BUSINESS ACCOUNTS

4th edition

Question bank

Published by Osborne Books Limited
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Introduction

What this resource contains

This on-line resource has been produced to provide a bank of questions in addition to those contained in the main text of Osborne Books' *Business Accounts*.

Questions are presented in the chapter order of *Business Accounts*, but are prefixed with the letter 'Q' – for example Q1.1, Q1.2 – in order to distinguish them from the questions in the main text.

Ordering 'Business Accounts'

The main text *Business Accounts* may be ordered through our on-line bookshop at www.osbornebooks.co.uk

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Question Bank

Q1.1 Write out the figures which make up the accounting equation (assets – liabilities = capital) after each of the following consecutive transactions (ignore VAT):

- owner starts in business with capital of £10,000 comprising £9,000 in the bank and £1,000 in cash
- buys office equipment for £2,500, paying by cheque
- obtains a loan of £2,000 by cheque from a friend
- buys factory machinery for £8,000, paying by cheque
- buys office equipment for £2,000 on credit from Wyvern Office Supplies

Q1.2 Fill in the missing figures:

	Assets £	**Liabilities** £	**Capital** £
(a)	10,000	0	....
(b)	20,000	7,500	....
(c)	16,750	....	10,500
(d)	....	4,350	12,680
(e)	17,290	....	11,865
(f)	....	6,709	17,294

Q1.3 The table below sets out account balances from the books of a business. The columns (a) to (f) show the account balances resulting from a series of transactions that have taken place over time. You are to compare each set of adjacent columns, ie (a) with (b) with (c), and so on, and state, with figures, what accounting transactions have taken place in each case. (Ignore VAT).

	(a) £	(b) £	(c) £	(d) £	(e) £	(f) £
Assets						
Office equipment	–	5,000	5,000	5,500	5,500	5,500
Machinery	–	–	–	–	6,000	6,000
Bank	7,000	2,000	7,000	7,000	1,000	3,000
Cash	1,000	1,000	1,000	500	500	500
Liabilities						
Loan	–	–	5,000	5,000	5,000	5,000
Capital	8,000	8,000	8,000	8,000	8,000	10,000

Q2.1 The following are the business transactions of Andrew King (who is not registered for VAT) for the month of October 20-9:

1 Oct	Started in business with capital of £7,500 in the bank
4 Oct	Bought a machine for £4,000, paying by cheque
6 Oct	Bought office equipment for £2,250, paying by cheque
11 Oct	Paid rent £400, by cheque
12 Oct	Obtained a loan of £1,500 from a friend, Tina Richards, and paid her cheque into the bank
15 Oct	Paid wages £500, by cheque
18 Oct	Commission received £200, by cheque
20 Oct	Drawings £250, by cheque
25 Oct	Paid wages £450, by cheque

You are to:

(a) write up Andrew King's bank account

(b) complete the double-entry book-keeping transactions

Q2.2

The following account appears in the books of Peter Singh:

Bank Account

Dr					Cr
20-4		£	20-4		£
1 Jan	Capital	10,000	2 Jan	Office Equipment	3,000
4 Jan	Commission received	500	3 Jan	Rates	1,500
7 Jan	Bank Loan	2,500	5 Jan	Cash	250
			6 Jan	Drawings	500
			8 Jan	Van	7,500

Taking each transaction in turn, describe to Peter Singh the transaction undertaken by his business, and explain the other account in which each appears in his double-entry accounts.

Q3.1 The following are the business transactions of Weston Traders for the month of May 20-2:

1 May	Started in business with capital of £7,500 in the bank
3 May	Bought goods, £1,000, paying by cheque
4 May	Sold goods, £750, a cheque being received
6 May	Bought shop fittings for £2,000, paying by cheque
7 May	Bought goods, £1,250, on credit from Bristol Supplies Limited
10 May	Paid rent, £750, by cheque
12 May	Sold goods, £1,500, on credit to Gordano Giftware
14 May	Returned goods, £150, to Bristol Supplies Limited
16 May	Paid wages, £1,500, by cheque
18 May	Paid the amount owing to Bristol Supplies Limited by cheque
21 May	Gordano Giftware returned goods, £250
24 May	Paid rent, £750, by cheque
26 May	Sold goods, £550, a cheque being received
28 May	Received a cheque from Gordano Giftware for the amount owing

You are to record the transactions in the books of account.

Q3.2 For each transaction below, complete the table to show the names of the accounts which will be debited and credited:

(a) Bought goods on credit from Armscott Limited
(b) Sold goods on credit to Orion Limited
(c) Paid the carriage charge, by cheque, to deliver the goods to Orion Limited
(d) Bought a photocopier for use in the business on credit from Office Products Limited
(e) Returned unsatisfactory goods to Armscott Limited
(f) Orion Limited returned unsatisfactory goods
(g) Paid the amount owing to Armscott Limited by cheque
(h) Received a cheque from Orion Limited for the amount owing

Transaction	*Account debited*	*Account credited*
(a)	....	....
(b)	....	....
(c)	....	....
(d)	....	....
(e)	....	....
(f)	....	....
(g)	....	....
(h)	....	....

Q4.1 Study carefully the following document received by W Hoddle Limited:

STATEMENT OF ACCOUNT

F. RAMSEY & SON
31 NORTH STREET
LIVERPOOL

W Hoddle Ltd
Blackpool Road
Manchester

31 July 20-7

Date	Reference	Dr	Cr	Balance
July 1	B/F			Dr 522.80
July 8	62290	178.00		700.80
July 12	63492	132.80		833.60
July 14	Cash & Disc		522.80	310.80
July 17	89247	480.00		790.80
July 20	864		58.00	732.80
July 30	91082	347.20		1,080.00

Cash Discount 5% if paid within ONE month of this Statement

(a) In the above transactions, who is the supplier of the goods?

