 January 2017

[illegible]

(c) Suggest one reason why the loose tools are revalued at the end of each financial year rather than by using the straight line (equal instalment) or reducing (diminishing) balance method of depreciation.

11 Sonia started her business on 1 January 2015. She decided on the following depreciation policy.

Motor vehicles were to be depreciated at the rate of 25% per annum using the reducing (diminishing) balance method.

Equipment was to be depreciated at the rate of 10% per annum using the straight line (equal instalment) method.

A full year’s depreciation was to be provided in the year of purchase.

Sonia provided the following information about her purchases of assets.

	in the year ended 31 December 2015	in the year ended 31 December 2016
	\$	\$
motor vehicle A	30 000	
motor vehicle B		20 000
equipment	28 000	18 000

REQUIRED

(a) Complete the following table. Indicate with a tick (✓) in which column of a trial balance each ledger account balance would appear.

	debit column	credit column
equipment		
provision for depreciation of equipment		

(b) Complete the following table showing the depreciation charges, the accumulated depreciation and the net book values of the different assets on the dates shown. A space is provided for your workings. See next page.

	motor vehicle A	motor vehicle B	equipment
	\$	\$	\$
depreciation charge for the year ended 31 December 2015			
net book value at 31 December 2015			
depreciation charge for the year ended 31 December 2016			
accumulated depreciation at 31 December 2016			
net book value at 31 December 2016			
workings			

(c) Prepare the extract from the statement of financial position at 31 December 2016 showing full details of the value of motor vehicles and equipment.

Sonia
Statement of Financial Position (extract) at 31 December 2016

(d) Name the section of the statement of financial position where motor vehicles and equipment appear.

.....

.....

12 Bayani depreciates his fixtures and fittings using the straight line (equal instalment) method of depreciation. He provides a full year’s depreciation in the year of purchase and none in the year of disposal. He provided the following information.

	fixtures and fittings	
	cost	accumulated depreciation
	\$	\$
at 31 December 2013	42 600	12 780
at 31 December 2014	42 600	17 040

There were no additions or disposals during the year ended 31 December 2014.

REQUIRED

(a) Calculate the rate of depreciation Bayani is applying.

.....

.....

Additional information

On 1 May 2015 Bayani bought new fixtures and fittings, cost \$12 000, paying by cheque.

On 1 August 2016 he sold old fixtures and fittings, which had cost \$10 000 and on which four years’ depreciation had been provided. The purchaser paid Bayani in cash.

REQUIRED

(b) Name the books of prime (original) entry used on 1 May 2015 and 1 August 2016.

1 May 2015

.....

.....

1 August 2016

.....

.....

(c) Complete the following table by inserting the amounts to be shown in the financial statements. Show your workings in the spaces provided.

	workings	\$
fixtures and fittings at cost on 31 December 2015		
fixtures and fittings at cost on 31 December 2016		
depreciation charge for the year ended 31 December 2015		
accumulated depreciation at 31 December 2015		
depreciation charge for the year ended 31 December 2016		
accumulated depreciation at 31 December 2016		

(d) State the double entry needed to record the depreciation charge for the year ended 31 December 2015.

debit entry	credit entry

(e) State the double entry needed to eliminate the accumulated depreciation on the fixtures and fittings sold on 1 August 2016.

debit entry	credit entry

(f) Name one method of depreciation, other than the straight line (equal instalment) method, and explain how it is calculated.

Name of method

Method of calculation

.....

.....

Additional information

Bayani also bought a motor vehicle. The costs relating to the purchase were as follows:

	\$
cost of vehicle	17 200
number plates	120
fuel	80
insurance of vehicle	450

REQUIRED

(g) Complete the following table, indicating with a tick (✓) whether each item is a capital expenditure or a revenue expenditure.

	capital expenditure	revenue expenditure
cost of vehicle		
number plates		
fuel		
insurance of vehicle		

(h) Give one example of a capital receipt.

.....

13 Dipak is a manufacturer. His financial year ends on 30 November. Dipak depreciates all his non-current assets at the end of each year.

REQUIRED

(a) Explain how providing for depreciation of non-current assets is an application of the principle of prudence.

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Dipak depreciates his motor vehicles using the reducing (diminishing) balance method at 20% per annum on all motor vehicles held at the end of each financial year. No depreciation is charged in the year of disposal.

On 1 December 2015 Dipak owned motor vehicle A, which had cost \$40 000 and had been depreciated by \$14 400.

On 1 August 2016 Dipak purchased motor vehicle B on credit from ZY Motors for \$50 000.

REQUIRED

(b) Prepare a journal entry to record the purchase of motor vehicle B. A narrative is not required.

Dipak
Journal

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

(c) Calculate the depreciation on motor vehicle A for each of the two years ended 30 November 2016 and 30 November 2017.

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(d) Calculate the depreciation on motor vehicle B for each of the two years ended 30 November 2016 and 30 November 2017.

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(e) Prepare a journal entry to record the transfer to the income statement of the total depreciation on motor vehicles for the year ended 30 November 2017.

A narrative is not required.

Dipak
Journal

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

Dipak sold motor vehicle A on 31 December 2017.

REQUIRED

(f) Calculate the total depreciation provided on motor vehicle A up to the date of disposal.

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(g) Prepare journal entries to record the following:

- 1 the transfer of the original cost of motor vehicle A from the asset account
- 2 the transfer of the accumulated depreciation on motor vehicle A from the provision for depreciation account.

Narratives are required.

Dipak Journal

		Debit \$	Credit \$
1

2

14 Jamil started a business on 1 January 2014. He considered using the straight line (equal instalment) method to depreciate all his non-current assets.

REQUIRED

(a) Name one other method Jamil could use to depreciate his non-current assets.

.....

(b) Suggest two reasons why the straight line (equal instalment) method would not be a suitable method of depreciation to apply to the hand tools used in Jamil’s factory.

1

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2

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Jamil decided to depreciate his office machinery at 20% per annum using the straight line (equal instalment) method calculated on a month-by-month basis from the date of purchase to the date of disposal.

He provided the following information.

2014	January 1	Purchased office machine A, \$15 000, paying by cheque.
2016	October 1	Purchased office machine B, \$18 000, paying by cheque.
2017	July 1	Purchased office machine C, \$20 000, on credit from XY Limited. XY Limited agreed to accept office machine A in part exchange at a valuation of \$6000.

REQUIRED

(c) Calculate the depreciation on office machinery for the year ended 31 December 2016. Show your calculations and insert your answers in the spaces provided. See next page

Calculation of depreciation for the year ended 31 December 2016

depreciation on office machine A	depreciation on office machine B	total
calculation	calculation	
answer \$	answer \$	\$

(d) Calculate the depreciation on office machinery for the year ended 31 December 2017. Show your calculations and insert your answers in the spaces provided.

Calculation of depreciation for the year ended 31 December 2017

depreciation on office machine A	depreciation on office machine B	depreciation on office machine C	total
calculation	calculation	calculation	
answer \$	answer \$	answer \$	\$

(e) Prepare the following accounts in the ledger of Jamil for each of the two years ended 31 December 2016 and 31 December 2017.

Balance the accounts and bring down the balances on 1 January 2017 and 1 January 2018.

Jamil
Office machinery account

Date 2016	Details	\$	Date	Details	\$
Jan 1	Balance A b/d	15 000
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.....
.....
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Provision for depreciation of office machinery account

Date	Details	\$	Date	Details	\$
.....	2016 Jan 1	Balance A b/d	6 000
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.....

(f) Calculate the profit or loss on the disposal of office machine A.

.....

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15 Agatha depreciates her fixtures and fittings at the rate of 10% per annum.

On 1 January 2015 she bought new fixtures and fittings costing \$800. In error she debited the repairs account with the purchase.

What was the effect of this error on the profit for the year ended 31 December 2015?

- A

\$720 overstated

B

\$720 understated

C

\$880 overstated

D

\$880 understated
-

16 Mohan is a trader. His financial year ends on 31 December.

Mohan depreciates his motor vehicles at 20% per annum on cost, calculated from the date of purchase.

The following information was available on 1 January 2014.

	Cost	Accumulated depreciation
	\$	\$
Motor vehicle A	12 000	7 200
Motor vehicle B	13 000	3 900

On 1 July 2014 Motor vehicle C was purchased for \$15 000, by cheque.

REQUIRED

(a) Prepare the following accounts for each of the two years ended 31 December 2014 and 31 December 2015.

Balance the accounts and bring down the balances on 1 January 2015 and 1 January 2016. See next page.

Mohan

Motor vehicles account

Date	Details	\$	Date	Details	\$
2014					
Jan 1	Balance b/d	
	A – 12 000	
	B – <u>13 000</u>	25 000
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Provision for depreciation of motor vehicles account

[illegible]

On 1 January 2016 Motor vehicle B was sold for \$2900, cash.

REQUIRED

(b) Calculate the depreciation on Motor vehicle B up to the date of disposal.

.....

.....

.....

(c) Complete the following table to name the ledger accounts to be debited and credited to record the disposal of the motor vehicle.

	account debited	account credited
transferring the original cost of the motor vehicle from the asset account		
transferring the accumulated depreciation on the motor vehicle from the provision account		
recording the proceeds of sale of the motor vehicle		

17 A club records its equipment at valuation.

How does it calculate its depreciation?

- A

value at start of year – equipment purchased – value at end of year
- B

value at start of year – equipment purchased + value at end of year
- C

value at start of year + equipment purchased – value at end of year
- D

value at start of year + equipment purchased + value at end of year

☐

☐

☐

☐

- 18** David and Harold are in partnership. The partnership agreement states that David is to receive an annual salary of \$12 000 and that profits and losses are to be shared in the ratio 2:1.

The following balances were extracted from the partnership books on 31 March 2016.

	\$	
Capital accounts – David	80 000	
– Harold	25 000	
Current accounts – David	8 100	debit
– Harold	6 200	credit
Fixtures and fittings at cost	37 200	
Provision for depreciation of fixtures and fittings	11 160	
Inventory at 1 April 2015	36 000	
Trade receivables	7 000	
Trade payables	6 140	
Bank	12 100	debit
Sales (Revenue)	142 000	
Purchases	83 100	
Rent	12 000	
Other operating expenses	11 800	
Wages	16 500	
Drawings – David	32 000	
– Harold	14 700	

Additional information

- 1 Other operating expenses included \$500 for insurance which was paid in advance at 31 March 2016.
- 2 Inventory on 31 March 2016 amounted to \$26 800.
- 3 Fixtures and fittings are depreciated at the rate of 10% per annum on the straight line basis. A full year's depreciation is provided in the year of purchase. The current year's depreciation has not yet been provided.
- 4 All the fixtures and fittings were purchased when the partnership was formed.

REQUIRED

- (a)** Calculate how many years' depreciation had been charged.

(b) Prepare the income statement for the year ended 31 March 2016.

[illegible]

(c) Prepare the appropriation account for the year ended 31 March 2016.

David and Harold
Appropriation Account for the year ended 31 March 2016

	\$	\$
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19 Virginia depreciates motor vehicles at the rate of 25% per annum using the reducing (diminishing) balance method. She provides a full year’s depreciation in the year of purchase and none in the year of disposal. Her accounting year end is 31 December.

She purchased a motor vehicle, cost \$10 000, on 1 April 2013, and sold it on 28 May 2015 for \$7210 cash. On the same date she bought a new motor vehicle for \$17 000, paying by cheque.

REQUIRED

(a) Calculate the depreciation which had been provided on the old motor vehicle at the date of disposal.

.....

.....

.....

.....

(b) Prepare the following ledger accounts for the year ended 31 December 2015.

Virginia
Motor vehicles account

Date	Details	\$	Date	Details	\$
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.....

Provision for depreciation of motor vehicles account

Date	Details	\$	Date	Details	\$
.....
.....
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.....

Motor vehicle disposal account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....
.....

(c) Name the financial statement in which the provision for depreciation appears. State in which section it appears.

Name of financial statement
Section

(d) State how providing depreciation is an application of the accounting principle of accruals (matching).

.....
.....
.....

(e) Name one other accounting principle which is applied when depreciation is provided.

.....

(f) State the type of asset for which the revaluation method of depreciation is suitable.

.....

20 Tom’s financial year ends on 31 July. He depreciates his non-current assets using the reducing (diminishing) balance method.

REQUIRED

(a) Name one other method of depreciation which Tom could apply.

.....

(b) Explain how providing for depreciation of non-current assets is an application of the principle of accruals (matching).

.....
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.....
.....

(c) Name one other accounting principle which is applied when providing for depreciation of non-current assets.

.....

Tom depreciates his machinery using the reducing (diminishing) balance method at 20% per annum on all machinery held at the end of the year. No depreciation is charged in the year of disposal.

On 1 August 2014 he owned one machine (Machine A) which had cost \$3000, and which had been depreciated by \$600.

On 1 January 2015 Tom purchased another machine (Machine B) for \$3500, paying by cheque.

REQUIRED

(d) (i) Calculate the depreciation of Machine A for each of the years ended 31 July 2015 and 31 July 2016.

.....
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.....
.....

(ii) Calculate the depreciation of Machine B for each of the years ended 31 July 2015 and 31 July 2016.

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.....
.....

(e) Prepare the following accounts in the ledger of Tom.

(i) Machinery account

Balance the account on 31 July 2015 and bring down the balance on 1 August 2015.

Tom
Machinery account

Date	Details	\$	Date	Details	\$
2014					
Aug 1	Balance (A) b/d	3000
.....
.....
.....
.....
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.....

(ii) Provision for depreciation of machinery account

Balance the account at the end of each year and bring down the balance on 1 August 2015 and 1 August 2016. See next page.

Tom
Provision for depreciation of machinery account

Date	Details	\$	Date	Details	\$
-----	-----	-----	2014 Aug 1	Balance b/d	600
-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----
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-----	-----	-----	-----	-----	-----

Prepared by D. El-Hoss

IGCSE Accounting Limited Liability Company

www.igcseaccounts.com



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- 1 At 1 February 2014, Green Meadow Limited had the following shares and debentures.

250 000 ordinary shares of \$0.50 each
100 000 8% preference shares of \$1 each
\$50 000 6% debentures (2019)

The following balances were extracted from the books on 31 January 2015.

	\$
Retained earnings	65 000
Plant and equipment (at book value)	184 000
Motor vehicles (at book value)	87 000
Trade payables	43 000
Trade receivables	57 000
Inventory	63 000
Bank	2 000 debit
Long term bank loan (5%) (taken out in 2013)	10 000

REQUIRED

- (a)** Prepare the statement of financial position at 31 January 2015.

See next page.

Green Meadow Limited
Statement of Financial Position at 31 January 2015

\$

[illegible]

Following additional information is available:

- 1 Retained earnings at 1 February 2014 were \$51 500.
- 2 The interim ordinary dividend paid during the year was \$0.04 per share.
- 3 The preference dividend was paid on time.

REQUIRED

(b) Calculate the profit for the year ended 31 January 2015.

.....

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.....

(c) Calculate the profit from operations (profit before interest) for the year ended 31 January 2015.

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(d) Calculate the return on capital employed (ROCE).

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(e) State one reason why the directors would wish to know the ROCE.

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.....

(f) State why the directors chose to issue debentures rather than issue more ordinary shares.

.....

.....

.....

2 A limited company decides to create a provision for doubtful debts. How does this affect its statement of financial position?

A decreases the ordinary share capital

☐

B increases the ordinary share capital

☐

C decreases the retained earnings

☐

D increases the retained earnings

☐

- 3 Quik Flo Limited is a manufacturing business. It provided the following information.

	\$
At 1 May 2014	
Inventory – raw materials	5 000
– work in progress	2 000
– finished goods	8 500
Factory equipment – cost	18 000
– accumulated depreciation	7 000
Office equipment – cost	3 000
– accumulated depreciation	1 000
For the year ended 30 April 2015	
Revenue	140 000
Purchases of raw materials	48 000
Factory wages	20 500
Factory supervisor's salary	10 800
Office salaries	15 150
Rent	18 000
Selling and distribution costs	9 100
Loan interest	800
At 30 April 2015	
Inventory – raw materials	4 400
– work in progress	1 200
– finished goods	9 000

Additional information

- 1 Depreciation is provided as follows:

factory equipment at the rate of 10% per annum on the straight line basis
office equipment at the rate of 25% per annum on the reducing (diminishing) balance basis.

