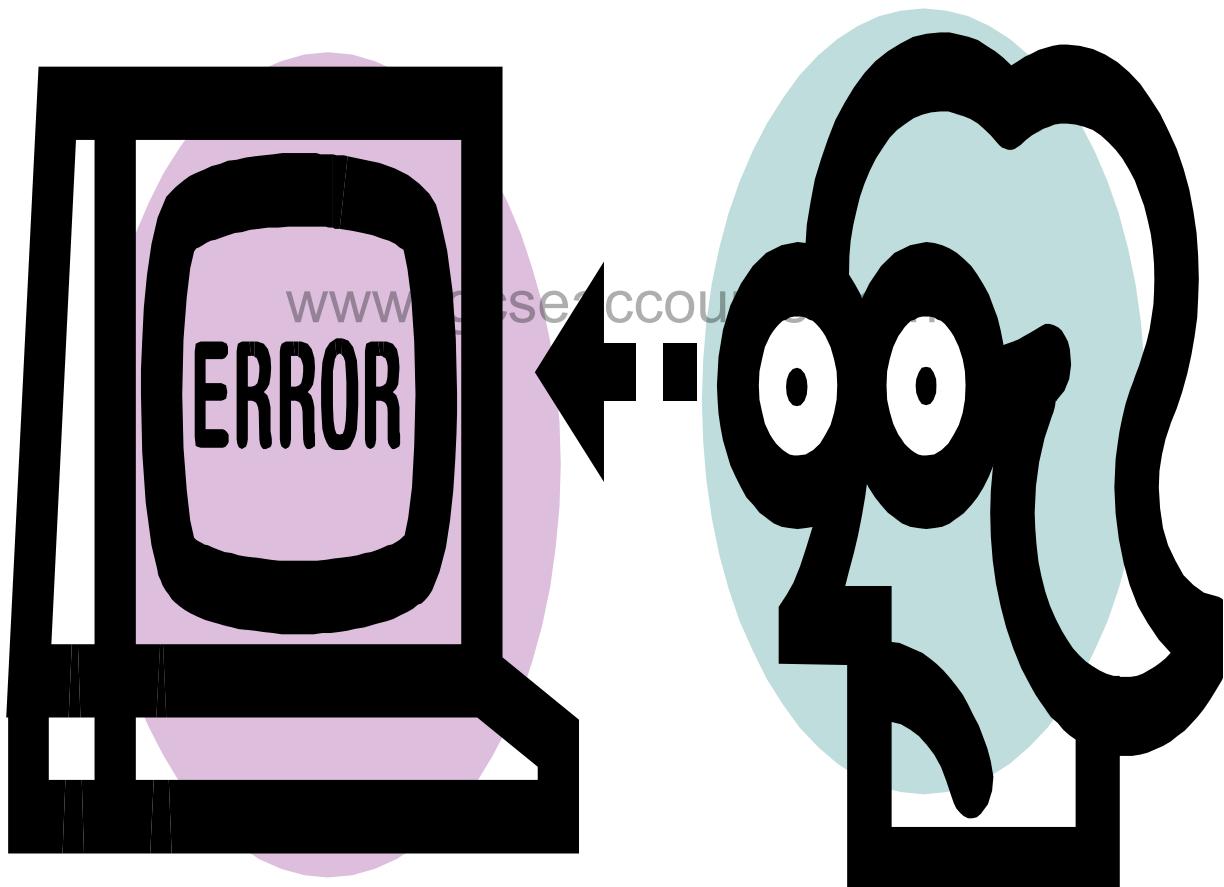


Accounting Errors



- 4 On 1 August 2003 Polly Glotte started a furniture business with the following assets:

	\$
Freehold shop premises	20 000
Stock of furniture	8 000
Cash (paid into a business bank account)	5 000

Polly obtained a loan of \$7000 from her uncle, Sven, on the same date and also paid this into the bank account.

- (a) (i)** Show how Polly's Journal records the above transactions. No narrative is required.

Polly Glotte

Journal

[7]

(a) (ii) During August 2003 Polly discovered the following matters.

1. New shop fittings had been purchased on credit from Quickbuild Supplies for \$6000, but no entry had been made in Polly's books.
 2. A sale on credit to S Holmes, \$601, had been entered in the Sales account and in S Holmes's account as \$610.
 3. Goods bought on credit from J Robertson, \$1000, had been entered in J Robertshaw's account.
 4. The purchase of office equipment for \$3000 had been entered in the Purchases account.

Make the required entries in Polly's Journal to correct **each** of the above errors. No narratives are required.

Polly Glotte

Journal

[8]

- 5 Archer and Bowman are partners.

Their Profit and Loss Account for the year ended 31 August 2003 showed a net profit of \$18490.

It was then found that the following errors had been made.

1. No entry had been made for a stock of stationery, \$30, on 31 August 2003.
 2. The stock of goods for re-sale on 31 August 2003 had been valued at selling price, \$8400, instead of cost price, \$7000.
 3. No entry had been made for depreciation of equipment. The equipment cost \$13000 and was estimated to have a scrap value of \$1000 after 6 years. All the fixed assets of the partnership are depreciated using the straight line (fixed instalment) method.
 4. Discount received of \$210 has been included in the expenses instead of the income in the Profit and Loss Account.
 5. A provision for doubtful debts is maintained equal to 5% of the debtors at the end of each financial year. On 1 September 2002 the provision was \$400. On 31 August 2003 the debtors owed the partnership \$8400. No adjustment has been made to the provision for doubtful debts.
- (a) Prepare a statement to show the effect of correcting **each** of the errors 1–5 on Archer and Bowman's original net profit. Calculate the corrected net profit. The first one has been completed as an example.