(b) Explain the transactions that gave rise to the entries dated
   (i) 12 July
   (ii) 14 July
   (iii) 20 July

(c) If W Hoddle Ltd paid the above account on 18 August 20-7, how much cash discount did they receive?

(d) Assume W Hoddle Ltd prepared a balance sheet on 31 July 20-7, state where, in the balance sheet, F Ramsey & Son's balance should have appeared.

(e) In the ledger of F Ramsey & Son, show W Hoddle Ltd's account up to and including 14 July 20-7.

Q4.2 Compudisk sells computer disks and has a special sales offer. A box of ten disks normally sells at £8.00 (excluding VAT). Compudisk is offering a 20% trade discount for orders of ten boxes or more. It receives the following orders by e-mail:

(a) 20 boxes ordered by Osborne Electronics Limited
(b) 50 boxes ordered by Helfield College
(c) 5 boxes ordered by Jim Masters
(d) 1,000 boxes ordered by Trigger Trading Limited

(i) calculate in each case
– the total cost before discount
– the discount
– the cost after discount
– the VAT at the current rate
– the total cost

(ii) Recalculate the totals for each order after allowing a cash discount of 2.5% for full settlement within 14 days.

Q5.1 A Thompson commenced business on 1 February 20-0, paying £500 into a business bank account.

During the next two months the following transactions took place. All payments are made by cheque and all receipts are banked.

February		£
1	Bought goods for resale	150
5	Paid rent	50
10	Business takings to date	290
22	Paid for advertising	25
26	A Thompson's drawings	100
27	Business takings	240
March		
2	Bought goods for resale	100
5	Paid rent	50
14	Received a loan, L Lock	450
16	Business takings	330
23	A Thompson's drawings	75
26	Business takings	180
29	Paid for advertising leaflets	30

You are required to:

(a) write up the bank account, balancing at the end of each month

(b) write up all the other accounts and balance the accounts at the end of the two month period

(c) extract a trial balance as at 31 March 20-0

Q5.2 The following account appears in the ledger of Celia Donithorn:

Georgina Harrison

Dr					Cr
		£			£
1 Feb	Balance b/d	200	3 Feb	Bank	190
6 Feb	Goods	80	3 Feb	Discount	10
			10 Feb	Returns	15

(a) What is the meaning of each item recorded in the above account? 1 February has been completed as an example:

1 Feb Georgina Harrison owes Celia Donithorn £200

(b) What percentage cash discount was deducted on 3 February?

(c) Who owes whom how much at close of business on 10 February?

Q5.3 Below are two ledger accounts in the books of Devenish Interiors. Study them carefully.

Dr		**M Johnston**			Cr
		£			£
1 Apr	Balance b/d	150	10 Apr	Bank	150
20 Apr	Sales	200	22 Apr	Returns	10
			28 Apr	Bank	100
			30 Apr	Balance c/d	90
		350			350
1 May	Balance b/d	90			

Dr		**J Kelly**			Cr
		£			£
7 Apr	Returns	20	1 Apr	Balance b/d	220
10 Apr	Bank	200	6 Apr	Purchases	110
15 Apr	Bank	105	18 Apr	Purchases	100
15 Apr	Discount received	5			
20 Apr	Returns	20			
30 Apr	Balance c/d	80			
		430			430
			1 May	Balance c/d	80

Required:

(a) Explain the opening balance in the account of:
   (i) M Johnston
   (ii) J Kelly

(b) Which of the accounts is a debtor account on 30 April?

(c) Explain the 22 April entry in M Johnston’s account.

(d) Explain the 15 April entries in J Kelly's account.

(e) What documents should have been received from J Kelly for 7 April and 20 April transactions?

Q6.1 The following invoices, in respect of purchases of goods for resale, have been received:

20-2

2 January	T F Day	£850.45
10 January	B G Moon	£1,226.48
14 January	D S Cox	£912.14
18 January	T F Day	£1,009.63
25 January	B G Moon	£461.92
28 January	T F Day	£227.39
30 January	D S Cox	£1,013.27

Note: ignore VAT

Required:

(a) rule up the purchases day book and enter the above invoices in it

(b) total the purchases day book for the month

(c) open the suppliers accounts and the purchases account

(d) post the necessary entries from the day book to these accounts

Q6.2 C Emberson, a sole trader, buys and sells goods on credit. A bank account is kept through which all amounts received and paid are entered. On 30 November 20-8 the following balances remain in the books:

	£	£
C Hills		154
L Howe		275
K Harris	330	
Bank	740	
Capital		641
	1,070	1,070

You are required to:

(a) open appropriate ledger accounts for the above and enter balances as at 1 December 20-8

(b) post the transactions indicated in the subsidiary books direct to the ledger and open any other accounts which may be required

(c) balance the accounts where necessary and extract a trial balance on 31 December 20-8

Purchases Day Book		£	VAT	Total
Dec				
13	C Hills	100	10	110
20	C Hills	150	15	165
21	L Howe	60	6	66
		310	31	341

Sales Day Book		£	VAT	Total
Dec				
11	K Harris	240	24	264
15	K Harris	80	8	88
		320	32	352

Payments Received		£
Dec		
16	K Harris	594

Payments Made		£
Dec		
8	C Hills	154
15	Printing expenses	20

Author's note: in this question a rate of VAT of 10 per cent has been used.