A full year's depreciation is provided in the year of acquisition but none is provided in the year of disposal.

- 2 On 30 April 2015 new factory equipment costing \$5000 was paid for by cheque. Old factory equipment with an original cost of \$2000 was sold on the same date at a profit of \$600.
- 3 The rent is to be apportioned 80% to the factory and 20% to the office.

REQUIRED

- (a) Prepare the ledger account for factory equipment (at cost). Balance the account and bring down the balance on 1 May 2015.

Quik Flo Limited
Factory equipment account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....
.....
.....

(b) Prepare the manufacturing account for the year ended 30 April 2015.

Quik Flo Limited
Manufacturing Account for the year ended 30 April 2015

[illegible]

(c) Prepare the income statement for the year ended 30 April 2015.

Quik Flo Limited
Income Statement for the year ended 30 April 2015

	\$	\$
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(d) State what is meant by the term work in progress.

.....

.....

(e) State two possible reasons why total direct costs in the year ended 30 April 2015 were higher than in the previous year.

1

.....

2

.....

4 What are retained earnings in a limited company?

A profits after dividends and after transfers to general reserve

☐

B profits after dividends but before transfers to general reserve

☐

C profits before dividends and before transfers to general reserve

☐

D profits before dividends but after transfers to general reserve

☐

5 The financial year of Joda Limited ends on 31 January. The following information is available for the year ended 31 January 2015.

	\$
Revenue	164 000
Cost of sales	125 542
Expenses	24 748

REQUIRED

(a) Calculate the gross profit as a percentage of revenue. The calculation should be correct to two decimal places.

.....

.....

.....

(b) Suggest two reasons why the gross profit as a percentage of revenue is lower than it was for the previous financial years.

1

.....

2

.....

- (c) Calculate the profit for the year as a percentage of revenue. The calculation should be correct to two decimal places.

.....

.....

.....

- 6 During the accounting year a limited company had the following transactions.

	\$
ordinary share dividend paid	25 000
interest paid on short term bank loan	3 000
interest paid on debentures (repayable in 2019)	12 000
interest received on bank deposit	5 000

Which amount appeared in the expenses in the income statement?

- A \$10 000
- B \$12 000
- C \$15 000
- D \$35 000

☐
☐
☐
☐

- 7 Kelbrook Limited provided the following information.

- 1 The issued share capital consists of 180 000 ordinary shares of \$0.50 each.
- 2 On 1 October 2014:

General reserve	\$4000
Retained earnings	\$5500
- 3 The profit for the year ended 30 September 2015 was \$9000.
\$2000 of this was transferred to the general reserve.
An interim dividend of \$4500 was paid during the year.
No dividends were proposed at the end of the year.

REQUIRED

- (a) Prepare the equity and reserves section of the statement of financial position at 30 September 2015.

Kelbrook Limited
Extract from Statement of Financial Position at 30 September 2015

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- 8 Two companies, X Limited and Y Limited, provided the following information.

	X Limited	Y Limited
	\$	\$
Profit for the year	10 000	10 000
Revenue for the year	200 000	100 000
Capital employed	180 000	300 000

Which company had the higher profit to revenue percentage (net profit margin) and which had the higher return on capital employed (ROCE)?

	profit to revenue percentage	return on capital employed
A	X Limited	X Limited
B	X Limited	Y Limited
C	Y Limited	X Limited
D	Y Limited	Y Limited

☐
☐
☐
☐

9 D Limited provided the following information:

On 1 July 2015

The company had in issue 400 000 ordinary shares of \$0.50 each. Retained earnings were \$80 000.

The general reserve amounted to \$25 000.

During the year ended 30 June 2016

Debentures, \$100 000, were issued.

A dividend of \$0.09 per share was paid.

The profit for the year was \$78 600.

\$10 000 was transferred to general reserve.

(a) Calculate the retained earnings at 30 June 2016.

.....

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.....

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.....

.....

(b) Prepare an extract from the statement of financial position at 30 June 2016 showing the capital and reserves section.

D Limited
Statement of Financial Position (extract) at 30 June 2016

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.....

.....

(c) State **one** reason why D Limited paid a dividend.

.....

.....

(d) Suggest **two** reasons why the directors decided that the total dividend should be less than the profit for the year.

Reason 1

.....

Reason 2

.....

(e) Calculate, to **two** decimal places, the return on capital employed (ROCE) for the year ended 30 June 2016.

.....

.....

.....

.....

(f) State **two** possible reasons why the return on capital employed (ROCE) had decreased from the previous year.

Reason 1

.....

Reason 2

.....

D Limited wishes to raise additional finance and is considering issuing more ordinary shares or taking out a long-term bank loan.

REQUIRED

(g) Advise the company of **three** factors it might take into consideration when making its decision.

Factor 1

.....

Factor 2

.....

Factor 3

.....

10 The directors of a limited company increased the general reserve.

Which item decreased?

- A balance at bank

B ordinary share capital

C preference share capital

D retained earnings
- ☐

☐

☐

☐

11 The financial year of CP Limited ends on 30

September. The following information is available.

On 1 October 2016	\$
Ordinary shares of \$1 each	500 000
General reserve	11 000
Retained earnings	14 000
3% Debentures (repayable 2031)	75 000

REQUIRED

- (a) Calculate the return on capital employed (ROCE) at 1 October 2016. Use a profit of \$43 000. The calculation should be correct to **two** decimal places.

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.....

.....

On 2 October 2016 an additional 100 000 ordinary shares of \$1 were issued. These shares qualified for dividends relating to the financial year ended 30 September 2017.

The following dividends were paid.

December 31	Payment of final ordinary share dividend	
	25 000 for the year ended 30 September 2016	
2017		
June 30	Payment of interim ordinary share dividend	
	for the year ended 30 September 2017	15 000

The profit for the year ended 30 September 2017 before debenture interest was \$71 000.

On 30 September 2017 a transfer was made of \$5000 to general reserve. On that date a final ordinary share dividend for the year ended 30 September 2017 of \$30 000 was proposed.

REQUIRED

- (b) Calculate the percentage (%) final ordinary share dividend for the year ended 30 September 2016.

.....

.....

.....

- (c) Calculate the percentage (%) total ordinary share dividend for the year ended 30 September 2017.

.....

.....

.....

.....

- (d) Calculate the profit for the year ended 30 September 2017 **after** debenture interest.

.....

.....

- (e) Prepare the statement of changes in equity for the year ended 30 September 2017.

CP Limited
Statement of Changes in Equity for the year ended 30 September 2017

	Ordinary share capital \$	General reserve \$	Retained earnings \$	Total \$
<i>On 1 October 2016</i>
.....
.....
.....
.....
.....
.....
<i>On 30 September 2017</i>

CP Limited wants to expand and requires \$300 000. It is considering raising the funds from either issuing additional 3% debentures or issuing 4% preference shares.

REQUIRED

(f) State **two** features of debentures.

1

.....

2

.....

(g) State **two** features of preference shares.

1

.....

2

.....

(h) Complete the following table to indicate the effect of issuing debentures.

Where there is no effect, place a tick (✓) in the column headed “no effect”. The first item has been completed as an example.

	increase \$	decrease \$	no effect
effect on current assets	300 000		
effect on non-current liabilities			
effect on profit for the year			
effect on profit available for ordinary shareholders			
effect on equity			

- 12** ABC Limited has a share capital consisting of ordinary shares. The financial year ends on 31 December.

The accountant prepared the income statement for the year ended 31 December 2017 which showed a profit of \$21 000.

The accountant started to prepare a statement of changes in equity but was taken ill before it was completed.

REQUIRED

- (a)** Complete the following statement of changes in equity for the year ended 31 December 2017.

ABC Limited
Statement of Changes in Equity for the year ended 31 December 2017

	Ordinary share capital \$	General reserve \$	Retained earnings \$	Total \$
On 1 January 2017	180 000	25 000	9 500	214 500
Share issue	20 000	.....	.....	.....
Profit for the year	.....	.....	.....	.....
Final dividend paid for year ended 31 December 2016	.....	.....	.....	(7 200)
Interim dividend for the year ended 31 December 2017	.....	.....	.....	(6 000)
Transfer to general reserve	.....	2 000	.....	.....
At 31 December 2017	.....	.....	.....	.....

ABC Limited
Statement of Changes in Equity for the year ended 31 December 2017

	Ordinary share capital \$	General reserve \$	Retained earnings \$	Total \$	
<i>On 1 January 2017</i>	180 000	25 000	9 500	214 500	
<i>Share issue</i>	20 000	.....	.....	20 000	
<i>Profit for the year</i>	.....	.....	21 000	21 000	
<i>Final dividend paid for year ended 31 December 2016</i>	.....	.....	(7 200)	(7 200)	
<i>Interim dividend for the year ended 31 December 2017</i>	.....	.....	(6 000)	(6 000)	
<i>Transfer to general reserve</i>	.....	2 000	(2 000)	.....
<i>At 31 December 2017</i>	200 000	27 000	15 300	242 300	

ABC Limited provided the following information.

	Year ended 31 December	
	2016	2017
Percentage of gross profit to revenue (gross profit margin)	32%	30%
Percentage of profit for the year to revenue (net profit margin)	12%	14%

REQUIRED

(b) Suggest **two** reasons for the change in the percentage of profit for the year to revenue.

1

.....

2

.....

(c) State the year in which ABC Limited had better control of the expenses. Give a reason for your answer.

Year

Reason

.....

One of the directors has made four proposals for increasing the percentage of profit for the year to revenue.

REQUIRED

(d) Complete the following table by placing a tick (✓) to indicate the effect on the percentage of profit for the year to revenue of **each** proposal.

proposal	effect on percentage of profit for the year to revenue		
	increase	decrease	no effect
reduce number of employees to reduce the wages bill			
purchase supplies in bulk to get trade discount			
purchase supplies on a cash basis only			
delay payment of rent of premises			

ABC Limited makes all purchases and sales on credit terms.

Credit customers are allowed a credit period of 30 days and credit suppliers allow a credit period of 24 days.

ABC Limited provided the following information.

	2016	2017
Collection period for trade receivables	28 days	38 days
Payment period for trade payables	22 days	30 days

REQUIRED

(e) Comment on the effect on the liquidity of ABC Limited of the change in the collection period for trade receivables and the change in the payment period for trade payables.

.....

.....

.....

- (f) Suggest **two** ways in which ABC Limited could reduce the collection period for trade receivables.

1

.....

2

.....

- (g) Suggest **two** ways in which ABC Limited could reduce the possibility of bad debts.

1

.....

2

.....

- (h) Suggest **one** disadvantage to the trade payables of the change in the payment period.

.....

.....

- (i) Suggest **one** advantage to the trade payables of the change in the payment period.

.....

.....

ABC Limited's return on capital employed (ROCE) for the year ended 31 December 2017 was lower than that of the previous few years.

REQUIRED

- (j) State what is measured by the return on capital employed (ROCE).

.....

.....

One of the directors has made three proposals for increasing the return on capital employed (ROCE).

REQUIRED

(k) Complete the following table by placing a tick (✓) to indicate the effect on the return on capital employed (ROCE) of **each** proposal.

proposal	effect on return on capital employed (ROCE)		
	increase	decrease	no effect
reduce cost of insuring motor vehicles			
issue more ordinary shares			
obtain a short-term interest-free loan from a director			

13 B Limited provided the following details at 30 April 2018.

	\$
profit for the year ended 30 April 2018	72 500
ordinary share dividends paid	15 000
transfer to general reserve	5 000
retained earnings at 30 April 2018	285 000

What were retained earnings at the beginning of the financial year?

- A \$227 500
- B \$232 500
- C \$337 500
- D \$342 500

- 14** The financial year of CD Limited ends on 30 April. The following information was provided on 30 April 2018.

	\$		\$
Non-current assets (book value)	227 000	Ordinary share capital	
Inventory	29 000	(300 000 shares of \$0.50)	150 000
Trade receivables	22 000	General reserve 1 May 2017	30 000
Bank	11 000	Retained earnings 1 May 2017	6 000
		Profit for the year ended	
		30 April 2018	13 000
		5% Debentures (repayable 2025)	50 000
		Trade and other payables	40 000

REQUIRED

- (a)** State **two** differences between debentures and ordinary shares.

1

.....

.....

2

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.....

- (b)** State how the general reserve has arisen.

.....

.....

- (c)** State **two** reasons why CD Limited retains some profit each year.

1

.....

2

.....

- (d)** Complete the table by placing tick(s) (✓) in the correct column(s) to indicate where **each** of the following would be included in the financial statements of CD Limited at 30 April 2018. Some items may appear in more than one statement.

The first one has been completed as an example.

	Income statement	Statement of changes in equity	Statement of financial position	No entry
1 September 2017 Repayment of long-term loan				✓
1 November 2017 Payment of half-year interest on debentures				
31 December 2017 Payment of interim ordinary share dividend				
30 April 2018 Half-year interest on debentures accrued				
30 April 2018 Proposed ordinary share dividend				

- 15** FD Paints Limited started trading on 1 January 2015. The company provided the following information for the year ended 31 December 2015.

	\$
Profit for the year	80 000
Dividend paid	4 200
Dividend proposed	10 400
Transfer to general reserve	5 000

What were the retained earnings at 31 December 2015?

- A** \$60 400
B \$70 800
C \$75 800
D \$89 200

☐
☐
☐
☐

16 (a) State **three** reasons why a sole trader might wish to turn his business into a limited company.

- 1
- 2
- 3

(b) State the term used to describe **each** of the following.

definition	term
the value of shares which a company has requested from its shareholders
the value of shares for which the company has received cash

AC Industries Limited provided the following information.

	\$
At 31 March 2015	
Ordinary shares of \$1 each	100 000
General reserve	20 000
Retained earnings	36 800
During the year ended 31 March 2016	
Profit for the year	19 300
Transfer to general reserve	5 000
Interim dividend paid	7 000
New shares issued	10 000
Long-term bank loan received	15 000
At 31 March 2016	
Inventory	17 800
Trade receivables	8 000
Bank overdraft	2 500
Trade payables	?
Current ratio	1.2 : 1

REQUIRED

(c) Complete the following statement of changes in equity for the year ended 31 March 2016.

AC Industries Limited
Statement of Changes in Equity for the year ended 31 March 2016

Details	Share capital \$	General reserve \$	Retained earnings \$	Total \$
On 1 April 2015
Share issue
Profit for the year
Dividend paid
Transfer to general reserve
On 31 March 2016

- (d) Prepare the statement of financial position at 31 March 2016 in as much detail as possible. (Non-current assets will be the balancing figure.)

AC Industries Limited
Statement of Financial Position at 31 March 2016

[illegible]

- (e) Suggest **one** reason why the directors might have taken out the loan.

.....

.....

- (f) Name and calculate **one** ratio (other than the current ratio given) which would help the directors assess the liquidity position of the company. Your calculation should be to **two** decimal places.

Name of ratio

Calculation

.....

.....

- (g) Comment on the liquidity position of the company on 31 March 2016.

.....

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- 17** At the end of the financial year on 29 February 2016 Nyeko Limited provided the following information.

On 28 February 2015:	\$
4% Debentures	<u>80 000</u>
Equity and reserves	
Ordinary shares of \$1 each	200 000
General reserve	34 000
Retained earnings	<u>8 000</u>
	<u>242 000</u>

During the year ended 29 February 2016:

2015		\$
March 1	Issue of ordinary shares of \$1 each	50 000
May 1	Payment of final dividend on ordinary shares for the financial year ended 28 February 2015	8 000
November 1	Payment of interim dividend on ordinary shares for the financial year ended 29 February 2016	6 250
2016		
February 29	Transfer to general reserve	6 000
	Proposed final ordinary share dividend for the financial year ended 29 February 2016	5 000

For the year ended 29 February 2016:

	\$
Revenue	180 200
Profit for the year before debenture interest	19 360

REQUIRED

(a) Calculate the profit for the year ended 29 February 2016 after debenture interest.

.....

.....

(b) (i) Calculate the percentage (%) **final** ordinary share dividend for the year ended 28 February 2015. Show your workings.

.....

.....

(ii) Calculate the percentage (%) **total** ordinary share dividend for the year ended 29 February 2016. Show your workings.

.....

.....

.....

.....

(c) Prepare the statement of changes in equity for the year ended 29 February 2016.