Archer and BowmanStatement of Corrected Net Profit for the year ended 31 August 2003

	\$
Net Profit before corrections	18490
Effect on Net Profit	
+	—
\$	\$
Error 1	30
Error 2	
Error 3	
Error 4	
Error 5	

Corrected Net Profit	_____

[10]

Archer and Bowman's partnership agreement states that

- (i) Interest is to be allowed on capital at 5% per annum.
 - (ii) Interest is to be charged on drawings at 5% per annum.
 - (iii) Archer is to receive an annual salary of \$6000.
 - (iv) Profits and losses are to be shared equally.

On 31 August 2003 the following balances appeared in the partnership books.

		\$
Capital account (at 1 September 2002) –	Archer	40 000
	Bowman	80 000
Drawings during the year ended 31 August 2003 –	Archer	7 000
	Bowman	3 000

- (b) Using the corrected net profit calculated in (a) prepare the Profit and Loss Appropriation Account of Archer and Bowman for the year ended 31 August 2003.

Archer and Bowman

Profit and Loss Appropriation Account for the year ended 31 August 2003

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• [7]

- 3 (a) When is it necessary to open a suspense account?

..... [1]

- (b) On checking his sales ledger, a trader found the following errors had been made.

1. Cash received from Tarek El Sayed was correctly entered in the cash book but had been credited to the account of Tarek El Sherif.
2. A cheque received from Susan Zafar was correctly entered in the cash book but had been debited to Susan Zafar's account.

Only one of the above errors will require a correcting entry in the suspense account. State which one and give a reason for your answer.

.....
.....
..... [3]

- (c) Mary Manake is a sole trader. She has very little knowledge of bookkeeping, but attempted to prepare a trial balance and a set of final accounts.

The Balance Sheet she prepared is shown on the following page.

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Balance Sheet as at 30 April 2004

	\$
Fixed assets at cost	40 000
Depreciation on fixed assets	<u>8 000</u>
	32 000
Stock	8 500
Debtors	<u>6 100</u>
	46 600
Capital at 1 May 2003	34 000
Net profit for the year	<u>8 440</u>
	42 440
Drawings	7 300
	<u>35 140</u>
Creditors	5 200
Bank overdraft	<u>2 010</u>
	42 350
Suspense account (difference on trial balance)	<u>4 250</u>
	46 600

When the books were checked the following matters were discovered.

1. No adjustment has been made for expenses prepaid at 30 April 2004 amounting to \$30.
2. The bank statement received on 30 April 2004 showed that the bank had debited the business's bank account with \$70 for interest charged on the overdraft. No adjustment has been made for this in Mary Manake's books.
3. The total of the discount received column in the cash book, amounting to \$150, has not been transferred to the discount received account in the ledger. Because of this, discount received does not appear in either the trial balance or the Profit and Loss Account.
4. Fixed assets costing \$5000 had been sold during the year ended 30 April 2004. Depreciation of \$500 had been provided up to the date of sale. The amount received for the assets, \$4100, had been correctly entered in the cash book, but no other entries had been made.

Taking the above items into account, prepare a corrected Balance Sheet for Mary Manake as at 30 April 2004.

The Balance Sheet should be shown using a suitable form of presentation, showing the different types of assets and liabilities, and the working capital. The calculation of the corrected net profit should also be shown, either within the Balance Sheet, or as a separate calculation.

Mary Manake
Balance Sheet as at 30 April 2004

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.[14]

[Total: 18]

- 5 Ruth and Lucy Lebengo formed a partnership on 1 October 2003. They share profits and losses 2:1. They agreed that a current account and a capital account would be kept for each partner.

The Profit and Loss Account for the year ended 30 September 2004 showed a net profit of \$12000.

Lucy has very little knowledge of bookkeeping, but attempted to prepare a Balance Sheet as at 30 September 2004. The Balance Sheet she prepared, containing errors, is shown below.

Balance Sheet as at 30 September 2004

	\$	\$	\$
Premises at cost			35000
Motor vehicles at cost	15000		
Less depreciation	<u>1500</u>		13500
Office equipment			3000
Stock			9300
Debtors			<u>5900</u>
			<u>66700</u>
Capital – Ruth		30000	
Lucy		<u>20000</u>	50000
Net profit		12000	
Less drawings – Ruth	4000		
Lucy	<u>4400</u>	8400	3600
Creditors			7400
Bank overdraft			<u>5100</u>
			<u>66100</u>

The following matters were then discovered.

1. No adjustment had been made in the Balance Sheet for the following.

	\$
Depreciation of office equipment	300
Provision for doubtful debts	200

These items had been correctly charged in the Profit and Loss Account.

2. Cash in hand, \$100, had been omitted from the Balance Sheet.
 3. The overdraft shown on the bank statement had been entered in the Balance Sheet instead of the overdraft of \$5300 shown in the cash book.