Q7.1 Trix Traders Limited has the following transactions for the three months ended 31 December 20-5:

	Purchases	*Expenses*	*Fixed assets*	*Sales*
	£	£	£	£
October	7,200	2,360	3,200	12,800
November	7,600	1,920	–	14,000
December	8,400	3,640	–	15,600

All transactions are subject to Value Added Tax at a rate of 20 per cent; the company accounts for VAT on a quarterly basis, with the current quarter ending on 31 December 20-5.

You are to:

(a) calculate the VAT amounts for each month

(b) show the VAT account for the quarter as it will appear in the general ledger, and balance the account at 31 December 20-5 (note: assume a nil balance on the account at 1 October)

(c) explain the significance of the balance of the VAT account at 31 December 20-5 and how it will be dealt with

Q7.2 The book-keeper of Priory Printers Limited has the following purchases invoices (PI) and sales invoices (SI) to enter into the accounts for the week commencing 10 June 20-2. All purchases and sales are subject to Value Added Tax at 20% and the amounts shown are the gross value (ie including VAT). None of the invoices for this week allows cash discount.

Date	*Number*	*Account name*	*Gross amount*
20-2			£
10 Jun	PI 2472	Paper Supplies Ltd	480.00
10 Jun	SI 1347	Wyvern Publishing	624.60
11 Jun	PI 8771	Severn Traders	169.20
12 Jun	PI X244	Computer Services Ltd	195.60
12 Jun	SI 1348	House of Cards Ltd	298.44
13 Jun	PI 2491	Paper Supplies Ltd	559.20
13 Jun	SI 1349	Lennox Publishers	737.40
14 Jun	SI 1350	House of Cards Ltd	258.36
14 Jun	SI 1351	Wyvern Publishing	564.96

Required:

(a) Write up and total Priory Printers Limited's purchases day book and sales day book for the week commencing 10 June 20-2.

(b) Record the transactions in Priory Printers Limited's purchases ledger, sales ledger, and general ledger.

(c) Balance the Value Added Tax Account at 14 June (other accounts need not be balanced) and explain the significance of the balance.

Note: assume that all accounts have nil balances at 10 June 20-2.

Q8.1 (a) List *three* ways in which a trader can pay debts other than by cash or cheque.

(b) On 1 July year 7, the debit balances in the cash book of E Rich were:

Cash £419

Bank £3,685

His transactions for the month of July were:

2 July	Received cheque from A Wood £296
6 July	Paid wages in cash £102
9 July	Paid C Hill £211 by cheque in full settlement of his account of £224
12 July	Received £146 cash for sale of damaged stock
12 July	Paid T Jarvis £1,023 by cheque in full settlement of his account of £1,051
13 July	Paid wages in cash £104
17 July	Received cheque for £500 from Atlas & Company
19 July	Paid £21 in cash for postage stamps
20 July	Paid wages in cash £102
23 July	Withdrew £200 from bank for office cash
25 July	Paid W Moore £429 by cheque
26 July	Paid wages in cash £105
28 July	Received £317 cash from T Phillips in full settlement of his account of £325, paid into bank the same day
31 July	Paid £260 cash into bank

Required:

Prepare the three-column cash book for the month of July year 7 and balance it at 31 July, bringing the balances down at 1 August.

Q8.2 Choose from the statements **A-L** given below the **one** which you think best explains the meaning of each entry shown in the cash book. Enter the letter **A-L** of your choice in the space provided in the brackets at the side of each entry.

CASH BOOK (credit side only)

		Discount	*Cash*	*Bank*
		£	£	£
2 Jan	Balance b/d			380 (........)
4 Jan	M Hughes	30 (........)		570 (........)
9 Jan	Bank		240 (........)	
16 Jan	Motor van			5,850 (........)
20 Jan	Purchases		735 (........)	
31 Jan	Balances c/d		25 (........)	260 (........)
		30	1,000	7,060

A Cash paid for the purchase of goods

B The amount of the bank overdraft

C Discount allowed by a creditor for prompt payment

D Cheque received for the sale of a motor van

E Cash withdrawn from bank

F The balance in the firm's bank account

G Value of a cheque received from a debtor

H Cash paid into bank

I Purchase of a motor van, paid for by cheque

J Discount allowed to a debtor for prompt payment

K Value of a cheque sent to a creditor

L Cash in hand at the end of the month

Q9.1 You operate a petty cash book with an imprest of £150. The following expenses, supported by vouchers, were paid out of the petty cash:

Voucher Nos			
1	3 February	Postage	£10.00
2	5 February	Travelling expenses	£6.50
3	9 February	Cleaner's wages	£25.00
4	12 February	Stationery	£7.20
5	15 February	Postage	£10.00
6	18 February	Travelling expenses	£7.30
7	20 February	Cleaner's wages	£25.00
8	24 February	Stationery	£4.75
9	26 February	T B Collins, a creditor	£3.90
10	27 February	Miscellaneous	£4.15
11	27 February	Postage	£10.00
12	28 February	Cleaner's wages	£25.00

At 1 February you had a balance of £18.26 and received cash on that date to make up the figure to the imprest amount.

Required:
Draw up the petty cash book for the month of February, including the balancing and the amount paid on 1 March year 7 to make up the imprest figure. The analysis column headings are postage, travelling expenses, stationery, wages, miscellaneous and ledger.