Nyeko Limited
Statement of Changes in Equity for the year ended 29 February 2016

	Ordinary share capital \$	General reserve \$	Retained earnings \$	Total \$
.....
.....
.....
.....
.....
.....
.....
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.....
.....

- (d) (i) Calculate the profit for the year after debenture interest as a percentage of revenue.

The calculation should be to **two** decimal places. Show your workings.

.....

.....

.....

- (ii) Suggest **two** ways in which the profit for the year as a percentage of revenue could be improved.

1

.....

2

.....

- (e) (i) Calculate the profit for the year ended 29 February 2016 after debenture interest as a percentage of equity and reserves on 28 February 2015.

The calculation should be to **two** decimal places. Show your workings.

.....

.....

.....

- (ii) Suggest **two** ways in which the profit for the year as a percentage of equity and reserves could be improved.

1

.....

2

.....

The directors of Nyeko Limited wish to raise additional funds to finance a programme of expansion. They are considering raising \$60 000 by an issue of 5% preference shares of \$1 each.

REQUIRED

- (f) State **two** ways in which the ordinary shareholders may be affected if Nyeko Limited raised the additional funds by the issue of preference shares.

1

.....

2

.....

- 18 The financial year of Sandton Limited ends on 30 September.

During the year ended 30 September 2016 the following transactions took place.

- 1 The company made a profit for the year of \$14 750.
- 2 An interim dividend of \$4500 was paid on the ordinary shares.
- 3 A transfer of \$5000 was made to general reserve.

REQUIRED

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

See next page.

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

Details	Share capital \$	General reserve \$	Retained earnings \$	Total \$
On 1 October 2015	150 000	14 000	31 000	195 000
Profit for the year	.....	.....	.....	.....
Dividend paid	.....	.....	.....	.....
Transfer to general reserve	.....	.....	.....	.....
On 30 September 2016	.....	.....	.....	.....

Sandton Limited provided the following information at 30 September 2016.

	\$
3% Debentures (repayable 2020)	15 000
Premises at cost	135 200
Fixtures and equipment at cost	37 600
Motor vehicles at cost	54 000
Provision for depreciation – fixtures and equipment	7 520
motor vehicles	10 800
Trade receivables	10 840
Trade payables	7 460
Other receivables	472
Other payables	130
Bank	4 294 credit
Inventory	12 613
Provision for doubtful debts	271

(b) Prepare a statement of financial position at 30 September 2016.

[illegible]

Manufacturing Accounts



- 2 (a) Explain **why** it is necessary for a manufacturing business to prepare a Manufacturing Account in addition to a Trading and Profit and Loss Account.

.....

.....

.....

.....[2]

- (b) Explain **each** of the following terms in connection with a manufacturing business.

- (i) Cost of materials consumed

.....

.....

.....[2]

- (ii) Prime cost

.....

.....

.....[2]

- (iii) Production cost

.....

.....

.....[2]

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El Sayed Manufacturing Company

Manufacturing Account for the year ended 31 August 2003

www.igcseaccounts.com

[14]

- 2 Mark Sekota started trading as Red Barn Manufacturing on 1 September 2004. The business makes wooden barns which are supplied in sections for customers to construct to their own designs.

Mark Sekota provides the following information:

	At 1 September 2006	At 31 August 2007
	\$	\$
Stocks – Raw materials	43 500	37 000
Work in progress	21 400	15 800
Finished goods	142 100	163 500

For the year ended 31 August 2007

	\$
Sales of finished goods	2 249 400
Purchases of raw materials	576 000
Direct factory wages	473 600
Indirect factory wages	197 600
Factory general expenses	335 500

The factory machinery is being depreciated using the reducing balance method at 20% per annum. The machinery originally cost \$250 000 and the accumulated depreciation at 1 September 2006 was \$90 000.

REQUIRED

- (a) Explain to Mark Sekota why it is important that his stocks are valued at the lower of cost and net realisable value.

.....

.....

..... [2]

- (b)** Prepare the manufacturing account of Red Barn Manufacturing for the year ended 31 August 2007.

Red Barn Manufacturing
Manufacturing Account for the year ended 31 August 2007

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[11]

- (c) Prepare the trading account of Red Barn Manufacturing for the year ended 31 August 2007.

Red Barn Manufacturing
Trading Account for the year ended 31 August 2007

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..... [5]

Mark Sekota is concerned that his rate of stock turnover of finished goods is slower than it was in the previous financial year.

REQUIRED

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- (d) Using your answer to (c) calculate, correct to two decimal places, the rate of stock turnover of finished goods. **Show your workings.**

.....

.....

.....

..... [2]

- (e) State **two** ways in which the rate of stock turnover of finished goods may be improved.

(i)

.....

(ii)

..... [2]

[Total: 22]

- 4 Gideon Yeboah is a manufacturer. He provided the following information.

For
Examiner's
Use

	At 1 April 2007	At 31 March 2008
	\$	\$
Stock - raw materials	21 230	19 410
work in progress	11 680	12 130
finished goods	46 900	53 170

For the year ended 31 March 2008

	\$
Sales of finished goods	825 000
Purchases of raw materials	255 620
Purchases of finished goods	13 200
Direct factory wages	194 060
Factory general expenses	133 910

The following additional information is available on 31 March 2008:

- 1 Direct factory wages accrued amounted to \$4800.
- 2 The factory general expenses include insurance on the factory which is prepaid by \$210.
- 3 The factory machinery was valued at \$92 000.
On 1 April 2007 the factory machinery was valued at \$103 000. Additional machinery costing \$21 000 was purchased during the year. There were no sales of machinery during the year.

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REQUIRED

- (a) (i) State the basis on which Gideon Yeboah should value his stocks.

.....
[1]

- (ii) Name **one** accounting principle Gideon Yeboah is applying by valuing his stocks on this basis.

..... [1]

For
Examiner's
Use

Gideon Yeboah
Manufacturing Account for the year ended 31 March 2008

www.igcseaccounts.com

[11]

(c) Prepare the trading account of Gideon Yeboah for the year ended 31 March 2008.

Gideon Yeboah
Trading Account for the year ended 31 March 2008

*For
Examiner's
Use*

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[6]

[Total: 19]

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- 2 Ahmed Zaki manufactures office furniture. His financial year ends on 30 April.

For
Examiner's
Use

REQUIRED

- (a) Explain why it is necessary for Ahmed Zaki to prepare a manufacturing account at the end of his financial year.

.....

 [2]

- (b) During the year ended 30 April 2010 Ahmed Zaki purchased some finished goods from another manufacturer.

Suggest **two** reasons why Ahmed Zaki purchased these goods rather than manufacturing them himself.

1

 2
 [2]

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Ahmed Zaki provided the following information:

	At 1 May 2009	At 30 April 2010
	\$	\$
Inventory (stock) – raw material	33 400	35 230
Stock – work in progress	14 200	13 900

For the year ended 30 April 2010

	\$
Purchases of raw materials	408 160
Direct factory wages	325 270
Indirect factory wages	130 200
Factory general expenses	198 280

Additional information on 30 April 2010:

- Indirect factory wages accrued amounted to \$1520.
- Factory general expenses include prepaid insurance, \$400.
- On 1 May 2009 the factory machinery was valued at \$162 000. Additional machinery costing \$19 500 was purchased during the year. There were no sales of machinery during the year. On 30 April 2010 the factory machinery was valued at \$150 000.

REQUIRED

For
Examiner's
Use

- (c)** Prepare the manufacturing account of Ahmed Zaki for the year ended 30 April 2010.

Ahmed Zaki
Manufacturing Account for the year ended 30 April 2010

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[13]

[Total: 17]

3 Herman Wagner makes furniture.

He provided the following information for the year ended 30 April 2012

	\$
Inventories 1 May 2011 – Raw materials	14 300
Finished goods	12 100
Work in progress	6 520
Revenue	600 000
Purchases of raw materials	168 900
Purchases of finished goods	3 450
Carriage on purchases of raw materials	2 600
Wages – Factory direct	193 700
Factory indirect	43 600
Administration	121 100
General expenses – Factory	24 450
Administration	9 640
Factory machinery at cost	98 000
Office equipment at cost	14 500
Provision for depreciation of factory machinery	35 280
Provision for depreciation of office equipment	4 350
Loose tools 1 May 2011 at valuation	950

Additional information

- 1 At 30 April 2012:

Inventories were valued at	\$
Raw materials	16 400
Finished goods	11 300
Work in progress	6 970
- 2 The factory general expenses include rates and insurance, \$6200, which should be apportioned – factory $\frac{3}{4}$ and office $\frac{1}{4}$.
- 3 The factory indirect wages include \$10 000 taken by Herman Wagner for personal use.
- 4 The factory machinery is being depreciated at 20% per annum using the reducing balance method.
The office equipment is being depreciated by 10% per annum using the straight line method.
- 5 During the year additional loose tools, \$45, were purchased.
At 30 April 2012 the loose tools were valued at \$890.

For
Examiner's
Use

REQUIRED

- (a)** Select the relevant information and prepare the manufacturing account of Herman Wagner for the year ended 30 April 2012.

Herman Wagner
Manufacturing Account for the year ended 30 April 2012

For
Examiner's
Use

www.igcseaccounts.com

[16]

- (b) Define and give **one** example of **each** of the following types of inventory in Herman Wagner's business.

For
Examiner's
Use

(i) Raw materials

.....

..... [2]

(ii) Work in progress

.....

..... [2]

(iii) Finished goods

.....

..... [2]

- (c) Explain why Herman Wagner revalues the loose tools at the end of each financial year rather than using the straight line or reducing balance method of depreciation.

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.....

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..... [2]

After the preparation of the manufacturing account for the year ended 30 April 2012, Herman Wagner prepared an income statement showing a gross profit of \$170 200 and total expenses of \$144 000.

For
Examiner's
Use

On 1 May 2011 Herman Wagner's capital was \$130 000. On that date he borrowed \$20 000 (repayable on 30 April 2016) from Cashco Ltd.

REQUIRED

- (d) Calculate the return on capital employed (ROCE) for Herman Wagner.

Use the total capital employed on 1 May 2011.

The calculation should be correct to **two** decimal places.

Show your workings.

.....

.....

.....

..... [3]

- (e) The return on capital employed (ROCE) calculated on 30 April 2011 was 19.50%.

State and explain whether Herman Wagner will be satisfied with the ratio you calculated in (d).

Will he be satisfied?

Explanation

.....

..... [3]

[Total: 30]

- 1 Zabeel opened a manufacturing business on 1 November 2011.

The following information was provided at 31 October 2012.

	\$
Revenue	183 400
Purchases of finished goods	9 200
Purchases of raw materials	54 300
Returns from customers	2 600
Returns to suppliers of raw materials	2 100
Factory direct wages	46 000
Factory indirect wages	11 210
Office and administration wages	23 950
Rates and insurance	6 000
Factory general expenses	21 660
Office and selling expenses	9 400
Carriage on raw materials	480
Carriage on sales	630
Discount allowed	130
Discount received	420

Additional information

- On 31 October 2012 Inventories were valued at:

raw materials	4 300
work in progress	10 200
finished goods	12 620
- On 31 October 2012 factory direct wages outstanding amounted to \$2150 and factory general expenses prepaid were \$370.
- 60% of the rates and insurance relates to the factory and 40% relates to the office.
- Machinery costing \$64 500 was purchased on 1 November 2011. Depreciation is to be charged at 20% per annum on cost.
- Loose tools, \$980, were purchased on 1 November 2011. Additional tools, \$130, were purchased during the year. No loose tools were disposed of during the year. On 31 October 2012 the loose tools were valued at \$820.

REQUIRED

- (a) Select the relevant figures and prepare the manufacturing account of Zabeel for the year ended 31 October 2012.

Zabeel
Manufacturing account for the year ended 31 October 2012

For
Examiner's
Use

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[14]

Prepared by D. El-Hoss

IGCSE Accounting Multiple Choice



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1 What is the purpose of accounting?

- A to ensure the cash book balance agrees with the bank statement
- B to know how long trade receivables take to pay
- C to prepare the financial statements of the business
- D to write up all the ledger accounts

☐
☐
☐
☐

2 When is accounting information relevant?

- A when it can be compared with information for other periods
- B when it can be understood by the users of the accounts
- C when it changes business decisions
- D when it is free from error and bias

☐
☐
☐
☐

3 What is the purpose of book-keeping?

- A to identify trends over a number of years
- B to prepare the financial statements of the business
- C to present interested parties with relevant information
- D to record the financial transactions of the business

☐
☐
☐
☐

4 An item of inventory, cost \$80, has been damaged. It can be repaired for \$22. The item can then be sold for \$78. Packing and shipping costs will amount to \$6.

At which value will it be included in the statement of financial position?

- A \$50
- B \$56
- C \$78
- D \$80

☐
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☐

5 Tan is considering selling raw materials on credit to Arjun.

Why does Tan look at Arjun's financial statements?

- A to calculate Arjun's trade payables payment period
- B to find out how much Arjun has spent on non-current assets
- C to know how much capital Arjun had invested in his business
- D to see if Arjun experiences a high level of bad debts

☐
☐
☐
☐

6 Which business document would be sent by a customer to a supplier?

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

☐
☐
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7 An insurance account shows an amount paid for the year of \$2000 and a prepayment at the end of the year of \$400.

Which entry appears in the insurance account to record the transfer to the income statement?

- A credit entry of \$1600
- B credit entry of \$2400
- C debit entry of \$1600
- D debit entry of \$2400

☐
☐
☐
☐

8 Where would a dishonoured cheque from a customer be recorded in the books of the supplier?

A credit side of the purchases ledger control account

☐

B credit side of the sales ledger control account

☐

C debit side of the purchases ledger control account

☐

D debit side of the sales ledger control account

☐

9 Jamal treats purchases of loose tools as capital expenditure.

On 1 July 2014 his loose tools were valued at \$7100.

On 1 September 2014 he bought new tools costing \$1200.

On 30 June 2015 he valued loose tools at \$6000.

Which amount for loose tools appeared in his income statement for the year ended 30 June 2015?

A \$100

☐

B \$1100

☐

C \$1200

☐

D \$2300

☐

10 The rent of a manufacturing business is split 60% factory, 10% offices and 30% showrooms. Business rent is \$40 000 a year and salesmen's salaries are \$12 000 a year.

How much appears in the manufacturing account for these costs?

A \$24 000

☐

B \$31 200

☐

C \$36 000

☐

D \$46 800

☐

- 11** Financial statements must be free from error and bias. Which accounting policy is being applied?
- A comparability ☐
- B relevance ☐
- C reliability ☐
- D understandability ☐
- 12** Which statement describes the purpose of a trial balance?
- A** It checks the arithmetical accuracy of the double entry. ☐
- B** It ensures the ledger accounts contain no errors. ☐
- C** It indicates areas where errors have arisen. ☐
- D** It prevents errors from occurring. ☐
- 13** What is true about a bank reconciliation statement?
- A** It forms part of the double entry system. ☐
- B** It is a statement prepared by the bank. ☐
- C** It is prepared to look for errors in the cash book and the bank statement. ☐
- D** It reconciles the opening and closing cash book balances. ☐

- 14** An item of inventory has an original cost of \$18 and a replacement cost of \$13. The costs of packing and delivery when the item is sold will amount to \$3. It is expected to be sold for \$20.

At which value should it be included in the financial statements?

- A** \$13
B \$16
C \$17
D \$18

☐
☐
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☐

- 15** Which statement about debentures is correct?

- A** They carry a fixed rate of dividend.
B They carry a fixed rate of interest.
C They carry a variable rate of dividend.
D They carry a variable rate of interest.

☐
☐
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☐

- 16** Which account or statement provides a summary of transactions involving trade receivables?

- A** bank reconciliation statement
B provision for doubtful debts account
C sales ledger control account
D statement of financial position

☐
☐
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☐

- 17** Asma bought a motor vehicle for \$10 000. She depreciated it at the rate of 10% per annum on cost, calculated monthly.
After 18 months she sold the motor vehicle for \$9200.

What was the profit on disposal?

- A** \$200
B \$650
C \$700
D \$1200

☐
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☐

- 18** At the start of the year Basil had paid \$4500 rent in advance. During the year he paid rent, \$12 000. At the year end he owed \$1500.

What was Basil's annual expense for rent?

- A** \$9 000
B \$12 000
C \$15 000
D \$18 000

☐
☐
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☐

- 19** Who benefits from a company's limited liability?