- (a) Taking the above matters into account, prepare a corrected Balance Sheet for Ruth and Lucy as at 30 September 2004.

The Balance Sheet should be shown using a suitable form of presentation, showing the different types of assets and liabilities, the working capital, and the capital and current accounts of each partner.

Ruth and Lucy Lebengo
Balance Sheet as at 30 September 2004

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- (b) On 1 October 2004 Ruth and Lucy decided to admit their brother, Paul, to the partnership. Ruth, Lucy and Paul agreed to share profits and losses 2:1:1.

Goodwill was valued at \$9000 on 1 October 2004, but did not appear in the books. The partners agreed that adjustments should be made for Goodwill, but that a Goodwill account was not to be maintained on the books permanently.

Complete the following tables to show what entries are required. It is **not** necessary to prepare the ledger accounts.

- (i) To enter the Goodwill on the books –

account(s) to be debited	\$	account(s) to be credited	\$
.....
.....
.....

- (ii) To write off the Goodwill –

account(s) to be debited	\$	account(s) to be credited	\$
.....
.....
.....

[7]

[Total: 21]

- 5 Ahmed Shafik's financial year ends on 31 January. The totals of his trial balance on 31 January 2005 failed to agree. Ahmed entered the difference on the trial balance in a suspense account.

REQUIRED

- (a) Explain **why** it is necessary to open a suspense account when the totals of a trial balance fail to agree.

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

[2]

The following errors were later discovered.

- 1 Commission received, \$390, was entered in the cash book but not in the commission received account.
- 2 \$400 paid to Mutua, a supplier, had been credited to the account of Mutola, another supplier.
- 3 The purchase of stationery, \$20, was credited to the cash book and debited to the purchases account.
- 4 No entry had been made for cash discount, \$15, allowed to Limo, a debtor, for prompt payment.
- 5 The total of the sales returns journal, \$420, had been credited to the purchases returns account as \$240.

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REQUIRED

- (b)** Prepare the entries in Ahmed's journal to correct the above errors.

Narratives are **not** required.

Ahmed Shafik
Journal

[12]

Before the errors were discovered Ahmed calculated that he had made a net profit of \$16 000.

REQUIRED

- (c) Prepare a statement to show the effect of correcting the errors 1–5 on Ahmed's original net profit and calculate the corrected net profit.

If the error does not affect the original net profit write 'No effect'.

The first correction has been completed as an example.

Ahmed Shafik

Statement of corrected net profit for the year ended 31 January 2005

	\$
Net profit before corrections	16 000
Effect on net profit	
	+
	\$
Error 1	390
2	_____
3	_____
4	_____
5	_____

Corrected net profit	_____

[5]

[Total: 19]

- 5 Ebor and Olicana are in partnership trading in sports goods. Their financial year ends on 31 July. After the preparation of their Trading and Profit and Loss Account for the year ended 31 July 2005 the following errors were discovered.

- 1 Olicana had taken goods costing \$500 for her own use. This had not been recorded.
- 2 \$15 paid for carriage inwards had been debited to the carriage outwards account.
- 3 The purchase of computer paper, \$30, had been debited to the purchases account.
- 4 Motor vehicle repairs of \$200 had been debited to the motor vehicles account. Motor vehicles are depreciated by 25% on the cost of motors held at the end of each financial year.

REQUIRED

- (a) Complete the following table to show the effect of **correcting the errors** on the gross profit and the net profit. If the correction of the error does not affect the profit write 'no effect'.

The first one has been completed as an example.

Error	Effect of correcting the error on the gross profit on the net profit	
1	+\$500	+\$500
2	www.igcseaccounts.com	
3		
4		

[7]

You may use the space below for your workings.

Ebor and Olicana maintain a full set of books of account.

The following transactions took place on 31 August 2005.

- 1 Olicana took further goods costing \$400 for her own use.
 - 2 Ebor brought his own computer, valued at \$900, into the business.
 - 3 Ebor's current account showed a credit balance of \$10 000. It was agreed that he should transfer half of this to his capital account.

REQUIRED

- (b) Prepare the necessary journal entries to record the above transactions.
Narratives **are** required.

Ebor and Olicana Journal

[9]

Ebor and Olicana have invited Lindum to join the partnership and have given him their final accounts for the year ended 31 July 2005.

Lindum is aware that these final accounts will not provide all the relevant information he needs.

REQUIRED

- (c) State and explain **two** limitations Lindum should be aware of when he is studying the set of final accounts Ebor and Olicana have provided.

1

.....
.....

2

.....
.....

[4]

[Total: 20]

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- 2** Amina Nawaz is a sole trader. Her financial year ends on 31 August. The trial balance prepared on 31 August 2006 showed a shortage on the credit side of \$1450. Amina entered this in a suspense account.

The following errors were later discovered:

- 1 Goods costing \$750, taken by Amina for her own use, had been debited to her drawings account, but no other entry had been made.
 - 2 \$250 paid to Sabina Khan had been debited to the account of Robina Khan, another creditor, in the purchases ledger.
 - 3 \$150 received in cash from a debtor, whose account had been written off in 2005, had been debited to both the cash account and bad debts account.

REQUIRED

- (a) Prepare the entries in Amina Nawaz's journal to correct the above errors.

Narratives are **not** required.