Q9.2 F Salmon keeps her petty cash book on the imprest system. The imprest figure was set at £350. On 1 November year 8 the balance of petty cash brought forward was £155. The following transactions took place during November year 8:

Year 8	
1 Nov	Drew cash from the bank to restore the imprest
4 Nov	Postage stamps £20
6 Nov	Train fare reimbursed £25
9 Nov	Petrol £15
10 Nov	Stationery £38
12 Nov	Bus fares £2
15 Nov	Paid £16 to P Gates – this was to refund an overpayment on his account in the sales ledger
16 Nov	Stamps £30
18 Nov	Motor van repairs £35
20 Nov	Stationery £47
23 Nov	Petrol £28
25 Nov	Miscellaneous expenses £17
28 Nov	Parcel post charges £19
30 Nov	Travelling expenses £38

Required:
Draw up F Salmon's petty cash book, using the following analysis columns: postage; travelling expenses; motor van expenses; stationery; miscellaneous expenses; ledger accounts. Balance the account at 30 November, bring down the balance of cash in hand at that date, and show the amount of cash drawn from the bank to restore the imprest on 1 December year 8.

Q10.1 Below is the cash book (bank columns only) of Andrew Clark for the month of May 20-0 together with his bank statement for the same period.

Andrew Clark

Dr			CASH BOOK		Cr
20-0		Bank	20-0		Bank
		£			£
1 May	Balance b/d	4,200	2 May	Cheque no 422	136
14 May	Sales	1,414	7 May	Cheque no 423	204
21 May	Sales	1,240	27 May	Cheque no 424	214
28 May	Sales	1,160			

BANK STATEMENT

Southern Bank plc
Northbrook Branch

In account with:
Mr Andrew Clark

Date	*Detail*	*Debit*	*Credit*	*Balance*
		£	£	£
20-0				
1 May				4,200
5 May	Cheque no 422	136		4,064
10 May	Cheque no 423	204		3,860
15 May	Counter credit		1,414	
15 May	National Insurance Company	284		4,990
22 May	Counter credit		1,240	6,230
31 May	Service charges	100		6,130

You are to:

(a) rewrite the cash book making any adjustments you consider necessary

(b) balance the cash book and bring the balance down

(c) prepare a bank reconciliation statement as at 31 May 20-0

Q10.2 Given below are the bank account and bank statement of C Cod for the month of May 20-9.

C Cod's Bank Account

		£			£
1 May	Balance	144.00	9 May	M Roe	108.00
10 May	Sales	134.00	7 May	Drawings	80.00
19 May	F Haddock	300.00	18 May	Cash	30.00
31 May	V Perch	90.00	19 May	E Skate	84.00
31 May	B Tench	48.00	24 May	British Gas	36.00
			29 May	N Fish	108.00

THE IZAAK WALTON BANK PLC

STATEMENT OF ACCOUNT

C Cod
14 Pond Street
Banktown

123578

31 May 20-9

Date	*Detail*	*Debit*	*Credit*	*Balance*
1 May	Balance			144.00 (cr)
9 May	00820	108.00		36.00
10 May	Sundries		134.00	170.00
11 May	00821	80.00		90.00
18 May	00822	30.00		60.00
24 May	Cheque		300.00	360.00
24 May	00823	84.00		276.00
29 May	Mortgage SO	90.00		186.00
31 May	00824	36.00		150.00
31 May	Charges	14.00		136.00

You are to:

(a) Starting with the final balance on the bank account, which you have to calculate, bring the bank account up-to-date by referring to the bank statement of account

(b) Prepare a bank reconciliation statement for C Cod as on 31 May 20-9

Q10.3 Kirsty McDonald has recently received the following bank statement:

National Bank plc
Kirsty McDonald Statement of Account

Date	*Details*	*Debits*	*Credits*	*Balance*
		£	£	£
20-0				
30 Oct	Balance			841
31 Oct	606218	23		818
5 Nov	Sundry Credit		46	864
7 Nov	606219	161		703
9 Nov	Direct Debit	18		685
12 Nov	606222	93		592
15 Nov	Sundry Credit		207	799
19 Nov	606223	246		553
19 Nov	Bank Giro Credit		146	699
20 Nov	Bank Giro Credit		246	945
21 Nov	606221	43		902
21 Nov	Sundry Credit		63	965
22 Nov	Bank Giro Credit		79	1,044
23 Nov	Loan Interest	391		653
26 Nov	606220	87		566
26 Nov	Deposit A/C Interest		84	650
27 Nov	606226	74		576
28 Nov	Sundry Credit		88	664
30 Nov	606225	185		479

Her cash book showed the following details:

20-0		£	20-0		Cheque No	£
1 Nov	Balance b/d	818	2 Nov	Rent	219	161
5 Nov	B Mason	46	5 Nov	H Gibson	220	87
8 Nov	K Dean	146	7 Nov	G Wise	221	43
14 Nov	G Hunt	207	8 Nov	T Allen	222	93
16 Nov	C Charlton	79	12 Nov	Gas	223	246
19 Nov	D Banks	63	15 Nov	F Causer	224	692
26 Nov	P Perry	88	19 Nov	M Lewis	225	185
28 Nov	A Palmer	29	23 Nov	G Bridges	226	74
30 Nov	J Dixon	17	29 Nov	L Wilson	227	27
30 Nov	Balance c/d	206	29 Nov	P Brown	228	91
		1,699				1,699

Required:

(a) Bring the cash book balance of £206 up-to-date as at 30 November 20-0
(b) Draw up a bank reconciliation statement as at 30 November 20-0

Q10.4 The following account appears in your purchases ledger:

Convex Co Ltd

20-9		£	20-9		£
7 Oct	Bank	711	1 Oct	Balance b/d	776
7 Oct	Discount	37	4 Oct	Purchases	498
30 Oct	Bank	1,235	25 Oct	Purchases	1,022
	Discount	65			
31 Oct	Balance c/d	248			
		2,296			2,296
			1 Nov	Balance b/d	248

During the first week in November a statement of account was received from Convex Co Ltd as follows:

20-9		£	£	£
1 Oct	Balance			1,000
4 Oct	Sales	498		1,498
5 Oct	Bank		220	
	Discount		4	1,274
10 Oct	Bank		711	
	Discount		37	526
25 Oct	Sales	1,022		1,548

You are required to:

(a) reconcile the opening balance of £1,000 on the statement with that of £776 in your books

(b) reconcile the closing balance of £248 on your ledger account with that of £1,548 shown on the statement

Q12.1 (a) Complete the table below for each item (1) to (7) indicating with a tick:

(i) whether the item would normally appear in the debit or credit column of the trial balance, and

(ii) in which 'final account' the item would appear at the end of the accounting period.