- A** its credit customers
B its credit suppliers
C its debenture holders
D its shareholders

☐
☐
☐
☐

- 20** The work in progress of a manufacturing business increased during the year. Which effect does this have?

	on cost of production	on gross profit
A	decrease	increase
B	decrease	no effect
C	increase	decrease
D	increase	no effect

☐☐☐☐

- 21** What is meant by mark-up?

- A** gross profit measured as a percentage of cost of sales
B gross profit measured as a percentage of revenue
C profit for the year measured as a percentage of expenses
D profit for the year measured as a percentage of revenue

☐☐☐☐

- 22** Why would a bank manager look at a trader's financial statements?

- A** to calculate how fast trade payables were being paid
B to check if the trader would be able to repay a loan
C to find out if customers will receive continuous supplies
D to know if inventory levels are too high

☐☐☐☐

23 Min made a payment to Alain, a credit supplier. In error he debited the account of Alun.

Which type of error did Min make?

A commission

☐

B compensating

☐

C original entry

☐

D principle

☐

24 John is a retailer of garden furniture. He bought stationery, \$25, on credit from A4 Supplies. He did not record this in his books of account.

Which entries are needed to correct the error?

	debit account		credit account	
A	A4 Supplies	\$25	stationery	\$25
B	A4 Supplies	\$25	suspense	\$50
	stationery	\$25		
C	stationery	\$25	A4 Supplies	\$25
D	suspense	\$50	A4 Supplies	\$25
			stationery	\$25

☐
☐
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☐

25 Which statements describe capital expenditure?

- 1 It is for an item which will last more than a year.
- 2 It is recorded in the income statement.
- 3 It is recorded in the statement of financial position.

A 1 and 2

☐

B 1 and 3

☐

C 2 only

☐

D 3 only

☐

- 26** The directors of a company provided the following information.

	\$
total equity at start of year	426 000
profit for the year	90 000
dividend paid	40 000
transfer made to general reserve	25 000

What was the total equity at the end of the year?

- A** \$451 000
B \$476 000
C \$501 000
D \$516 000

☐
☐
☐
☐

- 27** The purchase on credit of a motor vehicle, \$10 100, was entered in the general journal as \$11000.

Which error was made?

- A** commission
B compensating
C original entry
D principle

☐
☐
☐
☐

28 Which statement is true?

A Bad debts are deducted from trade receivables after the provision for doubtful debts is calculated.

☐

B Bad debts are deducted from trade receivables before the provision for doubtful debts is calculated.

☐

C Bad debts are only written off if there is no provision for doubtful debts.

☐

D Provision is only made for doubtful debts if no bad debts have been written off in the year.

☐

29 An item cost \$128. It is slightly damaged and can only be sold for \$120. The salesman's commission is 15%.

At which value is the item included in inventory in the financial statements?

A \$102

☐

B \$110

☐

C \$120

☐

D \$128

☐

30 Why is an income statement prepared?

A to account for the revenues and costs of a period

☐

B to calculate the surplus or deficit of an organisation

☐

C to list the ledger balances on a particular date

☐

D to summarise the business bank account

☐

31 A trader provided the following information.

Net assets at start of year	\$8000
Drawings – cash	\$2100
Drawings – goods	cost \$50, selling price \$90
Net assets at end of year	\$8200

What was his profit for the year?

- A \$1950
- B \$2210
- C \$2350
- D \$2390

☐

☐

☐

☐

32 Where are interest on partners' loans and interest on capital recorded?

	income statement	appropriation account
A	interest on capital	interest on loan
B	interest on loan	interest on capital
C	interest on capital and interest on loan	neither
D	neither	interest on capital and interest on loan

☐

☐

☐

☐

33 A business provided the following information.

	\$
Cost of raw materials consumed	8000
Decrease in work in progress	450
Machine operators' wages	4800
Factory overheads	4100

What was the cost of production?

- A** \$12 800
- B** \$16 450
- C** \$16 900
- D** \$17 350

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☐

34 A business provided the following information.

	\$
Sales	3000
Opening inventory	400
Closing inventory	700
Mark-up	50%

What were the purchases for the year?

- A** \$1200
- B** \$1700
- C** \$1800
- D** \$2300

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35 Which statement describes a purpose of accounting?

- A** to check the arithmetical accuracy of the double entry
- B** to ensure that all transactions are recorded
- C** to know the balances on individual customers' and suppliers' accounts
- D** to provide a calculation of profit

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36 A credit customer buys goods with a list price of \$1000. Trade discount is 30% and cash discount is 10%.

Which amount is entered in the customer's account to record the sale?

- A** \$600
- B** \$630
- C** \$700
- D** \$900

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37 Where is discount allowed recorded?

- A** on the credit side of the purchases ledger control account
- B** on the credit side of the sales ledger control account
- C** on the debit side of the purchases ledger control account
- D** on the debit side of the sales ledger control account

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38 Ann's statement of financial position includes the following:

- 1 an amount paid by Ann for a service which has not yet been received
- 2 an amount received by Ann for a service which Ann has not yet provided
- 3 the value of a service received by Ann for which payment has not yet been made

Which item(s) are included in 'other payables'?

A 1 and 2

☐

B 1 only

☐

C 2 and 3

☐

D 3 only

☐

39 Hiro wishes to increase his provision for doubtful debts at the end of the year. How does he record this increase?

	debit entry	credit entry	
A	bad debts	provision for doubtful debts	<input type="checkbox"/>
B	provision for doubtful debts	bad debts	<input type="checkbox"/>
C	income statement	provision for doubtful debts	<input type="checkbox"/>
D	provision for doubtful debts	income statement	<input type="checkbox"/>

40 Thang bought goods costing \$20 each. At the end of the year Thang valued inventory of unsold goods at the selling price of \$30 each.

What is the effect of this valuation?

A profit is overstated

☐

B profit is understated

☐

C purchases are overstated

☐

D purchases are understated

☐

- 41** The directors of a limited company increased the general reserve.

Which item decreased?

- A** balance at bank
- B** ordinary share capital
- C** preference share capital
- D** retained earnings

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- 42** A trader provided the following information at the end of the first year of trading.

	\$
revenue	5000
profit for the year	500
expenses	1400
closing inventory	800

What were the purchases for the year?

- A** \$2300
- B** \$3900
- C** \$4900
- D** \$6700

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- 43** A trader had a percentage of gross profit to revenue (gross profit margin) of 30%. His purchases for the year were \$3400 and his inventory increased by \$400. What was his revenue for the year (to the nearest dollar)?

A \$3900
B \$4286
C \$4940
D \$5429

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- 44** When is financial information considered to be relevant?

A when it affects business decisions
B when it can be compared with other periods
C when it can be understood by the users
D when it is free from error and bias

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- 45** When Jack prepared his bank reconciliation statement it included an unpresented cheque.
Which cheque is unpresented?

A a cheque Jack received and banked but which has not appeared on his bank statement
B a cheque which appears on Jack's bank statement but which has been omitted from his cash book
C a cheque which Jack has issued to a supplier who has not banked it
D a cheque debited twice in Jack's bank statement in an error by the bank

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46 Ahmed bought a motor vehicle and paid the following amounts.

	\$
motor vehicle	8000
number plates	100
insurance	400

What was Ahmed's capital expenditure?

- A \$400
- B \$500
- C \$8000
- D \$8100

☐

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47 Sasha buys radios at \$20 each. At the year end she has 50 radios in inventory. Of these, 3 radios are damaged and will cost \$17 each to repair.

All the radios are expected to be sold at \$30 each.

What is the value of inventory in the statement of financial position?

- A \$979
- B \$1000
- C \$1449
- D \$1500

☐

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48 Which businesses are trading businesses and which are service businesses?

	trading business	service business
A	food retailer	hairdresser
B	food retailer and hairdresser	neither
C	hairdresser	food retailer
D	neither	food retailer and hairdresser

☐

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49 An appropriation account showed the following.

		\$
interest on drawings	Sumit	1300
	Tom	1200
interest on capital	Sumit	1000
	Tom	1000
share of residual profit	Sumit	8000
	Tom	4000

What was the total profit for the year?

- A \$7500
- B \$11 500
- C \$12 000
- D \$12 500

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50 Barak did not maintain a full set of accounting records in his first year of trading.

How did Barak calculate his credit sales?

- A closing trade receivables + cash received – discount allowed
- B closing trade receivables + cash received + discount allowed
- C closing trade receivables + cash received – discount received
- D closing trade receivables + cash received + discount received

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- 51** Harpreet is a credit customer of Suzanna. Harpreet's account in Suzanna's books shows a credit balance.

How could the credit balance have arisen?

- A** A cheque from Harpreet was dishonoured.
- B** Harpreet has overpaid his account.
- C** Interest was charged by Suzanna.
- D** Suzanna offered a trade discount.

☐
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- 52** Why is it necessary for a manufacturing business to make an adjustment for work in progress in its manufacturing account?

- 1 to calculate what is needed to complete production
- 2 to record all factory costs
- 3 to show only the cost of goods completed

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

☐
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- 53** On 1 February 2017 Katya's fixtures and fittings had a net book value of \$12 950. She purchased fixtures, \$2250, during the year. Depreciation for the year ended 31 January 2018 was \$4900.

What was the net book value of fixtures and fittings on 31 January 2018?

- A** \$5800
- B** \$7150
- C** \$10 300
- D** \$15 600

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- 54** The accounts of a business are prepared on the basis that the business will continue to operate for the foreseeable future.

Which accounting principle is being applied?

- A** accruals (matching)
- B** consistency
- C** going concern
- D** realisation

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- 55** A business provided the following information.

	\$
revenue	290 000
gross profit	90 000
profit for the year	70 000

What was the mark-up?

- A** 24.14%
- B** 31.03%
- C** 35.00%
- D** 45.00%

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- 56** Financial statements must provide information in time for financial decisions to be made.

Which accounting objective is being described?

- A** comparability
- B** relevance
- C** reliability
- D** understandability

☐
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57 Which item would be recorded as a credit entry in a purchases ledger control account?

A amounts paid to credit suppliers

☐

B contra with the sales ledger control account

☐

C discount received from credit suppliers

☐

D interest charged on late payment

☐

58 Which statement about the division of the ledger is **not** correct?

A Checking procedures can be introduced.

☐

B Fewer entries are needed in the sales and purchases accounts.

☐

C It is easier for reference and for locating accounts.

☐

D Work can be shared between two or more book-keepers.

☐

59 Which account may appear as a credit balance in a trial balance?

A carriage outwards

☐

B discount received

☐

C drawings

☐

D inventory

☐

60 Insurance prepaid, \$120, was treated as an accrual in the income statement.

Which effect did this have on the profit for the year?

A overstated \$120

☐

B overstated \$240

☐

C understated \$120

☐

D understated \$240

☐

IGCSE Accounting Partnerships

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1 State two advantages in going into partnership with business.

2 David and Edward are in partnership.
Where are Edward’s interest on drawings and interest on capital recorded in his current account?

	Interest on drawings	Interest on capital	
A	credit side	credit side	<input type="checkbox"/>
B	credit side	debit side	<input type="checkbox"/>
C	debit side	credit side	<input type="checkbox"/>
D	debit side	debit side	<input type="checkbox"/>

3 State two advantages of being a partner rather than a sole trader.

1

2

4 State one reason why a partnership agreement should be drawn up when a partnership is formed.

5 Ben and Tom Panesar formed a partnership on 1 February 2014.

The following information is available.

- 1 On 1 February 2014 Ben contributed \$90 000 capital and Tom contributed \$60 000. On 1 August 2014 Ben contributed a further \$10 000 capital.

Interest on capital is allowed at the rate of 3% per annum.

- 2 Tom was to be entitled to an annual salary of \$9000 per annum for the first four months of the first financial year. After that date the salary was to increase to \$12 000 per annum.
- 3 During the year ended 31 January 2015 Ben's drawings amounted to \$9800 and Tom's drawings amounted to \$20 800.
- 4 Interest on drawings for the year ended 31 January 2015 amounted to \$490 for Ben and \$1040 for Tom.
- 5 Profits and losses are shared $\frac{2}{3}$ to Ben and $\frac{1}{3}$ to Tom.
- 6 On 1 February 2014 Tom made a loan of \$15 000 to the business. The loan is repayable on 31 January 2020.

Loan interest of 4% per annum is to be credited to Tom's current account.

- 7 The profit for the year ended 31 January 2015 (after loan interest) was \$27 920.

REQUIRED

- (a) Prepare the profit and loss appropriation account for the year ended 31 January 2015.
See next page.

Ben and Tom Panesar
Profit and Loss Appropriation Account for the year ended 31 January 2015

	\$	\$
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Ben and Tom Panesar provided the following information on 31 January 2015.

	\$
Premises at book value	95 000
Machinery and equipment at book value	46 500
Inventory	28 750
Trade receivables	30 360
Trade payables	32 170
Other payables	1 390
Bank	5 870 debit

REQUIRED

(b) Prepare the statement of financial position at 31 January 2015.

The calculation of the current account balances may be shown within the statement of financial position or as separate calculations in the space provided below.

Ben and Tom Panesar
Statement of Financial Position at 31 January 2015

	\$	\$	\$
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5 Where do interest on capital and interest on partners' loans appear?

	Interest on capital	Interest on partners' loans	
A	appropriation account	appropriation account	<input type="checkbox"/>
B	appropriation account	income statement	<input type="checkbox"/>
C	income statement	appropriation account	<input type="checkbox"/>
D	income statement	income statement	<input type="checkbox"/>

6 Sanchi and Syed Mirza are in partnership, sharing profits and losses equally.

Their summarised income statement for the year ended 31 July 2015 was as follows.

	\$	\$
Revenue		45 000
Cost of sales		
Opening inventory	5 500	
Purchases	<u>33 500</u>	
	39 000	
Closing inventory	<u>6 500</u>	<u>32 500</u>
Gross profit		12 500
Expenses		<u>3 500</u>
Profit for the year		<u>9 000</u>

REQUIRED

(a) (i) State the formula for the calculation of the rate of inventory turnover.

(ii) Calculate the rate of inventory turnover.

The calculation should be correct to two decimal places.

(iii) Suggest two reasons why the rate of inventory turnover is lower than it was in the previous year.

1

2

(b) (i) State the basis on which inventory should be valued.

(ii) Name the accounting principle which is being applied when inventory is valued on this basis.

After the preparation of the appropriation account for the year ended 31 July 2015, Sanchi and Syed Mirza updated their capital and current accounts.

At 31 July 2015 the partners' accounts were as follows.
Capital accounts

Date	Details	Sanchi \$	Syed \$	Date	Details	Sanchi \$	Syed \$
				2014 1 Aug	Balance b/d	20 000	60 000
				2015 1 Feb	Current a/c	10 000	

Current accounts

Date	Details	Sanchi \$	Syed \$	Date	Details	Sanchi \$	Syed \$
2015 1 Feb	Capital a/c	10 000		2014 1 Aug	Balance b/d	16 000	4 000
31 Jul	Drawings	14 000	6 000	2015 31 Jul	Profit share	4 500	4 500

REQUIRED

(c) Prepare an extract from the statement of financial position at 31 July 2015 to show the total funds provided by the partners. See next page.

Extract from Statement of Financial Position at 31 July 2015

	Sanchi Mirza	Syed Mirza	Total
	\$	\$	\$
Capital account
Current account

(d) (i) Suggest two reasons why Syed Mirza would like to have interest on capital included in the partnership agreement.

- 1
- 2

(ii) Suggest one reason why Syed Mirza would like to have interest on drawings included in the partnership agreement.

(iii) Suggest one reason why Sanchi Mirza would like to have partner’s salary included in the partnership agreement.

6 Moses and Tobias Iyambo are in partnership. Their financial year ends on 31 October. They share profits and losses equally. A capital and a current account are maintained for each partner.

Despite having little accounting knowledge, Tobias prepared the following statement of financial position on 31 October 2015.

Statement of Financial Position 31 October 2015

	\$	\$
Premises at cost		80 000
Fixtures and equipment at book value 1 September 2014		24 800
Inventory		6 950
Trade receivables		5 200
Bank		1 500
Drawings – M Iyambo	8 000	
T Iyambo	<u>5 500</u>	<u>13 500</u>
		131 950
Trade payables		8 520
Provision for doubtful debts		130
Capital account 1 September 2014 – M Iyambo	65 000	
T Iyambo	<u>35 000</u>	100 000
Current account 1 September 2014 – M Iyambo	Debit 2 000	
T Iyambo	Credit <u>3 500</u>	<u>5 500</u>
		114 150
Balance		<u>17 800</u>
		<u>131 950</u>

The following matters were then discovered.