[7]

- (b) Prepare the suspense account in Amina Nawaz's ledger to show the required amendments. Start with the balance arising from the difference on the trial balance.

Where a traditional “T” account is used it should be balanced or totalled as necessary. Where a three column running balance account is used the balance column should be up-dated after each entry.

Suspense account

[5]

- (c) Using your answer to (b) state whether you consider that all the errors on Amina's books have been discovered. Give a reason for your answer.

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[2]

Amina Nawaz has a large number of debtors. She is considering preparing monthly control accounts for her sales ledger. She believes that this will help to locate errors if the trial balance fails to balance.

REQUIRED

- (d) State **three** advantages to Amina of preparing a sales ledger control account other than the location of errors.

(i)

.....

(ii)

.....

(iii)

.....

[3]

- (e) Explain what is meant by a contra entry in connection with control accounts.

.....
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.....

[2]

- (f) State where the following items will appear in a sales ledger control account. If the item will not appear in a sales ledger control account write "No entry".

The first one has been completed as an example.

	Item	Entry in sales ledger control account
(i)	Sales returns	<i>credit</i>
(ii)	Bad debts	.....
(iii)	Provision for doubtful debts	.....
(iv)	Interest charged on overdue account	.....

[3]

[Total: 22]

After the trial balance had been prepared, the following errors were found.

- 1 Cash sales of \$2000 had been paid into the bank but had not been posted to the sales account.
- 2 Drawings of \$900 had been correctly entered in the cash book but posted to the drawings account as \$500.
- 3 The cash account of \$500 had been omitted from the list of balances.

REQUIRED

(c) Give the journal entries, with narratives, required to correct **each** error.

	Dr \$	Cr \$
(i)		

[3]

(ii)		

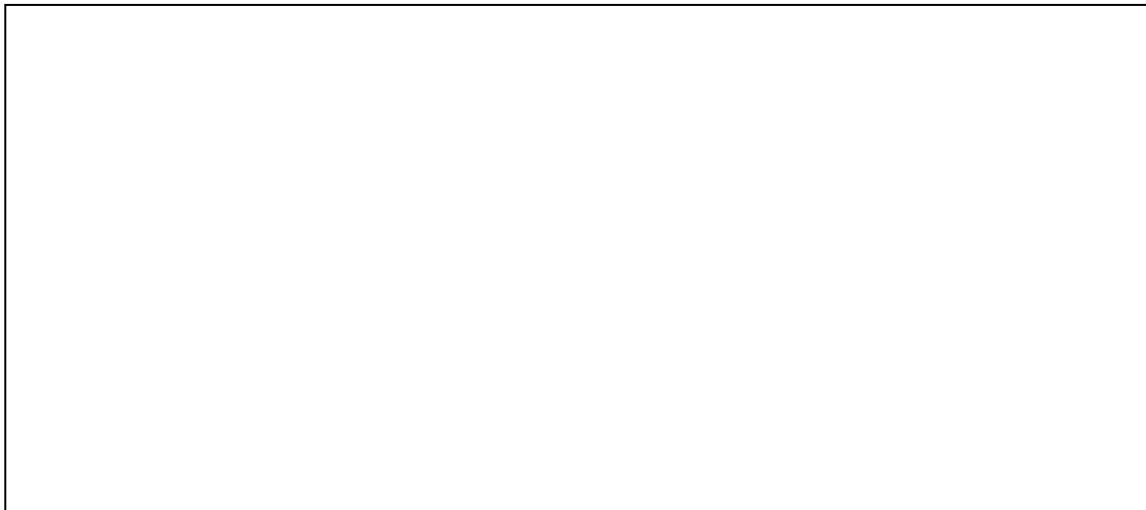
[3]

(iii)		

[3]

- (d) State the balance on the suspense account **after** these journal entries have been posted to the ledger.

Use the space below for your workings.



[1]

[Total: 22]

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- 2** Zeema Jumbe is a trader. Her financial year ends on 31 January.

She provided the following information.

2009		\$
1 February	Insurance prepaid for 2 months to 31 March	440
1 April	Paid insurance premium for 12 months by cheque	3000

REQUIRED

- (a) Write up the insurance account as it would appear in Zeema Jumbe's ledger for the year ended 31 January 2010.

Where a traditional "T" account is used it should be balanced and the balances brought down on 1 February 2010.

Where a three column running balance account is used the balance column should be up-dated after each entry.

Zeema Jumbe
Insurance account

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

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

[6]

The totals of Zeema Jumbe's trial balance on 31 January 2010 failed to agree. The difference was a shortage on the credit side of \$350. This was entered in a suspense account.

The following errors were later discovered.

- 1 A cheque, \$540, paid to A Zaheer had been debited to the account of A Zahir.
- 2 The balance of the petty cash book, \$50, had been omitted from the trial balance.
- 3 Rent received, \$250, had been debited to the rent paid account.
- 4 No entry had been made for goods costing \$385 taken by Zeema Jumbe for her own use.

REQUIRED

- (b) Prepare the entries in Zeema Jumbe's journal to correct the above errors.

Narratives are **not** required.

Zeema Jumbe Journal

[8]

- (c) Prepare the suspense account in Zeema Jumbe's ledger to show the required entries. Start with the balance arising from the difference on the trial balance.