	(i) TRIAL BALANCE		(ii) FINAL ACCOUNTS		
	Debit	Credit	Trading	Profit/Loss	Balance Sheet
1. Rent paid					
2. Van					
3. Sales					
4. Creditors					
5. Purchases					
6. Capital					
7. Salaries					

(b) Name one item not necessarily included in part (a), which could appear more than once in the final accounts at the year-end.

Q12.2 The following trial balance was extracted from the books of Jane Walsh (who is the proprietor of a fabric shop) at the end of her financial year 30 April 20-0:

Trial balance as at 30 April 20-0

	Dr	Cr
	£	£
Sales		30,000
Purchases	15,700	
Shop fittings	13,000	
Capital		15,000
Opening stock	4,700	
Bank		610
Cash		100
Shop wages	4,420	
Debtors	120	
Drawings	3,500	
Creditors		2,030
Light and heat	260	
Rent		4,500
Insurance	120	
	47,030	47,030

In preparing the year-end accounts, the following should be accounted for:

- the stock at the end of the year was valued at £4,400

You are required to:

(a) prepare Jane's trading account for the year ended 30 April 20-0
(b) prepare Jane's profit and loss account for the year ended 30 April 20-0
(c) draft Jane's balance sheet as at 30 April 20-0

Q13.1 The following trial balance was extracted from the books of Jane Osman who is the proprietor of a computer store, at the end of her financial year 31 March 20-2:

TRIAL BALANCE
as at 31 March 20-2

	Dr £	*Cr* £
Sales		60,800
Purchases	31,400	
Shop fittings	26,000	
Capital		29,000
Opening Stock (1 April 20-1)	9,400	
Bank	1,220	
Cash	190	
Shop wages	8,850	
Debtors	230	
Drawings	7,000	
Creditors		4,550
Light and heat	520	
Rent	8,500	
Insurance	240	
Sales returns	800	
	94,350	94,350

In preparing the year-end accounts, the following should be accounted for:

1. the stock at the end of the year was valued at £8,800
2. there is an accrual on shop wages amounting to £350
3. the insurance is paid in advance by £60

You are required to:

(a) prepare Jane's trading account for the year ended 31 March 20-2

(b) prepare Jane's profit and loss account for the year ended 31 March 20-2

(c) draft Jane's balance sheet as at 31 March 20-2

Q13.2 Sandra Black operates a secretarial service to farmers and the following trial balance was extracted from her books on 31 May 20-0.

	£	£
Income from clients		32,500
Commissions from other sources		800
Discounts received		150
Stationery	2,100	
Wages	7,600	
Equipment	4,500	
Vehicles	6,500	
Rent and rates	2,350	
Vehicle expenses	2,000	
Light and heat	800	
Insurance	850	
Telephone	280	
Sundry expenses	175	
Drawings	11,200	
Debtors	760	
Creditors		670
Bank overdraft		250
Cash in hand	175	
Capital		4,920
	39,290	39,290

Notes:

(a) At 31 May 20-0 there is an unpaid telephone bill of £52 and an unpaid electricity bill of £45.

(b) Business rates prepaid at 31 May 20-0 are £120.

(c) On 31 May 20-0 there is an unused stock of stationery valued at £150.

You are required to:

Prepare a profit and loss account for Sandra Black for the year ended 31 May 20-0 and a balance sheet as at that date, showing clearly therein the value of her capital, fixed assets, current assets and current liabilities.

Q13.3 The trial balance of Bilton Potteries prepared after calculation of the gross profit is shown below:

BILTON POTTERIES
Trial balance as at 31 January 20-2

	Debit	*Credit*
	£	£
Capital		7,000
Premises	5,000	
Bank	3,218	
Debtors	434	
Stock (31 January 20-2)	1,000	
Creditors		870
Drawings	3,800	
Insurance	450	
Rent receivable		225
Rates	500	
Wages	5,200	
Gross profit for year-ended 31 January 20-2		11,507
	19,602	19,602

A detailed review by the accountant revealed that the following adjustments were outstanding:

(i) Rates amounting to £100 had been paid in advance.

(ii) Rent receivable of £75 was still outstanding at 31 January 20-2.

(iii) The insurance total included the payment of £50 for private house contents insurance.

(iv) Wages owing amounted to £300.

Requirements:

(a) Open up the appropriate ledger accounts and post the above adjustments. Balance off these ledger accounts.

(b) Prepare a profit and loss account for the year ended 31 January 20-2 and a balance sheet as at that date, after the above adjustments have been posted.

Q13.4 A Bush is a sole trader who occupies rented premises. The annual rental is £2,400 which he pays quarterly. His lease and financial year commenced on 1 August year 1.