- 1 The income statement included adjustments for the following which should have been included in the statement of financial position:

	\$
Depreciation for the year on fixtures and equipment	3100
Expenses accrued	1130

- 2 Bank charges, \$70, had been correctly recorded in the income statement but had not been entered in the cash book.
- 3 Cash in hand, \$500, had not been included in the statement of financial position.
- 4 Profit for the year was \$18 000.

REQUIRED

- (a) Prepare a corrected statement of financial position at 31 October 2015 showing the different types of assets and liabilities, and the capital and current accounts of each partner.

The calculation of the current account balances may be shown within the statement of financial position or as separate calculations in the space provided on the next page.

Moses and Tobias
Corrected Statement of Financial Position at 31 October 2015

[illegible]

You may use the space below for your workings.

(b) State two items which Moses and Tobias Iyambo could have included in their partnership agreement in addition to profit-sharing ratios.

1

2

(c) State two ways in which Moses and Tobias Iyambo could obtain long-term funds to finance expansion of the business.

1

2

(d) Complete the following table by placing a tick () in the correct column to show how each of the following transactions would affect the working capital of Moses and Tobias Iyambo.

	Increase	Decrease	No effect
Selling surplus equipment			
Delay paying credit suppliers			
Paying surplus cash into bank			
Writing off a bad debt			

7 Why does a partnership prepare an appropriation account?

- A to allocate profit for the year to each partner

☐
- B to calculate interest on partners' loans

☐
- C to ensure that drawings are accounted for

☐
- D to record dividends paid and proposed

☐

8 A and B were in partnership. Their current accounts for the year were as follows.

	A	B		A	B
	\$	\$		\$	\$
drawings	7 500	2 500	balance b/d	10 200	12 000
balance c/d	11 700	17 500	interest on capital	2 000	1 000
			share of profit	7 000	7 000
	<u>19 200</u>	<u>20 000</u>		<u>19 200</u>	<u>20 000</u>
			balance b/d	11 700	17 500

What was the profit for the year?

- A \$7 000

☐
- B \$14 000

☐
- C \$17 000

☐
- D \$27 000

☐

9 Ann and Bindu have been in partnership for some years. Previously they had both been sole traders.

REQUIRED

(a) State **two** advantages to Ann and Bindu of being in partnership.

- 1.....

.....
- 2.....

.....

	\$	
Ann	5000	debit
Bindu	3000	credit

REQUIRED

(b) (i) State **one** reason why a current account is maintained for each partner.

.....

.....

(ii) State what the current account balance of each partner represents.

Ann.....

.....

Bindu

.....

The partnership agreement provides for:

interest on capital of 10% per annum
a partnership salary for Ann of \$4000 per annum
profits and losses to be shared between Ann and Bindu in a ratio of 3 : 2

The following additional information is available.

	\$
Capital accounts at 1 March 2016 – Ann	30 000
– Bindu	25 000
For the year ended 28 February 2017	
Profit for the year	24 500
Drawings – Ann	12 500
– Bindu	10 000

REQUIRED

(c) Prepare the partnership appropriation account for the year ended 28 February 2017.

Ann and Bindu
Appropriation Account for the year ended 28 February 2017

	\$	\$
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(d) Prepare the partners' current accounts for the year ended 28 February 2017. Balance the accounts and bring down the balances on 1 March 2017.

Ann and Bindu
Current accounts

Details	\$ Ann	\$ Bindu	Details	\$ Ann	\$ Bindu
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It was later discovered that some items in inventory at the year end had been damaged during the year. This would have reduced the actual value of inventory at the year end by \$750 if it had been recorded.

REQUIRED

(e) Complete the table to show the **effect** of this error on **each** of the following.

	effect (understated or overstated)	\$
gross profit		
profit for the year		
share of profit – Ann		
– Bindu		

10 Meena and Rafah are in partnership. Their financial year ends on 30 April.

When they started the business they drew up a partnership agreement which provided for:

Interest on capital at 3% per annum
 Interest on drawings at 4% per annum
 An annual salary of \$6000 for Meena
 Sharing of residual profits and losses in the ratio 2 : 1

On 1 May 2016 the balances on the partners' capital accounts were as follows:

	Meena	Rafah
	\$	\$
Capital account	40 000	20 000

On 1 November 2016 Rafah introduced a further \$10 000 into the business as capital.

The partners agreed that Meena's salary should be increased by \$1000 per annum starting on 1 November 2016.

Drawings and interest on drawings during the year ended 30 April 2017 were as follows:

	Meena	Rafah
	\$	\$
Drawings	7300	5100
Interest on drawings	292	204

The profit for the year ended 30 April 2017 was \$7534.

REQUIRED

(a) Prepare the profit and loss appropriation account for the year ended 30 April 2017. See next page.

Meena and Rafah
Profit and Loss Appropriation Account for the year ended 30 April 2017

	\$	\$
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(b) Prepare the current account of Meena for the year ended 30 April 2017. Balance the account and bring down the balance on 1 May 2017.

Meena
Current account

Date	Details	\$	Date	Details	\$
2016					
May 1	Balance b/d	1490
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- 11** Amina and Samara are in partnership. Their partnership agreement states that interest on capital is paid at the rate of 10% per annum and that profits and losses are shared in the ratio of 3:2 respectively.

The following information is available.

	\$
At 1 July 2016	
Capital accounts	
Amina	50 000
Samara	20 000
Current accounts	
Amina	4 000 credit
Samara	3 000 credit
For the year ended 30 June 2017	
Profit for the year	17 500
Drawings	
Amina	8 000
Samara	12 000

On 1 January 2017 Amina introduced additional capital of \$10 000 into the partnership in the form of cash.

REQUIRED

- (a) State what is meant by a 'partnership'.

.....

.....

- (b) Prepare the appropriation account for the year ended 30 June 2017.

Amina and Samara
Appropriation Account for the year ended 30 June 2017

	\$	\$
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- (c) Prepare the following ledger accounts for the year ended 30 June 2017. Balance the accounts and bring down the balances on 1 July 2017.

**Amina and Samara
Capital accounts**

Date	Details	Amina \$	Samara \$	Date	Details	Amina \$	Samara \$
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Current accounts

Date	Details	Amina \$	Samara \$	Date	Details	Amina \$	Samara \$
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(d) Explain how the financial statements would have been affected if Amina had made a loan to the partnership instead of introducing additional capital.

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Amina is not happy that Samara's drawings are greater than hers. Samara says she is entitled to take out of the business more drawings than Amina because she does a greater share of the work.

REQUIRED

(e) Explain **two** reasons why Amina is not happy that Samara's drawings are greater than hers.

1

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2

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12 Eli and Sumit are in partnership.
Balances on the partners' capital and current accounts on 1 November 2016 were:

	capital account	current account
	\$	\$
Eli	50 000	4 500
Sumit	40 000	1 800 debit

REQUIRED

(a) Explain why each partner has **both** a current and a capital account.

.....

.....

.....

.....

(b) State what the debit balance on Sumit's current account on 1 November 2016 represents.

.....

.....

The partnership agreement includes the following terms.

Annual salary to Eli	\$7500
Interest on capital	8% per annum
Interest on drawings	4%
Share of profits/losses	Eli 3: Sumit 2

Additional information

- 1 Profit for the year ended 31 October 2017 was \$12 500.
- 2 Additional capital, \$5000, was introduced by Sumit on 1 May 2017.
- 3 Drawings for the year were Eli, \$5000, Sumit, \$6500.

REQUIRED

(c) Suggest **one** reason why Eli and Sumit are charged interest on drawings.

.....

.....

(d) Prepare the partnership appropriation account for the year ended 31 October 2017. See next page.

Eli and Sumit
Appropriation Account for the year ended 31 October 2017

	\$	\$
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(e) Prepare an extract from the statement of financial position of Eli and Sumit at 31 October 2017 showing the partners' capital accounts and full details of the partners' current accounts.

Eli and Sumit
Extract from Statement of Financial Position at 31 October 2017

	\$ Eli	\$ Sumit	\$ Total
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13 Beth and Carla are in partnership, sharing profits and losses 3:2. They provided the following information at 31 January 2018.

	\$	\$
Profit for the year		42 000
Interest on capital: Beth	4 000	
Carla	<u>3 000</u>	7 000
Salary: Beth		10 000

What was the **total** amount credited to Beth's current account on 31 January 2018?

- A \$15 000
B \$25 200
C \$29 000
D \$39 200

☐

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14 Sumit and Theo have been in partnership for some years running a manufacturing business.

REQUIRED

(a) Complete the following table indicating with a tick (✓) where **each** item would appear in their financial statements.

	prime cost section of the manufacturing account	overheads section of the manufacturing account	income statement
office rent			
factory supervisor's salary			
carriage on raw materials			
purchase of finished goods			
salesman's commission			

(b) State **one** advantage and **one** disadvantage of Sumit and Theo being in a partnership.

Advantage

.....

Disadvantage

.....

(c) State **one** reason why it is helpful for a partnership agreement to be prepared.

.....

.....

On 1 January 2015 their balances were as follows.

The following further information was available for the year ended 31 December 2015.

REQUIRED

Sumit and Theo
Appropriation Account for the year ended 31 December 2015

[illegible]

- (f) Prepare Theo's current account for the year ended 31 December 2015. Balance the account and bring down the balance on 1 January 2016.

Theo
Current account

Date	Details	\$	Date	Details	\$
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- 15** David and Harold are in partnership. The partnership agreement states that David is to receive an annual salary of \$12 000 and that profits and losses are to be shared in the ratio 2:1.

The following balances were extracted from the partnership books on 31 March 2016.

	\$	
Capital accounts – David	80 000	
– Harold	25 000	
Current accounts – David	8 100	debit
– Harold	6 200	credit
Fixtures and fittings at cost	37 200	
Provision for depreciation of fixtures and fittings	11 160	
Inventory at 1 April 2015	36 000	
Trade receivables	7 000	
Trade payables	6 140	
Bank	12 100	debit
Sales (Revenue)	142 000	
Purchases	83 100	
Rent	12 000	
Other operating expenses	11 800	
Wages	16 500	
Drawings – David	32 000	
– Harold	14 700	

Additional information

- 1 Other operating expenses included \$500 for insurance which was paid in advance at 31 March 2016.
- 2 Inventory on 31 March 2016 amounted to \$26 800.
- 3 Fixtures and fittings are depreciated at the rate of 10% per annum on the straight line basis. A full year's depreciation is provided in the year of purchase. The current year's depreciation has not yet been provided.
- 4 All the fixtures and fittings were purchased when the partnership was formed.

REQUIRED

- (a) Prepare the appropriation account for the year ended 31 March 2016.

David and Harold
Appropriation Account for the year ended 31 March 2016

	\$	\$
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- (b) State why it might be useful if the partnership agreement contained a provision for interest on drawings.

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- 16 Benjamin and Cody’s partnership agreement states that Benjamin is to receive an annual salary of \$10 000 and that profits and losses are to be shared in the ratio 3:2. The partnership’s profit for the year is \$45 000.

What is Benjamin’s total allocation of profit?

- A \$14 000
- B \$23 000
- C \$27 000
- D \$31 000

☐

☐

☐

☐

- 17** Abid and Faiz are partners. They operate a secretarial agency. Their financial year ends on 31 March.

In addition to the capital invested, Abid made a 10-year loan to the business on 31 March 2016.

REQUIRED

- (a)** State **one** advantage of being a partner rather than a sole trader.

.....

.....

- (b)** State **one** disadvantage of being a partner rather than a sole trader.

.....

.....

- (c)** State **one** reason why a partner may make a loan to the business rather than investing additional capital.

.....

.....

- (d)** State **two** reasons why it is important for the partnership to have an adequate amount of working capital.

1

.....

2

.....

Abid and Faiz share profits and losses in the ratio of 2 : 1.

The balances on their accounts on 1 April 2015 were:

	Abid	Faiz
	\$	\$
Capital account	80 000	55 000
Current account	110 debit	800 credit

During the year ended 31 March 2016 the partners made the following drawings:

Abid	Faiz
\$	\$
6 000	7 000

The following is an extract from the profit and loss appropriation account for the year ended 31 March 2016.

		Abid and Faiz	
		Profit and Loss Appropriation Account for the year ended 31 March 2016	
		\$	\$
Profit for the year			13 170
Interest on drawings	Abid	120	
	Faiz	<u>140</u>	<u>260</u>
			13 430
Interest on capital	Abid	2 400	
	Faiz	<u>1 650</u>	
		4 050	
Salary	Faiz	<u>5 000</u>	<u>9 050</u>
Profit available for distribution			4 380

The following additional information is available on 31 March 2016.

	\$
Fixtures and equipment at book value	104 000
Motor vehicles at book value	28 520
Trade payables	11 900
Other payables	160
Trade receivables	19 320
Bank	16 080 debit
Loan from Abid	20 000

REQUIRED

(e) Prepare the statement of financial position at 31 March 2016.

The details of the partners' current accounts may be shown within the statement or as a separate calculation in the space provided.

You may use this space for the partners' current accounts

Abid and Faiz
Statement of Financial Position at 31 March 2016

[illegible]

- 18** Amina also brought in a delivery vehicle valued at \$8100 to the partnership and Doreen brought in fixtures and fittings valued at \$4800.

The partnership agreement stated that profits and losses would be shared in the ratio 2:1.

Depreciation was to be provided on a monthly basis, at the rate of 20% per annum for the delivery vehicle and 10% per annum for the fixtures and fittings.

In the first month of trading they had the following transactions.

- Jan 1** Paid 3 months' rent totalling \$2700, by cheque
- 2** Bought 1000 calculators for \$4 each from Bertie on credit
- 6** Sold 800 calculators for cash for \$10 each, keeping \$100 in hand and banking the remaining cash
- 13** Sold 50 calculators for \$10 each to Charlie on credit
- 20** Paid Bertie by cheque, deducting 3% discount for prompt payment
- 31** Paid wages for the month, \$800, by credit transfer

REQUIRED

- (a)** Prepare the cash book (bank columns only) for the month of January 2016. Bring down the balance on 1 February 2016.

Amina and Doreen Cash book (bank columns)

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....
.....
.....
.....

(b) (i) Calculate the gross profit for the month ended 31 January 2016.

.....

.....

.....

.....

.....

(ii) Calculate the profit for the month of January 2016.

.....

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.....

.....

19 A partnership had a profit for the year of \$60 000.

Interest on capital was

Jamila \$4 000

Kate \$2 000

Drawings were

Jamila \$18 000

Kate \$10 000

Profits were shared equally.

What was the total amount credited to Jamila's current account at the end of the year?

A \$13 000

B \$27 000

C \$29 000

D \$31 000

☐☐☐☐

20 Arun, a trader, admitted Rajiv as a partner on 1 July 2015.

REQUIRED

(a) State **one** advantage to Arun of admitting a partner.

.....

.....

(b) State **one** reason why it was useful for Arun and Rajiv to have a partnership agreement.

.....

.....

(c) State **two** items which might be included in a partnership agreement.

1

2

- (a)** Prepare the partnership's trial balance at 31 July 2016.
- Friedrich and Graham
Trial Balance at 31 July 2016

	\$
Bank.....	
Cash.....	
Fees received.....	
Rent paid.....	
Wages.....	
Administration costs.....	
Drawings – Friedrich.....	
– Graham.....	
Equipment.....	
Provision for depreciation.....	
Trade receivables.....	
Other payables.....	
Capital account – Friedrich.....	
– Graham.....	
Current account – Friedrich.....	
– Graham.....	

IGCSE Accounting Prepayments and Accruals

www.igcseaccounts.com



All questions are the copyright of Cambridge International Examination Board.

1 Explain the following accounting principles. Give one example of each principle.

(a) accruals (matching)

.....

.....

.....

Example

.....

(b) business entity

.....

.....

.....

Example

.....

2 Complete the table by placing a tick () to indicate how the adjustment for goods for own use affects the following ratios.

	Increase	Decrease
Gross profit margin		
Rate of inventory turnover (in days)		
Net profit margin		
Return on capital employed		

3 An insurance account shows an amount paid for the year of \$2000 and a prepayment at the end of the year of \$400.

Which entry appears in the insurance account to record the transfer to the income statement?