Where a traditional “T” account is used it should be balanced or totalled as necessary.

Where a three column running balance account is used the balance column should be up-dated after each entry.

Zeema Jumbe Suspense account

[5]

[5]

- (d) Using your answer to (c) state whether you consider that all the errors on Zeema Jumbe's books have been discovered. Give a reason for your answer.

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[2]

[2]

- (e) Select **one** of the errors 1–4 above which has **not** been corrected by an entry in the suspense account. Explain why an entry in the suspense account was not necessary.

Error

Error

Explanation

[2]

[2]

[Total: 23]

- 3 Abdul and Amina Mahmoud are in partnership. Their financial year ends on 30 April. The trial balance prepared on 30 April 2008 failed to agree. The debit side totalled \$95 857 and the credit side totalled \$95 457. The difference was entered in a suspense account.

The following errors were later discovered:

- 1 Abdul had spent \$20 of his personal funds to purchase business stationery. This had not been recorded in the books.
- 2 Goods withdrawn by Abdul for personal use, costing \$300, had been debited to his drawings account but no other entry had been made.
- 3 \$50 recovered from a bad debt (written off in 2006) had been correctly entered in the cash book and had been debited to the bad debts account.
- 4 The partners decided that the debit balance of \$2200 on Amina's current account should be transferred to her capital account. This had not been recorded.

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REQUIRED

- (a) Prepare the entries in Abdul and Amina Mahmoud's journal to correct the above errors.

Narratives are **not** required.

Journal

[9]

- (b) Prepare the suspense account in Abdul and Amina Mahmoud's ledger to show the required entries. Start with the balance arising from the difference on the trial balance.

Where a traditional “T” account is used it should be balanced or totalled as necessary. Where a three column running balance account is used the balance column should be updated after each entry.

Suspense account

For
Examiner's
Use

[4]

Before the errors were discovered Abdul and Amina Mahmoud calculated that they had made a net profit of \$12 900 for the year ended 30 April 2008.

REQUIRED

- (c) Prepare a statement to show the effect of correcting errors 1-4 on the original net profit and calculate the corrected net profit.

If the error does not affect the net profit write "No effect".

The first correction has been completed as an example.

Abdul and Amina Mahmoud		
Statement of corrected net profit for the year ended 30 April 2008		
	Effect on net profit	\$
Net profit before corrections		12 900
	Increase Decrease	
	\$ \$	
Error 1		20
2		
3		
4		
Corrected net profit		<hr/>

[4]

Abdul and Amina Mahmoud calculated the percentage of net profit to sales and found that it was lower than that of the previous financial year.

*For
Examiner's
Use*

REQUIRED

- (d) State **two** ways in which the percentage of net profit to sales could be improved.

(i)

(ii)

[2]

[Total: 19]

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- 3 Stella Maris started a business as a bookseller on 1 May 2008 with initial capital of \$10 000 which she deposited in a new business bank account.

She is not an experienced bookkeeper but has drawn up the following trial balance at 31 October 2008. Stella has put certain balances in the wrong column and may have made other errors.

Trial Balance at 31 October 2008

	Debit \$	Credit \$
Capital		10 000
Shelving and equipment	5 000	
Purchases		24 000
Rent payable		6 000
Sales	34 900	
Stock at 31 October 2008	5 300	
General expenses	2 500	
Cash at bank		7 400
Difference		300
	<u>47 700</u>	<u>47 700</u>

REQUIRED

- (a) State which accounting principle Stella was following when she deposited her initial capital into a new business bank account.

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[2]

- (b) Name the account in which an unexplained difference on a trial balance should be entered.

[1]

(c) Prepare a corrected trial balance at 31 October 2008.

Stella Maris
Trial Balance at 31 October 2008

- (d) Using the information above, complete Stella's trading and profit and loss account for the six months ended 31 October 2008.

For
Examiner's
Use

Stella Maris
Trading and Profit and Loss Account for the six months ended 31 October 2008

	\$	\$
Sales		
Stock at 1 May 2008		nil
Purchases		
Stock at 31 October 2008		
Cost of sales		
Gross profit		
Expenses		
Rent		
General expenses		
Net profit		

[9]

[Total: 22]

- 2** Michael Ong started a business on 1 July 2007. He had very little knowledge of bookkeeping, but attempted to prepare a set of final accounts at the end of his first year of trading.

The final accounts Michael prepared, containing errors, are shown below.

Trading and Profit and Loss Account		\$
Sales of goods	80 000	
Sale of motor vehicle (AB 246) at book value	<u>2 000</u>	82 000
Purchases of goods	60 000	
Purchase of new motor vehicle (CD 357)	<u>8 000</u>	
	68 000	
Closing stock of goods	<u>12 000</u>	56 000
Gross profit		26 000
General expenses	10 800	
Bad debts	<u>200</u>	11 000
Net profit		<u>15 000</u>

Balance Sheet

	\$
Equipment	2 000
Bank	1 000
Debtors	7 000
Closing stock of goods	12 000
Purchases of stationery	200
Commission received	<u>500</u>
	<u>22 700</u>
Creditors	17 000
Capital (balancing figure)	<u>5 700</u>
	<u>22 700</u>

REQUIRED

- (a) (i)** Explain the difference between capital expenditure and revenue expenditure.

.....

.....