During his first financial year, A Bush made the following payments in respect of rent:

		£
Year 1	1 August	600
	4 November	600
Year 2	31 March	600
	8 August	600

He paid rates on the premises as follows:

Year 1	31 August	£75 for period 1 August to 30 September year 1
	22 October	£220 for period 1 October to 31 March year 2
Year 2	17 April	£270 for period 1 April to 30 September year 2

He paid electricity bills as follows:

Year 1	17 October	£310
Year 2	21 January	£390
Year 2	10 April	£360

An electricity bill of £420 accrued due had not been paid.

Required:

(i) Open the following accounts and, for the year ended 31 July year 2, enter the payments and make the necessary year-end adjustments for prepayments or accruals. Enter the transfers to profit and loss account and bring down balances at 1 August year 2.

  (a) Rent payable
  (b) Rates
  (c) Electricity

(ii) Show the relevant extracts covering the above items from the balance sheet of A Bush as at 31 July year 2.

Q14.1 Bert Greenwood bought a new vending machine for his business on 1 January 20-7 at a cost of £8,000. He intends to write off depreciation of the machine at the end of each business year which is 31 December. Greenwood however cannot decide whether to write off the depreciation by the straight-line method or the reducing balance method.

Required:

(a) Prepare the provision for depreciation of machinery account as it should appear for the years 20-7 and 20-8 under:
   (i) straight-line method at 12.5% per annum;
   (ii) reducing balance method at 15% per annum.

(b) The balance sheet extracts for the years 20-7 and 20-8 showing the book value of the machinery after depreciation by the reducing balance method.

Q14.2 From the following trial balance extracted from the books of Paulo Gavinci, restaurateur, you are required to prepare the trading and profit and loss account for the year ended 30 April 20-0 and the balance sheet as at that date.

Trial balance as at 30 April 20-0

	Dr	Cr
	£	£
Capital		75,000
Fixtures and fittings	95,000	
Delivery vehicle	8,000	
Opening stock	2,000	
Cash	450	
Bank		4,300
Bank loan (long-term)		30,000
Purchases	190,250	
Sales		300,000
Creditors		5,000
Wages	45,000	
Drawings	25,000	
Purchases returns		400
Rent	31,800	
General expenses	17,200	
	414,700	414,700

You should also take the following additional information into account:

(a) Closing stock at 30 April 20-0 was £1,600

(b) Depreciation is to be provided as follows on a straight line basis:
   Fixtures and fittings – 20% on cost
   Delivery vehicle – 25% on cost

(c) Paulo took goods for personal use amounting to £250 at cost and an adjustment needs to be made for this

(d) Provide for:
   Rent prepaid £2,000
   Wages accrued £1,000

Q14.3 Colin and Reena Tan have run a small road haulage firm since 20-5, when they started the business with three transit vans which cost £30,000 each in 20-5.

The accounts relating to the transit vans have been lost and you are required to prepare and update the accounts from the following details and information available:

A charge of 20% depreciation has been charged on the vans using the reducing balance method. On 1 January 20-8, a further transit van was purchased at a cost of £48,000 and on 30 June one of the original vans was sold for £10,000.

Depreciation is charged in the year of purchase but none in the year of sale.

You are required to prepare:

(a) vehicles account starting from 1 January 20-8;

(b) provision for depreciation of vehicles/transit vans;

(c) asset disposal account.

Q14.4 The following table shows the cumulative effects of a succession of separate transactions on the assets and liabilities of a business:

Transactions:		*A*	*B*	*C*	*D*	*E*	*F*	*G*	*H*	*I*	*J*
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Assets:											
Property	300	300	300	350	350	350	350	350	350	350	350
Motor vans	50	50	50	50	50	50	50	47	47	47	47
Stock	56	56	60	60	55	55	55	55	55	55	55
Debtors	65	65	65	65	72	72	72	72	72	72	65
Prepayments	10	10	10	10	10	10	10	10	10	10	10
Bank	17	47	47	47	47	44	34	38	33	32	39
Cash	2	2	2	2	2	5	5	5	5	5	5
	500	530	534	584	586	586	576	577	572	571	571
Liabilities:											
Capital	320	350	350	350	352	352	352	353	354	354	354
Loan	125	125	125	175	175	175	175	175	175	174	174
Creditors	42	42	46	46	46	46	46	46	40	40	40
Accruals	13	13	13	13	13	13	3	3	3	3	3
	500	530	534	584	586	586	576	577	572	571	571

Required:

Identify clearly and as fully as you can what transaction has taken place in each case. Do not copy out the table but use the reference letter for each transaction.

Q15.1 The following trial balance was extracted from the books of Paula Jones, a retail grocer, at the end of her financial year 31 March 20-0.

Trial balance as at 31 March 20-0

	Dr	*Cr*
	£	£
Capital		200,000
Debtors	6,000	
Creditors		4,000
Drawings	38,000	
Cash in hand	100	
Bank		4,630
Sales		168,000
Purchases	96,000	
Opening stock	6,400	
Sales returns	1,000	
Carriage inwards	400	
Discount received		250
Discount allowed	380	
Premises	187,000	
Fixtures and fittings (at cost)	20,000	
Provision for depreciation on fixtures		6,000
Rates	4,400	
Insurance	1,200	
Wages and salaries	22,000	
	382,880	382,880

In preparing the year-end accounts, the following should be accounted for:

1. The closing stock was valued at £6,800
2. Wages and salaries due but not paid amount to £1,000
3. There is a prepayment on rates amounting to £600
4. A debt amounting to £120 is considered irrecoverable
5. Depreciation on fixtures is to be provided at the rate of 10% per annum on cost

You are required to:

(a) prepare Paula's trading account for the year ended 31 March 20-0

(b) prepare Paula's profit and loss account for the year

(c) draft Paula's balance sheet as at 31 March 20-0

Q15.2 The following trial balance was extracted from the books of Sandra Shenstone, a sole trader, as at the close of business on 30 June year 5:

	Dr	*Cr*
	£	£
Capital account		6,400
Wages and salaries	6,800	
Discounts allowed and received	260	340
Purchases and sales	12,830	26,700
Rent	2,600	
Bad debts written off	420	
Drawings	2,450	
Delivery van	1,800	
Bank overdraft		2,200
Returns inwards	340	
Office furniture and equipment, at cost	1,600	
Van running expenses	780	
Rates and insurance	760	
Debtors and creditors	4,650	2,950
General office expenses	320	
Stock, 1 July year 4	2,930	
Cash in hand	50	
	38,590	38,590

The following adjustments are to be made:

- Provide for depreciation as follows:
  Delivery van – £600
  Office furniture and equipment – 25% per annum on cost
- A provision of 2% of Debtors is to be created for doubtful debts
- Stock, 30 June year 5 – £3,160

Required:
Prepare a trading and profit and loss account for the year ended 30 June year 5, together with a balance sheet at that date.

Q15.3 The following is the trial balance extracted from the ledger of Stamper, a sole trader who runs a shop, at 31 December 20-9:

	£	£
Capital 1 January 20-9		52,500
Drawings	20,000	
Sales		150,750
Purchases	112,800	
Stock at 1 January 20-9	25,600	
Wages	12,610	
Rent	2,500	
Motor expenses	1,240	
Motor vehicle:		
at cost	17,000	
accumulated depreciation at 1 January 20-9		3,000
Equipment:		
at cost	15,000	
accumulated depreciation at 1 January 20-9		4,500
Bank	900	
Debtors	9,950	
Creditors		8,100
Cash float	250	
Insurance	1,000	
	218,850	218,850

You are given the following additional information:

1. Stock at 31 December 20-9 was valued at £27,350.
2. Rent of £500 (included in the figure of £2,500 above) was prepaid at 31 December 20-9.
3. Motor expenses of £140 are to be accrued at 31 December 20-9.
4. A bad debt of £200 is to be written off.
5. An invoice for insurance of £450 was wrongly recorded as purchases, and is included under purchases in the trial balance.
6. The motor vehicle is depreciated on the straight line basis assuming a life of four years and a residual value of £5,000; the equipment is depreciated on the reducing balance basis using an annual rate of 30%.

Required:

Prepare the trading and profit and loss account of Stamper for the year to 31 December 20-9 and the balance sheet at that date.

Q15.4 The following trial balance was extracted from the books of Percival Porteous at 31 May 20-0.

Trial balance as at 31 May 20-0

	£	£
Capital		54,960
Drawings	8,280	
Premises at cost	54,000	
Sundry debtors and creditors	7,500	6,228
Opening stock	11,100	
Salaries	5,280	
Carriage inwards	2,190	
Carriage outwards	2,340	
Rates and insurance	2,790	
Purchases and sales	102,000	145,185
Returns inwards and outwards	780	1,440
Advertising	1,041	
Bad debts	240	
Rent receivable		960
Office equipment at cost	6,000	
Shop fittings at cost	18,000	
Provision for depreciation:		
Office equipment		1,200
Shop fittings		4,800
Cash in hand	1,020	
Bank overdraft		7,488
Provision for bad debts		300
	222,561	222,561

You are given the following additional information:

(i) Stock valued at 31 May 20-0 £12,600

(ii) Salaries due but unpaid £1,800

(iii) Rates and insurance prepaid £310

(iv) The provision for bad debts is to be adjusted to 5% of debtors outstanding on 31 May 20-0

(v) Depreciation is written off fixed assets as follows:
Office equipment 10% per annum using the straight line basis
Shop fittings 5% per annum using the reducing balance

You are required to:

Prepare Porteous's trading and profit and loss account for the year ended 31 May 20-0 showing clearly

(a) the cost of goods sold

(b) gross profit and net profit

and the balance sheet as at 31 May 20-0, highlighting the working capital.

Q16.1 The following trial balance has been extracted by the book-keeper of Matt Smith at 31 December 20-8:

	Dr	Cr
	£	£
Stock at 1 January 20-8	14,350	
Purchases	114,472	
Sales		259,688
Rates	13,718	
Heating and lighting	12,540	
Wages and salaries	42,614	
Motor vehicle expenses	5,817	
Advertising	6,341	
Premises	75,000	
Office equipment	33,000	
Motor vehicles	21,500	
Debtors	23,854	
Bank	1,235	
Cash	125	
Capital		62,500
Drawings	12,358	
Loan from bank		35,000
Creditors		14,258
Value Added Tax		5,478
	376,924	376,924

Note: stock at 31 December 20-8 was valued at £16,280

You are to prepare the figures for the final accounts of Matt Smith for the year ended 31 December 20-8, using the extended trial balance method.

Q16.2 The following trial balance has been extracted by the book-keeper of Jane Jones, who sells carpets, as at 31 December 20-9:

	Dr	Cr
	£	£
Debtors	37,200	
Creditors		30,640
Value Added Tax		4,280
Bank	14,640	
Capital		50,500
Sales		289,620
Purchases	182,636	
Stock at 1 January 20-9	32,020	
Wages and salaries	36,930	
Heat and light	3,640	
Rent and rates	11,294	
Vehicles	20,000	
Provision for depreciation on vehicles		4,000
Equipment	10,000	
Provision for depreciation on equipment		1,000
Sundry expenses	1,690	
Motor expenses	3,368	
Drawings	26,622	
	380,040	380,040

Notes at 31 December 20-9:

- stock was valued at £34,000
- bad debts of £2,200 are to be written off and a provision for bad debts of 5% is to be created
- vehicles are to be depreciated at 20% per annum and equipment at 10% per annum (both using the reducing balance method)
- there are sundry expenses accruals of £270, and rates prepayments of £2,190

You are to prepare the figures for the final accounts of Jane Jones for the year ended 31 December 20-9, using the extended trial balance method.