- A credit entry of \$1600

B credit entry of \$2400

C debit entry of \$1600

D debit entry of \$2400
- ☐

☐

☐

☐

- 4 On 1 May 2014 Samuel’s provision for doubtful debts account showed a balance of \$450. On 30 April 2015 his trade receivables amounted to \$9750. This included a debt of \$250 which had gone bad and should be written off. Samuel provides for doubtful debts at a rate of 4%.

REQUIRED

Prepare Samuel’s provision for doubtful debts account. Bring down the balance on 1 May 2015.

Samuel Provision for doubtful debts account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....

- 5 (a) State where the entry for doubtful debts will appear in the income statement.

.....

(b) Name the two accounting principles Samuel is applying by maintaining a provision for doubtful debts account.

1

2

- 6 Grace Zindi runs a secretarial agency. Her financial year ends on 31 July.
She provided the following information on 31 July 2015.

	\$
Capital 1 August 2014	85 000
Cash drawings	15 500
Fees from clients	28 500
Wages	21 600
Rates and insurance	3 900
General expenses	990
Heat and light	710
Commission receivable	7 600
Motor vehicles at cost 1 August 2014	12 500
Provision for depreciation of motor vehicles 1 August 2014	4 500
Office equipment at valuation 1 August 2014	11 400

Additional information

- 1 At 31 July 2015
Insurance prepaid amounted to \$300
Commission receivable of \$250 was outstanding
Fees from clients of \$3400 was outstanding.
- 2 Grace Zindi lives in a flat above the business premises. One quarter of the rates and insurance relate to the flat.
- 3 On 31 July 2015 Grace Zindi decided to create a provision for doubtful debts of 1% of the amount owed by clients.
- 4 The motor vehicles are being depreciated by 20% per annum on the reducing (diminishing) balance method.
- 5 The office equipment was valued at \$14 500 on 31 July 2015.
Additional office equipment costing \$6900 was purchased during the year. No office equipment was disposed of during the year.

(a) Prepare Grace Zindi's income statement for the year ended 31 July 2015.

[illegible]

(b) Prepare the capital account for Grace Zindi for the year ended 31 July 2015.

Balance the account and bring down the balance on 1 August 2015.

Grace Zindi
Capital account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....
.....

(c) State the meaning of the accruals (matching) principle. Give one example of how this principle was applied in the preparation of the income statement in (a).

Meaning

.....

.....

Example

.....

(d) State the meaning of the business entity principle. Give one example of how this principle was applied in the preparation of the income statement in (a).

Meaning

.....

.....

Example

.....

- 7 Name one other accounting principle which is applied when charging depreciation.

.....

- 8 State how providing depreciation is an application of the accounting principle of accruals (matching).

.....

.....

.....

- 9 State how reducing the value of inventory would be an application of the accounting principle of accruals (matching).

.....

.....

- 10 Msamati Manufacturing provided the following information for the year ended 31 January 2017.

	\$
Revenue	816 370
Purchases of finished goods	17 200
Commission received	2 700
Administration expenses	38 160
Selling expenses	28 270
Inventory of finished goods 1 February 2016	56 120
Office equipment at cost	32 000
Delivery vehicles at cost	68 000
Provision for depreciation	
Office equipment	14 400
Delivery vehicles	17 000
Loan from A1 Loans received 1 April 2016	15 000
At 31 January 2017	
Inventory of finished goods	61 340
Commission receivable outstanding	130
Loan interest at 5% per annum is outstanding	

(b) Explain how the accruals (matching) principle has been applied in the preparation of the income statement. Illustrate your answer by reference to **one** of the items in your answer to **(a)**.

.....

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11 Lahiru’s financial year ends on 28 February. He maintains a provision for doubtful debts of 4% of trade receivables at the end of each year.

On 1 March 2016 Lahiru’s provision for doubtful debts amounted to \$500. On 28 February 2017 his trade receivables owed \$17 900.

REQUIRED

(a) Prepare the provision for doubtful debts account for the year ended 28 February 2017. Balance the account and bring down the balance on 1 March 2017.

Lahiru
Provision for doubtful debts account

Date	Details	\$	Date	Details	\$
.....
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.....
.....
.....
.....

(b) Explain how Lahiru is applying the accounting principle of prudence by maintaining a provision for doubtful debts.

.....

.....

.....

(c) Explain how Lahiru is applying the accounting principle of accruals (matching) by maintaining a provision for doubtful debts.

.....

.....

.....

- 12 Rashida is a wholesaler. Her financial year ends on 30 September. She provided the following information.

	\$
At 1 October 2016	
Fixtures and fittings at cost	65 000
Provision for depreciation of fixtures and fittings	23 500
Office equipment at valuation	21 000
Inventory	37 150
Trade receivables	34 800
During the year ended 30 September 2017	
Revenue	572 000
Purchases	455 900
Returns by customers	1 840
Returns to suppliers	2 750
Carriage inwards	6 940
Wages	74 200
General expenses	1 300
Rates and insurance	2 800
Loan interest	400
Office equipment	2 800

Additional information

- 1 Inventory at 30 September 2017 was valued at \$41 160.
- 2 A loan of \$20 000 was received on 1 April 2017. Interest is charged at 6% per annum.
- 3 Rashida lives in a flat above the business premises. One quarter of the rates and insurance relate to the flat.
- 4 The fixtures and fittings are being depreciated at the rate of 20% per annum using the reducing (diminishing) balance method.
- 5 The office equipment is revalued at the end of each financial year. The value at 30 September 2017 was \$20 600.
- 6 The trade receivables include \$300 which should be written off. A provision for doubtful debts of 2% of the remaining amount should be created.

REQUIRED

- (a) Prepare the income statement for the year ended 30 September 2017.

[illegible]

(b) Explain how the accruals (matching) principle has been applied in the preparation of the income statement. Support your answer by reference to **one** of the items in your answer to **(a)**.

.....

.....

.....

.....

.....

.....

(c) Explain how the business entity principle has been applied in the preparation of the income statement. Support your answer by reference to **one** of the items in your answer to **(a)**.

.....

.....

.....

.....

Rashida was disappointed with the performance of her business in the year ended 30 September 2017 and decided to compare her financial statements with those of another business.

REQUIRED

(d) Explain **two** factors Rashida should consider when comparing her financial statements with those of another business.

1.....

.....

.....

2.....

.....

.....

- 13** The accounts of a business are prepared on the basis that the business will continue to operate for the foreseeable future.

Which accounting principle is being applied?

- A** accruals (matching)
- B** consistency
- C** going concern
- D** realisation

- 14** Insurance prepaid, \$120, was treated as an accrual in the income statement.

Which effect did this have on the profit for the year?

- A** overstated \$120
- B** overstated \$240
- C** understated \$120
- D** understated \$240

Prepared by D. El-Hoss

IGCSE Accounting Ratios

www.igcseaccounts.com



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1 Joda Limited provided the following information at 31 January 2015.

	\$
Inventory	18 150
Bank overdraft	7 150
Trade receivables	15 300
Trade payables	10 960
Petty cash	120

REQUIRED

(a) Calculate the current ratio. The calculation should be correct to two decimal places.

.....

.....

.....

(b) Comment on your answer to (d).

.....

.....

(c) Calculate the quick ratio. The calculation should be correct to two decimal places.

.....

.....

.....

(d) Suggest one reason why the quick ratio is lower than it was in the previous financial years.

.....

.....

- 2 Kelbrook Limited provided the following information at 30 September 2015.

	\$
Non-current assets at book value	102 200
Bank overdraft	6 100
Inventory	5 100
Trade receivables	8 500
Trade payables	4 300
Other payables	1 400

REQUIRED

- (a) Complete the following table.

Current ratio	
Workings	Answer to two decimal places

Quick ratio	
Workings	Answer to two decimal places

Return on capital employed (ROCE)	
Workings	Answer to two decimal places

The ratios calculated at 30 September 2014 were:

Current ratio	2.51 : 1
Quick ratio	1.57 : 1
Return on capital employed (ROCE)	12.55%

REQUIRED

(c) Comment on the change in the current ratio.

.....

.....

.....

(d) Suggest one reason for the change in the quick ratio.

.....

.....

(e) Suggest two ways to improve the return on capital employed (ROCE).

- 1
- 2

3 The partners provided the following information.

	At 30 April 2016	At 30 April 2017
Current ratio	1.85 : 1	1.68 : 1
Quick (acid test) ratio	1.01 : 1	0.78 : 1
		\$
Inventory		19 400
Trade receivables		16 900
Trade payables		17 450
Bank overdraft		4 100

REQUIRED

(a) Explain why the partners calculated the quick (acid test) ratio as well as the current ratio.

.....

.....

.....

(b) Suggest two reasons for the change in the current ratio.

- 1
-
- 2
-

The partners later discovered that no entry had been made for a cheque received from a credit customer for \$1800.

REQUIRED

(c) Calculate the current ratio after this transaction had been recorded in the accounting records. The calculation should be correct to two decimal places.

.....

.....

.....

.....

(d) Suggest two possible problems the partners may encounter if the working capital is inadequate.

- 1
-
- 2
-

(e) Suggest two ways in which the partners could increase the working capital.

- 1
-
- 2
-

4 Shiromi’s financial year ends on 30 April. She provided the following information.

	At 30 April 2016	At 30 April 2017
Current ratio	1.49 : 1	0.92 : 1

All purchases are made on credit terms and all sales are made for cash.

REQUIRED

(a) Suggest two reasons for the change in the current ratio.

- 1
-
- 2
-

(b) Suggest two problems Shiromi may encounter because her working capital is inadequate.

- 1
-
- 2
-

5 The accountant calculated the following ratios for Vinita’s business on 31 December 2016.

Current ratio	3.62 : 1
Quick ratio	0.59 : 1

REQUIRED

(a) Comment on Vinita’s current ratio.

-
-
-

(b) Explain why the quick ratio is a better measure of liquidity than the current ratio.

.....

.....

.....

(c) Suggest two actions Vinita could take to increase her quick ratio.

1

.....

2

.....

6 Tyler had the following assets and liabilities on 31 July 2017.

	\$
trade payables	2900
other payables	900
non-current assets	8200
inventory	3000
trade receivables	2200
other receivables	400
bank overdraft	600

Tyler was concerned about his working capital position.

REQUIRED

(a) State how working capital is calculated.

.....

(b) Calculate (to two decimal places) the current ratio on 31 July 2017.

.....

.....

.....

.....

(c) Name one other ratio which would help Tyler to assess his liquidity position.

.....

(d) Explain two reasons why Tyler is right to be concerned about his working capital position.

1

.....

.....

2

.....

.....

7 Hanif’s financial year ends on 31 July. He provided the following information on 31 July 2017.

	\$
Inventory	87 500
Trade payables	81 500
Trade receivables	56 200
Petty cash	100
Bank overdraft	17 100

REQUIRED

(a) Calculate the current ratio. The calculation should be correct to two decimal places.

.....

.....

.....

.....

(b) Comment on your answer to (a).

.....

.....

.....

.....

(c) Calculate the quick ratio. The calculation should be correct to two decimal places.

.....

.....

.....

.....

(d) Suggest two reasons why the quick ratio is lower than it was at the end of the previous financial year.

1

.....

2

.....

(e) Suggest **two** problems Hanif may encounter if his working capital is inadequate.

1

.....

2

.....

(f) Complete the table by placing a tick (✓) in the correct column to show how **each** of the following transactions would affect the current ratio and the quick ratio.

The first one has been completed as an example.

	current ratio			quick ratio		
	increase	decrease	no effect	increase	decrease	no effect
introduce \$20 000 additional capital	✓			✓		
obtain short-term bank loan \$10 000						
sell half the inventory at cost price						

8 Nikita’s brother, Sunil, provided the following information about his business at 31 January 2018.

	\$
Non-current assets	89 350
Inventory	6 800
Trade receivables	12 500
Bank	1 010 debit
Trade payables	15 200
Long-term loan	8 000

REQUIRED

(a) State what is measured by the current ratio.

.....

.....

(b) Calculate the current ratio for Sunil’s business at 31 January 2018. The calculation should be correct to two decimal places.

.....

.....

.....

(c) Suggest two reasons why Nikita cannot compare her current ratio with that of Sunil.

1

.....

2

.....

(d) Suggest two ways in which Nikita might improve her working capital position.

1

.....

2

.....

- 9** The financial year of CD Limited ends on 30 April. The following information was provided on 30 April 2018.

	\$		\$
Non-current assets (book value)	227 000	Ordinary share capital	
Inventory	29 000	(300 000 shares of \$0.50)	150 000
Trade receivables	22 000	General reserve 1 May 2017	30 000
Bank	11 000	Retained earnings 1 May 2017	6 000
		Profit for the year ended	
		30 April 2018	13 000
		5% Debentures (repayable 2025)	50 000
		Trade and other payables	40 000

The current ratio of CD Limited on 30 April 2018 was 1.55 : 1.

The company is anxious to increase this ratio and several proposals are being considered.

REQUIRED

- (a)** State the formula for the calculation of the current ratio.

.....

- (b)** Complete the table by placing a tick (☐) in the correct column to indicate the effect on the current ratio of each proposal.

The first one has been completed as an example.

	Increase	Decrease	No effect
Sell surplus non-current assets for cash	✓		
Sell goods on cash terms only			
Obtain a further long-term loan			
Buy additional non-current assets on credit rather than paying immediately			
Persuade trade receivables to pay half of their debts immediately in return for 3% cash discount			
Pay trade payables after 2 months instead of after 1 month			

10 Aretta opened a clothes store on 1 April 2018.

She invested \$12 800 as capital. Her father gave her a loan of \$7200, repayable on 1 October 2018. Interest of 5% per annum was to be paid on the loan at the end of each month.

The credit side of Aretta’s cash book for April 2018 was as follows.

		\$
April 1	Shop fixtures and fittings	9 500
	Credit suppliers	15 000
	Rent of premises for 6 months	2 400
	Insurance for 12 months	3 600
April 30	Operating expenses	980
	Wages	1 900
	Drawings	1 500

Additional information

- 1 All purchases were made on credit terms and all sales were made for cash.
- 2 Aretta’s gross profit margin was 25%.
- 3 No record was made of cash sales.
- 4 Aretta decided to depreciate the shop fixtures and fittings at 12% per annum using the straight line (equal instalment) method.
- 5 On 30 April 2018 inventory was valued at \$4080 and \$810 was owed to credit suppliers.

On 30 April 2018 Aretta was concerned that her quick (acid test) ratio was very low. She considered six proposals to improve the ratio.

REQUIRED

(a) State the formula for the calculation of the quick (acid test) ratio.

.....

.....

(b) Complete the following table by placing a tick (3) in the correct column to indicate the effect of each proposal on Aretta’s quick (acid test) ratio.

The first one has been completed as an example. See next page.

proposal		effect on quick ratio		
		increase	decrease	no effect
1	purchase a motor vehicle on credit		3	
2	pay credit suppliers early to receive cash discount			
3	obtain a bank overdraft and repay the loan immediately			
4	arrange for the loan to be extended to 2 years			
5	sell on credit terms rather than on cash terms			
6	reduce inventory by selling half at cost price			

(c) State which proposal would affect the quick (acid test) ratio but not affect the current ratio. Explain the reason for your answer.

Proposal number

Reason

.....

.....

.....

11 Annie is a wholesaler of ladies’ clothing, selling to retail stores on credit terms. She provided the following information at the end of her second year of trading on 31 December 2015.

	\$
Revenue	40 000
Cost of sales	30 500
Profit for the year	3 800
Inventory 1 January 2015	3 600
Inventory 31 December 2015	4 800
Capital employed 1 January 2015	92 000
Trade receivables at 31 December 2015	4 350

Annie decided to compare her results with those of her two brothers, Mark and Tony, who formed a partnership six years ago to operate a wholesale food business.

REQUIRED

(a) Complete the table on the opposite page to show the ratios for Annie’s business for the year ended 31 December 2015.

You may use the space below for your workings.

Workings

Ratio	Annie	Mark and Tony
Percentage of gross profit to revenue	23.75%	16.50%
Percentage of profit for the year to revenue	9.50%	11.35%
Rate of inventory turnover (to two decimal places)	..... times	20.15 times
Percentage of profit for the year to opening capital employed (ROCE) (to two decimal places)	..... %	10.35%
Trade receivables collection period (rounded up to the next whole day)	..... days	34 days

(b) Explain one reason for the difference between the percentages of gross profit to revenue of Annie and her brothers.