.....

.....

[2]

(ii) Explain the difference between capital receipts and revenue receipts.

For
Examiner's
Use

[2]

(b) Calculate the corrected net profit of Michael Ong for the year ended 30 June 2008.

Michael Ong
Statement of corrected net profit for the year ended 30 June 2008

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[5]

On 1 July 2008 Michael Ong started to maintain a set of double entry records. A trial balance drawn up on 30 September 2008 failed to balance. Michael entered the difference on the trial balance in a suspense account.

REQUIRED

- (c) State **one** reason why it is necessary to open a suspense account when the totals of a trial balance fail to agree.

.....
.....

[1]

The following errors were later discovered:

- 1 Goods returned to J Chan, \$20, had been incorrectly entered in the account of J Chua, another supplier.
- 2 A cheque for the sale of equipment, \$400, had been debited to the bank account, but no other entry had been made.
- 3 Goods for Michael's own use, \$100, had been debited to both the purchases account and the drawings account.
- 4 On 15 September 2008, \$50 had been received from W Lee. This amount was incorrectly debited to the bad debts account and credited to W Lee's account. W Lee's account had been written off as a bad debt on 30 June 2008.

REQUIRED

- (d) Complete the following table to show the entries required to correct the above errors.

The first one has been completed as an example.

	account(s) to be debited	\$	account(s) to be credited	\$
1	J Chan	20	J Chua	20
2				
3				
4				

[8]

[Total: 18]

- 2 (a) State which accounting document would show the amount of:

(i) trade discount

.....

(ii) cash discount

..... [2]

Chen makes the following sales on credit in the week ending 16 October 2009.

October	Customer	Reference	\$
12	Artelis	A4	230
14	Brook	B1	300
15	Chadri	C7	55

He writes up his sales journal at the end of the week as shown below.

Chen
Sales journal

October		Reference	\$
12	Artelis	A4	250
14	Brook	B1	300
16	Total sales for week		<u>550</u>

REQUIRED

- (b) From the entries in the sales journal, write up the accounts in Chen's ledger shown on the next page to record the transactions for the month.

Sales account

..... [2]

Artelis account

..... [2]

Brook account

..... [2]

Chen realises he has made two errors in writing up the sales journal. He decides to correct these errors by journal entries.

REQUIRED

- (c) Show the **two** separate journal entries necessary to correct these errors. Narratives are **not** required.

	Dr \$	Cr \$

	Dr \$	Cr \$

[4]

- (d) State the balance ~~on~~ of each of the accounts in Chen's ledger **after** correcting the two errors.

	Dr \$	Cr \$
Sales account		
Artelis account		
Brook account		
Chadri account		

[6]

[Total: 18]

- 3** Anwar El Wakiel is a trader. He maintains a full set of accounting records including a journal.

REQUIRED

- (a) State why a narrative should be shown as part of a journal entry.

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

[2]

Anwar El Wakiel prepared draft financial statements (final accounts) for the year ended 30 April 2010.

The following errors were later discovered.

- 1 A cheque, \$170, received from Zubin Khan had been credited to the account of Zaffar Khan, another debtor.
- 2 Purchase of equipment, \$1000, had been debited to the office expenses account.
- 3 Stationery, \$19, had been debited to the purchases account.
- 4 No entry had been made for sales returns, \$25, from Mariam Sitar.

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REQUIRED

- (b) Prepare the entries in Anwar El Wakiel's journal to correct the above errors.

Narratives **are required.**

Journal

[12]

- (c) Indicate the effect of correcting **each** of the above errors 1–4 on the profit for the year (net profit). Circle the answer which you think is correct.

Give reasons for your answers.

The first one has been completed as an example.

Effect on profit for the year (net profit)

Error 1	Increase	Decrease	<input checked="" type="radio"/> No effect
Reason	<i>Correcting this error only affected the accounts of Zubin Khan and Zaffar Khan. These accounts do not affect the profit.</i>		

Effect on profit for the year (net profit)

Error 2	Increase	Decrease	No effect
Reason		
..... [3]			

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Effect on profit for the year (net profit)

Error 3	Increase	Decrease	No effect
Reason	..... ..... .....	
..... [3]			

Effect on profit for the year (net profit)

Error 4	Increase	Decrease	No effect
Reason	..... ..... .....	
..... [3]			

[Total: 23]

- 3** Anwar El Wakiel is a trader. He maintains a full set of accounting records including a journal.

REQUIRED

- (a) State why a narrative should be shown as part of a journal entry.

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

[2]

Anwar El Wakiel prepared draft financial statements (final accounts) for the year ended 30 April 2010.

The following errors were later discovered.

- 1 A cheque, \$170, received from Zubin Khan had been credited to the account of Zaffar Khan, another debtor.
- 2 Purchase of equipment, \$1000, had been debited to the office expenses account.
- 3 Stationery, \$19, had been debited to the purchases account.
- 4 No entry had been made for sales returns, \$25, from Mariam Sitar.

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REQUIRED

- (b) Prepare the entries in Anwar El Wakiel's journal to correct the above errors.

Narratives **are required.**

Journal

[12]

- (c) Indicate the effect of correcting **each** of the above errors 1–4 on the profit for the year (net profit). Circle the answer which you think is correct.

Give reasons for your answers.

The first one has been completed as an example.

Effect on profit for the year (net profit)

Error 1

Increase

Decrease

No effect

Reason

Correcting this error only affected the accounts of Zubin Khan and Zaffar Khan. These accounts do not affect the profit.

Effect on profit for the year (net profit)

Error 2

Increase

Decrease

No effect

Reason

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.....

[3]

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Effect on profit for the year (net profit)

Error 3

Increase

Decrease

No effect

Reason

.....
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.....

[3]

Effect on profit for the year (net profit)

Error 4

Increase

Decrease

No effect

Reason

.....
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.....
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[3]

[Total: 23]

- 6** Waseem Shah is a trader. His financial year ends on 31 July.

The totals of Waseem Shah's trial balance on 31 July 2010 failed to agree.

The debit side totalled \$398 240 and the credit side totalled \$397 000.

He placed the difference on the trial balance in a suspense account and prepared draft financial statements (final accounts).

The draft financial statements (final accounts) included the following:

	\$
Revenue (sales)	247 600
Cost of sales	163 100
Expenses	51 500

REQUIRED

- (a)** Calculate the percentage of gross profit to sales. The calculation should be correct to **two** decimal places.

Show your workings.

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..... [2]

- (b)** Suggest **two** reasons why the percentage of gross profit to sales is greater than it was at the end of the previous financial year.

(i)

.....
.....

(ii)

..... [4]

After the preparation of the draft financial statements (final accounts) the following errors were discovered.

- 1 Rent paid, \$650, was correctly recorded in the cash book but had been entered in the rent account as \$560.
- 2 \$860 paid by cheque to M Ali had been debited to the account of J Ali.
- 3 Repairs to machinery, \$1150, had been entered in the machinery account.
- 4 The bank overdraft, \$1520, had been omitted from the trial balance.

REQUIRED

- (c) Prepare the suspense account in Waseem Shah's ledger to show the required entries. Start with the balance arising from the difference on the trial balance.

Where a traditional "T" account is used it should be balanced and the balance brought down. If there is no balance the account should be totalled.

Where a three column running balance account is used the balance column should be up-dated after each entry.

Waseem Shah
Suspense account

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[5]

- (d) Select **one** of the errors 1– 4 above which has **not** been corrected by an entry in the suspense account. Explain why an entry in the suspense account was not necessary.

Error
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Explanation
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.....

[3]

- (e) Prepare a statement to show the effect of correcting errors 1– 4 on the original profit for the year (net profit) and calculate the corrected profit for the year.

If the error does not affect the profit for the year (net profit) write "No effect".

The first correction has been completed as an example.

Waseem Shah
Statement of corrected profit for the year ended 31 July 2010

	\$	\$
Profit for the year (net profit) before corrections	33 000	
	Increase in profit	Decrease in profit
Error 1	\$	\$
2	_____	_____
3	_____	_____
4	_____	_____
	_____	_____
Corrected profit for the year	_____	_____

[7]

[Total: 21]

- 6 Monica has a shop. She writes up the books of account herself but is not an experienced bookkeeper. Her financial year ends on 28 February.

The trial balance she prepared on 28 February 2011 showed a shortage on the debit side of \$720. Monica entered this in a suspense account and then prepared a draft income statement showing a profit for the year of \$3600.

The following errors were later discovered.

- 1 A cheque payment of \$460 to repay a loan from Carlo has been correctly entered in the cash book but \$640 has been debited to his loan account.
- 2 Cash sales of \$850 have been completely omitted from the books.
- 3 A cheque payment for \$900 for goods has been entered in the cash book but no other entry has been made.
- 4 The purchase of new display shelves for \$1200 has been debited to the repairs account.

REQUIRED

- (a) Show the journal entries required to correct the above errors. The date and narrative are **not** required.

Error 1	Dr \$	Cr \$

Error 2

Error 3

Error 4

[8]

- (b) Write up the suspense account in Monica's ledger from the above journal entries.
Dates are **not** required.

Monica
Suspense account

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[6]

- (c) Prepare a statement to show Monica's profit for the year **after** correcting the errors 1 - 4.

Monica
Statement of corrected profit for the year ended 28 February 2011

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[5]

[Total: 19]

- 5 Leo Yang runs a gym and fitness centre. His financial year ends on 31 October. He employs a book-keeper to maintain his accounting records.

Leo Yang rents part of his premises to another business. The following account appeared in Leo Yang's ledger.

Rent receivable account

	\$		\$
2009		2009	
Nov 1 Balance b/d	100	Nov 2 Bank	1350
2010		2010	
Oct 31 Income statement	2500	April 1 Bank	1300
Balance c/d	<u>50</u>		
	<u>2650</u>		<u>2650</u>
		2010	
		Nov 1 Balance b/d	50

For candidates who are not familiar with the layout of the account shown above an alternative presentation is provided.

Rent receivable account

	Debit	Credit	Balance
	\$	\$	\$
2009			
Nov 1 Balance	100		100 Dr
2 Bank		1350	1250 Dr
2010			
April 1 Bank		1300	2550 Cr
Oct 31 Income statement	2500		50 Cr

REQUIRED

- (a) Explain the following entries in the above account.

State where the double entry for each transaction would have been made.

- (i) Balance 1 November 2009

Explanation
.....
.....