.....

.....

.....

(c) Comment on the possible effects of Annie increasing the selling price of her goods.

.....

.....

.....

(d) State whose business had better control over its expenses. Give a reason for your answer.

Business

Reason

.....

(e) Explain one reason for the difference in the rate of inventory turnover.

.....

.....

.....

REQUIRED

(f) Complete the following table by placing a tick (✓) in the correct column to show how each of the courses of action would affect Annie’s current ratio.

	Increase	Decrease	No effect
Create a provision for doubtful debts			
Delay payments to credit suppliers			
Obtain a long-term loan			
Obtain permission from the bank to increase the overdraft			

12 Which statements are true about the current ratio?

- 1 It can be higher than the quick ratio.
- 2 It can be lower than the quick ratio.
- 3 It differs from the quick ratio because of bank overdraft.
- 4 It differs from the quick ratio because of inventories of goods.

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

☐

☐

☐

☐

13 Malorie provided the following information.

	30 June 2015		30 June 2016
	\$		\$
Bank	400	debit	1300
Trade receivables	850		1400
Trade payables	750		700
Inventory	550		?
Current ratio	?		1.2 : 1

REQUIRED

Calculate:

- (i) Malorie’s current ratio at 30 June 2015 (to one decimal place)

.....

.....

.....
- (ii) Malorie’s inventory at 30 June 2016

.....

.....

.....

14 Joey is a trader. His financial year ends on 30 September. He provided the following information for the year ended 30 September 2016.

	\$
Revenue	290 000
Cost of sales	224 025
Expenses	38 860

Joey obtained the trading results of DT Traders, another business in the same town, and decided to compare the profitability of the two businesses.

REQUIRED

- (a) Complete the following table to show the ratios for Joey's business. The calculations should be to **two** decimal places.

Ratio	Joey	DT Traders
Percentage of gross profit to revenue (gross profit margin)	..... %	18.50%
Percentage of profit for the year to revenue (net profit margin)	..... %	10.25%

You may use the space below for your workings.

Workings

Prepared by D. El-Hoss

IGCSE Accounting Short Answer Questions



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1 Explain the meaning of the following terms.

Bad debts

.....

.....

.....

Bad debts recovered

.....

.....

.....

Provision for doubtful debts

.....

.....

.....

2 Suggest two ways in which the risk of bad debts may be reduced.

1

.....

2

.....

3 Explain why maintaining a provision for doubtful debts is an application of the principle of prudence.

.....

.....

.....

4 Complete the following sentences, using these phrases:

assets and liabilities
at a particular date
for a period of time
incomes and expenses

An income statement shows and is
prepared

A statement of financial position shows and is
prepared

5 Complete the following table indicating with a tick (✓) whether each item is an asset, liability, income or expense.

	asset	liability	income	expense
bank loan				
insurance				
equipment				
depreciation charge				

6 On 1 March 2017, Arundhati paid rent, \$6000, for the four-month period ending 30 June 2017. She prepared her financial statements on 31 March 2017.

REQUIRED

State the amounts for rent which were included in the financial statements.

Income statement \$.....

Statement of financial position \$.....

- 7 Arundhati maintains a sales ledger, a purchases ledger and a nominal (general) ledger.

REQUIRED

State **one** reason why Arundhati maintains these three divisions of her ledger.

.....
.....

- 8 (i) State which type of accounts are maintained in the sales ledger and purchases ledger.

Sales ledger.....

Purchases ledger

- (ii) Give **one** example of an account which might be found in the nominal (general) ledger.

.....

- 9 Name **two** books of prime (original) entry which Arundhati may keep.

1.....

2.....

- 10 State whether the following sentence is true or false.

	true or false
The recording of financial transactions is called accounting.	.....

11 Pich sold goods, \$5000, on credit to Roger.

REQUIRED

(a) State the double entry needed to record this transaction

(i) in the books of Pich

debit account	\$	credit account	\$
.....

(ii) in the books of Roger.

debit account	\$	credit account	\$
.....

(b) Name the document issued when this transaction took place and the person who issued it.

Document

Roger paid by credit transfer, taking 2½% cash discount, on 1 April 2017.

REQUIRED

(c) State the double entry needed to record the transaction on 1 April 2017 in Pich's books of account.

debit account(s)	\$	credit account(s)	\$

(d) (i) Name the account in which this discount was recorded in Roger's books.

.....

(ii) Name the financial statement in which Roger would record this discount.

.....

12 Complete the following sentences.

A is issued by the supplier when goods are returned.

A may be issued by the customer when goods are returned.

13 G Limited is a manufacturing business.

REQUIRED

Complete the following table, indicating with a tick (✓) in which section of G Limited's financial statements **each** item is included. The first has been completed as an example.

	factory overheads	distribution costs	administrative expenses
factory rent	✓		
carriage outwards			
depreciation of office equipment			
factory supervisor's salary			
repairs of delivery vehicles			

- 14** Shiromi is hoping to increase her working capital and is considering four courses of action.

REQUIRED

Complete the table by placing a tick (✓) in the correct column to show how **each** course of action would affect Shiromi's working capital.

	Increase	Decrease	No effect
Take out a short-term bank loan			
Repay a long-term bank loan			
Sell goods on credit terms instead of for cash			
Obtain a higher rate of cash discount			

- 15** Waheed's financial year ends on 31 March. He provided the following information.

All goods are bought and sold on credit terms. A cash discount is received from credit suppliers if payment is made within 45 days. A cash discount is allowed to credit customers if payment is made within 30 days.

	At 31 March 2016	At 31 March 2017
Trade receivables collection period	33 days	29 days
Trade payables payment period	44 days	46 days

REQUIRED

State whether Waheed would be satisfied with the change in the collection period for trade receivables. Give a reason for your answer.

Satisfied?

Reason

.....

16 State one advantage to Waheed's suppliers of the change in the payment period.

.....

.....

.....

State one disadvantage to Waheed's suppliers of the change in the payment period.

.....

.....

.....

Comment on how a collection period of 29 days and a payment period of 46 days may affect Waheed's liquidity position.

.....

.....

.....

.....

17 Amitav sells goods on credit to Barry. An invoice is issued.

REQUIRED

(a) Name the person who issues the invoice and the person who receives it.

Person issuing

Person receiving

(b) State why a credit note may later be issued.

.....

.....

(c) Name the book of prime entry in which Barry would record a credit note from Amitav.

.....

(d) State **one** reason why both Amitav and Barry would keep books of account.

.....

.....

(e) State the meaning of the accounting principle of duality.

.....

.....

(f) Complete the following sentences using the words and phrases 'credit', 'debit', 'income statement' and 'statement of financial position'.

An expense account usually has a..... balance.

At the end of the financial year the expense for the year is transferred to
the..... This transfer is recorded with an entry on
the..... side of the expense account. Any balance
remaining on the account is included in the

(g) State what is meant by the accounting objective of understandability.

.....

.....

(h) State how International Accounting Standards help to achieve understandability.

.....

.....

- (i) Name **two** interested parties who might wish to look at the financial statements of a business. Give a reason in **each** case.

	Interested party	Reason
1		
2		

- 18** Vinita's accountant prepared a set of financial statements at the end of her first year of trading on 31 December 2016.

Vinita was not familiar with some of the terms used in these statements.

REQUIRED

- (a) State the meaning of **each** of the following terms.

- (i) Income statement

.....

.....

- (ii) Statement of financial position

.....

.....

(iii) Non-current assets

.....

.....

.....

(iv) Non-current liabilities

.....

.....

(v) Capital

.....

.....

(b) Give **one** example of an intangible asset.

.....

19 (a) State the meaning of owner's equity.

.....

.....

(b) Name the accounting principle applied in **each** of the following situations.

	Principle
A trader withdraws goods for his own use and records this in the drawings account.	
A book-keeper writes off debts which will not be paid to the business.	
An accountant does not include staff morale as an asset in the statement of financial position.	
A business uses the double entry system of book-keeping to record transactions.	

(c) Name the ledger in which the purchases account is found.

.....

(d) Name the type of organisation which would prepare a statement of changes in equity.

.....

(e) Complete the following sentence.

Items which a business owns or which are owed to the business are known as

.....

- 20** Jake manufactures CD players. He has a credit customer, Rashida. They have exchanged an invoice, a debit note, a credit note and a statement of account.

REQUIRED

Complete the following table for the documents exchanged between Jake and Rashida. The first item has been completed as an example.

document	reason for issue	name of person issuing document
invoice	<i>to record goods sold on credit</i>	<i>Jake</i>
debit note		
credit note		
statement of account		

- 21** Complete the following table by writing True or False against **each** statement.

	True or False
Work in progress may appear in Jake's manufacturing account.	
Prime cost appears in Jake's income statement.	
Jake's business is a service business.	

- 22** (a) Name the accounting principle applied when using the double entry system of book-keeping.

.....

- (b) Complete the following table by writing **either** True or False against **each** statement.

	True or False
Carriage inwards appears on the debit side of a trial balance.	
Inventory is included in current assets.	
A suspense account represents the difference between the cash book balance and the balance on the bank statement.	
A sole trader has limited liability.	
The sales account appears in the nominal (general) ledger.	

- (c) Complete the following sentence using the words 'increases' and 'reduces'.

An adjustment for a prepaid cost expenses and profit.

- (d) State **one** purpose of accounting.

.....

.....

- (e) Complete the following table. State **one** type of organisation to which **each** of the accounting terms relates. The first has been completed as an example.

term	organisation
prime cost	<i>manufacturing business</i>
accumulated fund	
dividend paid	
interest on capital	
work in progress	
drawings	

- (f) Name the financial statement where discount received is recorded. State how it is shown there.

.....

.....

(g) State **one** difference between an income statement and a statement of financial position.

.....

.....

.....

.....

(h) Name **one** user who might be interested in the financial statements of a club or society.

.....

(i) Name **one** factor which might limit the usefulness of the financial statements.

.....

.....

23 (a) State **one** reason why a trader maintains books of prime entry.

.....

.....

(b) Name the book of prime entry which also functions as a ledger account.

.....

- 24** Mahendra's financial year ends on 31 August. He buys and sells on both cash and credit terms and maintains a full set of accounting records.

Mahendra prepares control accounts at the end of each month.

REQUIRED

- (a) Complete the following table. Use a tick (✓) to show where **each** of the following items would appear in Mahendra's sales ledger control account. If the item does **not** appear place a tick in the "no entry" column.

	debit	credit	no entry
opening balance owed by credit customers			
credit sales			
cash sales			
provision for doubtful debts			
bad debts written off			
cash discount allowed to credit customers			
trade discount allowed to credit customers			
contra between sales and purchases ledgers			
cash received from credit customers			

- (b) Name the book of prime (original) entry which Mahendra would use to obtain the following information when preparing his purchases ledger control account.

	book of prime (original) entry
returns to credit suppliers	
discount received	
interest charged by credit supplier	
contra entry to sales ledger control account	

- (c) (i) State the meaning of a contra entry in connection with control accounts.

.....

- (ii) State why such an entry may be necessary.

.....

- (d) Suggest **two** reasons why it is possible to have a debit balance on a purchases ledger control account.

1

.....

2

.....

- 25** Kumar supplies goods to Simran on credit. Some documents were exchanged between them during August 2017.

REQUIRED

- (a) Complete the table to name the person who issued **each** document. The first item has been completed as an example.

document	name of person issuing the document
invoice	<i>Kumar</i>
debit note	
credit note	
statement of account	
cheque	

- (b) State the purpose of a debit note.

.....

.....

- (c) State the book of prime (original) entry in which Kumar would record the credit note.

.....

- (d) Name the ledger in which Kumar maintains Simran's account.

.....

Simran is a regular customer. Kumar allows Simran a discount for buying in bulk.

REQUIRED

- (e) Name the type of discount offered by Kumar.

.....

- (f) State where Kumar would record this discount.

.....

The following are details of the credit notes issued by Kumar in December 2017.

Date	Customer	Credit note number	\$
2017 Dec 3	Sam	C1015	295
12	Saira	C1016	103
31	Total for December		398

REQUIRED

(g) State where Kumar will post

(i) the total of the credit notes for December

.....

(ii) the individual credit notes

.....

Kumar has received positive feedback about his customer service. No entry has been made in the accounting records to reflect this success.

REQUIRED

(h) Name and explain the accounting principle Kumar has applied.

Name.....

Explanation.....

.....

.....

(i) Complete the following to show the accounting equation.

equals assets minus

(j) Complete the table by placing a tick (3) to indicate how **each** item affects the owner's capital. The first one has been completed as an example.

item	increase	decrease
capital introduced	3	
drawings		
profit for the year		

26 Kamika is a clothing wholesaler who buys and sells on both cash and credit terms. She maintains a full set of accounting records and prepares monthly control accounts.

REQUIRED

(a) State **two** advantages to Kamika of preparing a monthly sales ledger control account.

- 1.....

- 2

(b) State **two** reasons why it is possible for Kamika to have a credit balance on her sales ledger control account.

- 1

- 2

(c) Complete the following table. Place a tick (3) to show where **each** item would appear in Kamika's **purchases ledger control account**. If the item would not appear, place a tick (3) in the no entry column.

	debit	credit	no entry
opening balance owed to credit suppliers			
credit purchases			
cash purchases			
cash discount received			
trade discount received			
cheques paid to credit suppliers			
interest charged by credit suppliers			
returns to credit suppliers			
contra between sales and purchases ledgers			

Kamika applies all the accounting principles when maintaining accounting records and preparing financial statements.

REQUIRED

(d) Name the accounting principle applied in **each** of the following situations.

	principle
Kamika uses the double entry system of book-keeping when recording transactions in her ledgers.	
Kamika adjusted the charge for insurance in the income statement for an amount prepaid at the year-end.	
Kamika adjusts her provision for doubtful debts at the end of each year so it is always 3% of her trade receivables.	
Kamika intends to trade for several years and values her premises at net book value, not expected sales value, in her statement of financial position.	
Kamika did not make any entry in her accounting records when a competitor reduced his prices even though it may affect her sales.	
Kamika did not make any entry in her accounting records when a customer asked for goods to be put aside for him to collect sometime in the future.	

27 J Smith is a wholesaler. He provided the following incomplete document on 28 February 2018.

<p style="text-align: center;">J Smith Wholesale Supplier 112 Long Road Westown</p> <p>W Jones High Street Eastford</p> <p style="text-align: right;">28 February 2018</p>				
Date	Reference	Debit \$	Credit \$	Balance \$
2018 Feb 1	Balance due			700
11	Goods	450		?
19	Returns		115	?
28	Payment		686	?
	Discount		14	?

REQUIRED

(a) (i) State the name of the document.

.....

(ii) Calculate the balance on the document at the end of February 2018.

.....

.....

(iii) Calculate the percentage of the discount on 28 February.

.....

.....

.....

(iv) Name the type of discount on 28 February.

.....

(b) Complete the following table by placing a tick (✓) in the correct column to indicate how J Smith would record the issue of this document in his accounting records.

debit entry in ledger account of W Jones	credit entry in ledger account of W Jones	no entry would be made

(c) Complete the following table relating to the transaction of 11 February.

document issued	name of person issuing document	entries made by W Jones	
		account debited	account credited
.....

(d) Name the book of prime (original) entry in which **each** trader would record the transaction of 19 February.

book of prime (original) entry used by J Smith	.....
book of prime (original) entry used by W Jones	.....

Prepared by D. El-Hoss

IGCSE Accounting Sole Trader

www.igcseaccounts.com



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- 1 Rani is a sole trader. On 31 December 2013 her statement of financial position was as follows.

Rani
Statement of Financial Position at 31 December 2013

	\$	\$
Non-current assets		
Fixtures and fittings (at book value)		<u>12 000</u>
Current assets		
Inventory		6 380
Trade receivables	1 200	
Provision for doubtful debts	<u>(36)</u>	
		1 164
Bank		<u>110</u>
		<u>7 654</u>
Total assets		<u>19 654</u>
Capital		<u>18 454</u>
Current liabilities		
Trade payables		910
Other payables		<u>290</u>
		<u>1 200</u>
Total liabilities		<u>19 654</u>

At the end of December 2014 the book-keeper ran away and it was found that no detailed records had been kept. The following information, however, was available for the year ended 31 December 2014.

- 1 Fixtures and fittings are depreciated at 20% per annum on the net book value. No fixtures or fittings had been bought during the year.
- 2 A delivery van costing \$15 000 had been bought during the year. It was to be depreciated at the rate of 40% a year on the reducing (diminishing) balance basis. A full year's depreciation is to be provided in the year of purchase.
- 3 The provision for doubtful debts is to stay at the same percentage.
- 4 Other assets and liabilities at 31 December 2014 were as follows.

	\$
Inventory	8340
Trade receivables (before provision)	1600
Bank	90 debit
Trade payables	1100
Accrued electricity	190
Accrued wages	230

- 5 Drawings amounted to \$11 600.

REQUIRED

(a) Calculate the net assets of the business at 31 December 2014.

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(b) (i) Calculate the change in net assets between 31 December 2013 and 31 December 2014.

.....

.....

.....

(ii) State why the change in net assets was not equal to the profit for the year.

.....

.....

Rani wants to know more about the performance of her business.

REQUIRED

(c) State two ratios Rani could calculate from a detailed income statement to help her achieve this.

1

2

Rani is concerned about the increase in the level of inventory and is considering a different basis of valuation.

REQUIRED

(d) Explain how the following accounting principles are applied to the valuation of inventory.

1 Prudence

.....

.....

.....

2 Realisation

.....

.....

.....

- 2** Nzita is a sole trader. His statement of financial position at 31 January 2014 included the following balances.

	\$
Trade receivables	700
Trade payables	400
Inventory	1 100
Equipment at cost	15 700
Provision for depreciation of equipment	4 100
Prepaid rent	250
Bank	2 100 debit

REQUIRED

(a) Calculate Nzita's capital at 31 January 2014.

.....

.....

.....

.....

.....

A summary of Nzita's bank statements showed the following for the year ended 31 January 2015.

	\$
Receipts from customers	28 900
Payments to suppliers	12 600
Wages	5 200
Rent	3 100
Purchase of new equipment	1 100
Sundry expenses	2 650
Drawings	6 600

Further information is as follows.

- 1 Nzita depreciates his non-current assets at the rate of 10% per annum on the straight line basis. A full year's depreciation is provided in the year of purchase.
- 2 No non-current assets were disposed of during the year.
- 3 Proper books of account were not kept during the year but Nzita provided the following information at 31 January 2015.

	\$
Trade receivables	900
Trade payables	650
Inventory	1400
Prepaid rent	150

- 4 All sales and purchases were made on credit.

REQUIRED

- (b) Prepare the following accounts for the year ended 31 January 2015 to determine the sales and purchases for the year.

Nzita Total trade receivables account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....

Nzita
Total trade payables account

Date	Details	\$	Date	Details	\$
.....
.....
.....
.....
.....

(c) Prepare Nzita’s income statement for the year ended 31 January 2015.

Nzita
Income Statement for the year ended 31 January 2015

	\$	\$
.....
.....
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.....

- (d) Prepare an extract from Nzita's statement of financial position at 31 January 2015 showing the capital section.

Nzita
Statement of Financial Position (extract) at 31 January 2015

.....

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.....

- (e) Calculate, to two decimal places, Nzita's gross profit margin for the year.

.....

.....

- (f) Suggest two reasons why Nzita's gross profit margin was lower than in the previous year.

.....

.....

- 4 A trader provided the following information about a non-current asset.

	\$
cost	12 000
accumulated depreciation at start of year	1 800
method of depreciation	reducing (diminishing) balance at 15% per annum

What was the accumulated depreciation at the end of the year?

- A \$1530
- B \$3330
- C \$3600
- D \$8670

- 5 The non-current assets of a sole trader increased.

What might have caused this to happen?

- A a decrease in the bank overdraft
- B an increase in trade receivables
- C the charging of depreciation
- D the introduction of capital by the owner

☐
☐
☐
☐

- 6 Siegfried is a sole trader who does not maintain a complete set of double entry records. He has provided the following information.

	1 January 2017	31 December 2017
	\$	\$
Equipment at cost	18 000	18 000
Inventory	2 415	2 934
Trade receivables	1 930	2 042
Trade payables	1 210	1 455
Bank	—	209
Bank overdraft	835	—
Accrued expenses	—	98
Prepaid rent	—	120
Capital	20 300	?

On 31 December 2017, Siegfried brought his own motor vehicle into the business, valued at \$5500. He decided to write off trade receivables, \$100, and to start depreciating equipment by 20% per annum.

REQUIRED

See next page.

(a) Calculate Siegfried's capital at 31 December 2017 after making the necessary adjustments.

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During the year ended 31 December 2017, Siegfried's cash drawings were \$2700.

REQUIRED

(b) Calculate the profit made by Siegfried for the year ended 31 December 2017.

.....

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.....

(c) State what is measured by the return on capital employed (ROCE).

.....

.....

(d) State the formula for the calculation of the ROCE.

.....

.....

(e) Calculate Siegfried's return on capital employed for the year ended 31 December 2017. Use the opening capital in your calculation which should be correct to two decimal places.

.....

.....

.....

.....

Siegfried knows that he sold the same number of units and had applied the same mark-up in the year ended 31 December 2017 as he did in the previous year, but made a lower profit for the year.

REQUIRED

(f) Suggest one reason why Siegfried made a lower profit for the year for the year ended 31 December 2017 than the previous year.

.....

.....

.....

(g) State three benefits to Siegfried of maintaining a full set of double entry records.

1.....

.....

2.....

.....

3.....

.....

IGCSE Accounting Stock Control and NRV

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1 Harrington provided the following information.

		\$
At 1 January 2014	Inventory – raw materials	5 600
	– work in progress	1 900
	– finished goods	4 600
For the year ended 31 December 2014	Purchases of raw materials	71 100
	Raw materials returned	1 000
	Raw materials taken for own use	2 000
	Carriage on raw materials	2 100
	Carriage outwards	4 050
	Direct labour	52 550
	Depreciation of machinery	4 400
	Depreciation of office equipment	3 200
	Discount allowed	3 050
	Discount received	1 010
	Salesman's salary	19 840
	Administration costs	20 070
	Factory rent	20 000
	Office rent	10 000
At 31 December 2014	Inventory – raw materials	4 200
	– work in progress	1 800
	– finished goods	5 500

REQUIRED

- (a) Complete the following table. Indicate with a tick () which costs from this data appear in the overheads section of the manufacturing account and which appear in the income statement. One cost has been shown as an example.

Cost	Overheads section of the manufacturing account	Income statement
Office rent		

(b) Prepare an extract from Harrington’s manufacturing account for the year ended 31 December 2014 showing the prime cost.

Harrington
Manufacturing Account (extract) for the year ended 31 December 2014

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(c) Suggest one reason why Harrington might want to know his cost of production.

.....

(d) Calculate the value of inventory in Harrington’s statement of financial position at 31 December 2014.

.....

.....

.....

- 2** The rent of a manufacturing business is split 60% factory, 10% offices and 30% showrooms. Business rent is \$40 000 a year and salesmen's salaries are \$12 000 a year. How much appears in the manufacturing account for these costs?

- A \$24 000
B \$31 200
C \$36 000
D \$46 800

☐
☐
☐
☐

- 3 (a)** Name three types of inventory which might be held by a manufacturing business.

1 2
.....
3

- (b)** State how inventory should be valued.

.....
.....

- (c)** State how Asrul, a retailer, records goods taken for his personal use.

Account debited	Account credited

(d) Name the accounting principle which Asrul is applying.

.....

(e) State one reason why Asrul prepares a bank reconciliation statement.

.....

(f) State what is meant by a bank statement.

.....

.....

5 (a) Give **two** examples of items which might appear as non-current assets in the statement of financial position of a manufacturing business.

1

2

(b) Explain how a non-current asset differs from a current asset.

.....

.....

.....

(c) Give **one** example of a capital receipt.

.....

- (d) Complete the following table using a tick (✓) to indicate if **each** item is capital or revenue expenditure.

	Capital expenditure	Revenue expenditure
Purchase of inventory		
Purchase of stationery		
Legal fees on purchase of land		
Construction costs of factory		

- (e) Name the account which is opened when a non-current asset is sold.

.....

- (f) Name the accounting principle applied when the same rate of depreciation is maintained each year.

.....

- (g) State **one** limitation of financial statements.

.....

.....

- 6 The company provided the following additional information for the year ended 31 December 2014.

	\$
Revenue	227 000
Purchases	129 000
Sales assistants' wages	15 900
Office salaries	12 060
Rent	24 000
Other operating expenses	6 220
Dividend paid	10 000
Interest paid	15 000
Transfer to general reserve	5 000

Inventory values were as follows.

	\$
1 January 2014	41 200
31 December 2014	44 520

REQUIRED

(a) Prepare the income statement for the year ended 31 December 2014.

General Stores Limited
Income Statement for the year ended 31 December 2014

	\$	\$
.....
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.....

(b) Complete the following statement of changes in equity for the year ended 31 December 2014.

General Stores Limited
Statement of Changes in Equity for the year ended 31 December 2014

Details	Share capital \$	General reserve \$	Retained earnings \$	Total \$
On 1 January 2014	100 000	20 000	4 810	124 810
Profit for the year
Dividend paid
Transfer to general reserve
On 31 December 2014

(c) Calculate to **two** decimal places the net profit margin.

.....

.....

.....

(d) Explain why the ratio for General Stores Limited is lower than that of the neighbouring shop.

.....

.....

.....

.....

.....

.....

.....

(e) Suggest **three** ways in which General Stores Limited might improve its net profit margin.

1

2

3

7 David and Harold are in partnership. The partnership agreement states that David is to receive an annual salary of \$12 000 and that profits and losses are to be shared in the ratio 2:1.

The following balances were extracted from the partnership books on 31 March 2016.

	\$	
Capital accounts – David	80 000	
– Harold	25 000	
Current accounts – David	8 100	debit
– Harold	6 200	credit
Fixtures and fittings at cost	37 200	
Provision for depreciation of fixtures and fittings	11 160	
Inventory at 1 April 2015	36 000	
Trade receivables	7 000	
Trade payables	6 140	
Bank	12 100	debit
Sales (Revenue)	142 000	
Purchases	83 100	
Rent	12 000	
Other operating expenses	11 800	
Wages	16 500	
Drawings – David	32 000	
– Harold	14 700	

Additional information

- 1 Other operating expenses included \$500 for insurance which was paid in advance at 31 March 2016.
- 2 Inventory on 31 March 2016 amounted to \$26 800.
- 3 Fixtures and fittings are depreciated at the rate of 10% per annum on the straight line basis. A full year's depreciation is provided in the year of purchase. The current year's depreciation has not yet been provided.
- 4 All the fixtures and fittings were purchased when the partnership was formed.

David and Harold were surprised to see that inventory had fallen during the year. In previous years the percentage of gross profit to revenue had been 45% and they believed that this had been maintained.

REQUIRED

(a) Calculate the value of inventory at 31 March 2016 with which the percentage of gross profit to revenue would have been constant.

.....

.....

.....

.....

.....

.....

.....

.....

(b) Suggest **one** reason for the lower inventory value.

.....

.....

8 Sue is a trader. Her financial year ends on 31 December.

She provided the following information about her inventory for the financial year ended 31 December 2014.

	Cost	Net realisable value
	\$	\$
Inventory 1 January	6800	7100
Inventory 31 December	8200	7800

REQUIRED

(a) Define the following terms.

(i) cost

.....

.....

(ii) net realisable value
.....
.....

(b) Explain why the inventory at 31 December 2014 was included in the financial statements at net realisable value rather than cost.
.....
.....
.....

After the preparation of the income statement for the year ended 31 December 2014 it was discovered that the inventory on 1 January had been included at net realisable value.

REQUIRED

(c) Complete the following table to indicate the effect of this error on the cost of sales and the profit for the year ended 31 December 2014.

Place a tick (✓) under the correct heading to indicate whether each item would be overstated or understated.

	overstated	understated
cost of sales		
profit for the year		

Sue provided the following information for the year ended 31 December 2015.

	\$
Cost of sales	49 900
Average inventory	7 500

REQUIRED

(d) (i) State the formula for the calculation of the rate of inventory turnover.

.....

.....

(ii) Calculate the rate of inventory turnover for the year ended 31 December 2015. The calculation should be correct to **two** decimal places.
Show your workings.

.....

.....

Sue's rate of inventory turnover for the previous year was 8.15 times.

REQUIRED

(e) State whether you consider that Sue would be satisfied with the change in the rate of inventory turnover. Give a reason for your answer.

Satisfied?

Reason

.....

(f) Suggest **one** way in which the rate of inventory turnover could be improved.

.....

.....

9 Paul's financial year ends on 31 December.

He maintains one combined account for rent and rates.

On 1 January 2015 three months' rates, totalling \$900, were prepaid. On the same date four months' rent, totalling \$3200, was prepaid.

The following transactions took place during the year ended 31 December 2015.

April 1 Paid rates by cheque, \$3960, for 12 months to 31 March 2016.

May 1 Paid rent by cheque, \$4800, for 6 months to 31 October 2015.

REQUIRED

- (a) Complete the rent and rates account for the year ended 31 December 2015.
Balance the account and bring down the balances on 1 January 2016.

Paul
Rent and rates account

Date	Details	\$	Date	Details	\$
2015 Jan 1	Balance Rates Rent	b/d 900 <u>3200</u>			
		4100			
.....
.....
.....
.....
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.....

Paul always values his inventory at the lower of cost and net realisable value.

REQUIRED

(b) Explain why Paul should continue his policy of including inventory in his financial statements at the lower of cost and net realisable value.

.....

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.....

After the preparation of the income statement for the year ended 31 December 2015 it was discovered that the inventory on 31 December 2014 had been valued at net realisable value which was higher than the cost price.

REQUIRED

(c) Complete the following table to indicate the effect of this error.

Place a tick (✓) under the correct heading to indicate the **effect** of this error on **each** item.

	overstated	understated	no effect
Profit for the year ended 31 December 2014			
Profit for the year ended 31 December 2015			
Cost of sales for the year ended 31 December 2015			
Current assets at 31 December 2014			
Current assets at 31 December 2015			

- 10** Hamza is a trader who does not maintain a full set of accounting records. His financial year ends on 31 August.

In December 2015 it was discovered that some errors had been made in the financial statements for the year ended 31 August 2015.

REQUIRED

- (a)** Complete the following table to indicate the effect of **correcting each error** on the profit for the year.

The first one has been completed as an example.

	Effect on profit of correcting error	
	increase \$	decrease \$
Purchases returns, \$2000, had not been recorded.	2000	
Wages owing at 31 August 2015, \$450, were not recorded.		
Discount allowed, \$115, had been recorded as discount received.		
The provision for doubtful debts, \$950, should have been adjusted to 2½% of trade receivables, who owed \$36 000.		
Inventory at 1 September 2014 had been valued at net realisable value, \$16 700, instead of at cost, \$15 300.		

- 11 Jai's financial year ends on 31 January. He has not maintained a full set of accounting records.

All goods are sold on a cash basis and all purchases are made on credit terms. Jai has no record of his sales and purchases for the year ended 31 January 2017.

The following information was available.

	\$
On 1 February 2016	
Amount owing to credit suppliers	4 600
Inventory	2 900
During the year ended 31 January 2017	
Amounts paid to credit suppliers	32 725
Cash discount received	640
Interest charged by credit supplier on overdue account	15
At 31 January 2017	
Amount owing to credit suppliers	5 350
Inventory	3 400

The gross profit margin is 20%.

Jai always values his inventory at the lower of cost and net realisable value.

- (a) Name the accounting principle which is being applied.

.....

- (b) Complete the following table to indicate the effect of Jai overvaluing his inventory at 31 January 2017. An example has been provided.

	overstated	understated
Current assets at 31 January 2017	✓	
Profit for the year ended 31 January 2017		
Profit for the year ending 31 January 2018		

Jai is considering increasing his gross profit margin.

REQUIRED

- (c) Suggest **two** ways in which Jai might achieve this increase.

1.....

.....

2.....

.....

12 Which item is **not** included as part of the calculation of net realisable value when valuing inventory?

A carriage inwards

☐

B cost of completing the goods

☐

C estimated receipts from sale of the goods

☐

D selling expenses

☐