Double Entry [3]

(ii) Bank 2 November 2009

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Examiner's
Use*

Explanation
.....
.....

Double Entry [3]

(iii) Income statement 31 October 2010

Explanation
.....
.....

Double Entry [3]

(b) Explain the significance of the \$50 shown at the end of the account.

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[2]

After the book-keeper had prepared a trial balance on 30 April 2011 Leo Yang decided to draft a set of financial statements for the six months ended 30 April 2011.

The draft financial statements, containing **errors**, are shown below.

Income Statement		
	\$	\$
Fees for the period		14 000
Sale of all old equipment at book value		9 200
Loan from Sports-aid		<u>10 000</u>
		33 200
Less Purchase of new equipment	16 800	
General expenses	<u>8 500</u>	<u>25 300</u>
Profit for six months		<u>7 900</u>
Balance Sheet		
	\$	\$
Premises at cost		45 000
Trade receivables		1 380
Rent received		1 200
Balance at bank		5 210
Purchase of stationery		<u>110</u>
		<u>52 900</u>
Loan interest paid		200
Capital (balancing figure)		<u>52 700</u>
		<u>52 900</u>

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REQUIRED

- (c) (i) State the difference between capital expenditure and revenue expenditure.

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[2]

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- (ii) State the difference between capital receipts and revenue receipts.

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[2]

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- (d) Calculate the corrected profit of Leo Yang for the six months ended 30 April 2011.

Leo Yang
Statement of corrected profit for the six months ended 30 April 2011

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[7]

[Total: 22]

- 5** Bethany Searle is a trader. Her financial year ends on 31 March. The trial balance prepared on 31 March 2012 failed to agree. The difference was entered in a suspense account.

The following errors were later discovered.

- 1 The total of the discount received column in the cash book, \$96, had not been posted to the ledger.
- 2 Cash received from a tenant, \$340, had been entered in the cash book but had not been posted to the rent received account.
- 3 Stationery returned to the supplier, \$24, had been correctly entered in the supplier's account but had been entered in the purchases returns journal.
- 4 The balance of the petty cash book, \$100, had not been included in the trial balance.
- 5 The total of the sales journal had been overcast by \$1000.

REQUIRED

- (a) Prepare the entries in Bethany Searle's journal to correct the above errors.

Narratives are **not** required.

The first one has been completed as an example.

Bethany Searle
Journal

		Debit \$	Credit \$
1	Suspense www.igcseaccounts.com <i>Discount received</i>	96	96
2	..........	..........	..........
3	..........	..........	..........
4	..........	..........	..........
5	..........	..........	..........

[8]

Before the errors were discovered Bethany Searle calculated that she had made a profit for the year ended 31 March 2012 of \$14 940.

REQUIRED

- (b) Prepare a statement to show the effect of correcting errors 1-5 on the original profit for the year.

If the error does not affect the profit for the year write “No effect”.

The first correction has been completed as an example.

Bethany Searle
Statement of corrected profit for the year ended 31 March 2012

[9]

Bethany Searle provided the following information at 31 March 2012.

	\$
Trade payables	21 570
Trade receivables	19 540
Bank overdraft	2 880
Cash	100
Inventory	14 210

REQUIRED

- (c) Calculate the quick ratio. The calculation should be correct to two decimal places.

Show your workings.

[2]

[2]

- (d) Explain the importance of the quick ratio to Bethany Searle.

[2]

- (e) Explain why the quick ratio is more reliable as an indicator of liquidity than the current ratio.

[2]

[Total: 23]

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- 4** Mbane sells craft items from a market stall. He sells for cash and buys his goods on credit. He prepared the following trial balance at 31 October 2012. Although the trial balance totals were equal, Mbane had made some errors.

*For
Examiner's
Use*

Mbane
Trial Balance at 31 October 2012

	Dr	Cr
	\$	\$
Capital	2 600	
Motor vehicle	4 400	
Purchases	12 400	
Trade payables	3 200	
Revenue		30 800
Inventory 31 October 2012	3 300	
General expenses	600	
Cash at bank		5 200
Motor vehicle expenses	860	
Drawings	8 640	
	<hr/>	<hr/>
	36 000	36 000

Mbane had inventory on 1 November 2011 of \$4500.

REQUIRED

- (a) Prepare a corrected trial balance at 31 October 2012.

Mbane
Corrected Trial Balance at 31 October 2012
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[7]

- (b) From your answer to (a) and the other information shown, prepare Mbane's income statement for the year ended 31 October 2012.

Mbane
Income Statement for the year ended 31 October 2012

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[8]

- (c) (i) State the formula for the calculation of working capital.

[1]

[1]

- (ii) Calculate Mbane's working capital at 31 October 2012.

[2]

[2]

Mbane wishes to know the effect on his working capital of changes in his business.

REQUIRED

- (d) In the table below, place a tick (✓) under the correct heading to show the effect on Mbane's working capital of **each** of the following.

	Increase	Decrease	No change
Increased revenue			
Increased trade payables			
Increased motor expenses			
Reduced drawings			

[4]

- (e) (i) State the formula for the calculation of the current ratio.

.....
.....

[1]

- (ii) Calculate Mbane's current ratio at 31 October 2012. Give your answer to **one** decimal place.

.....
.....
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[2]

[Total: 25]