CHAPTER 17 The Regulatory Framework of Accounting

Q17.1 The following information relates to Maynard Autos Limited:

Purchases	*Sales*	
June 20-1	800 units @ £6.00	
July 20-1		700 units
September 20-1	1,200 units @ £7.00	
December 20-1		600 units
February 20-2	1,000 units @ £8.00	
April 20-2		400 units
May 20-2	700 units @ £10.00	

You have been asked to value the stock:

(i) using the FIFO method

(ii) using the LIFO method

Q17.2 A and B are in business, buying and selling goods for resale. Neither of them are accountants but A has read a book on stock control whereas B has purchased a software package for daily stock records. During September 20-9 the following transactions occurred:

1 September	Balance brought forward: NIL
3 September	Bought 200 units @ £1.00 each
7 September	Sold 180 units
8 September	Bought 240 units @ £1.50 each
14 September	Sold 170 units
15 September	Bought 230 units @ £2.00 each
21 September	Sold 150 units

A prepares the stores ledger card using the LIFO method and B uses the same data to test the software package which uses the weighted average method of pricing.

You are required to:

(a) show the ledger cards as they would appear for each method (calculations should be made to two decimal places of £1.00);

(b) comment on the effect on profits of using each method of valuing stock.

Q17.3 D Swift maintains manually prepared stock record cards for the recording of the receipts and issues of various items of stock held in the stores.

You are required to:

(i) draw up a stock record card showing the following rulings and headings:

Item *STOCK CARD*

Date	*Details*	*Receipts*		*Issues*		*Balance*	
		Units	*£*	*Units*	*£*	*Units*	*£*
20-9 1 Sep	Balance					12	144

(ii) record the following movements of the item of stock reference number DW/04 for the month of September 20-9. The cost price of each item is £12 and there were 12 items in stock at 1 September 20-9.

Receipts

8 September	Invoice no 784	20 units
15 September	Invoice no 847	48 units
22 September	Invoice no 984	20 units

Issues

6 September	Issue Note no A237	8 units
17 September	Issue Note no D534	18 units
24 September	Issue Note no B631	64 units

On making a physical stockcheck on 30 September 20-9, Swift discovered that there were 8 units in stock. Adjust the stock record card for this difference and give some explanation.

Q18.1 On 1 May 20-0 the financial position of Carol Green was as follows:

	£
Freehold premises	45,000
Fixtures and fittings	12,500
Motor vehicles	9,500
Bank overdraft	2,800
Cash in hand	650
Stock in hand	1,320
F Hardy (a trade debtor)	160
A Darby (a trade creditor)	270

You are required to:
make a journal entry for the above showing clearly the capital of Carol Green on 1 May 20-0.

Q18.2 W E Carryit set up in business as a haulage contractor on 1 November 20-5. He decides to maintain his vehicle account at cost and to keep a separate provision for depreciation account. Vehicles are to be depreciated by 25% per annum using the reducing balance method. Depreciation is to be calculated on assets in existence at the end of each year, a full year's depreciation being charged in the year of purchase and none being charged in the year of disposal.

1 November 20-5	Bought lorry costing £12,000, paying by cheque.
6 December 20-6	Bought lorry costing £18,000, paying by cheque.
1 January 20-7	The lorry bought on 1 November 20-5 was written off in an accident; the insurance company paying £8,450 in full settlement of the claim.
7 March 20-8	A new lorry costing £28,000 was bought on credit from Supatruks Ltd; they allowing £13,500 (ie its book value) in part exchange for the lorry bought on 6 December 20-6. The balance is to be paid in one year's time.

You are required to:

(a) prepare the vehicle accounts and provision for depreciation accounts for the years ended 31 October 20-6, 20-7 and 20-8, and to show how vehicles would have appeared in the balance sheet as at those dates.

(b) give journal entries for the transactions which took place on 1 January 20-7 and 7 March 20-8.

Note: Disposal accounts are not required.

Q19.1 The Cashier extracts a trial balance which fails to agree; he then places the difference in a suspense account and tries to find the errors which have caused his trial balance to disagree.

The following errors are found:

(a) Discount allowed to Forest and Company entered as £35 debited to their account.

(b) Purchases of goods for £910 from Drystone Brothers posted to their account in error as £700.

(c) Sales day book had been overcast by £70.

(d) Balance on Clair and Sons' account of £245 in the sales ledger extracted in error as £385.

Show the suspense account after the above errors have been adjusted and the amount of the original error has been placed in the account.

Q19.2 Sally Jones was not able to balance her trial balance at 30 April 20-0 so she opened a suspense account to balance the trial balance.

Subsequently she discovered the following errors:

1. the sale proceeds of an old delivery van amounting to £700 were placed to the sales account
2. discount allowed amounting to £400 were entered as a credit balance in the trial balance
3. debtors amounting to £500 had not been included in the trial balance total

You are required to:

(a) make appropriate journal entries to rectify the errors

(b) draft the suspense account after the errors have been corrected showing the original balance

Sally also wishes to create a provision for bad debts for £500 and write off a bad debt for Simon Joseph for £250

Draft the journal entry for these items.

Q19.3 William Trent, in business as a dealer in hardware goods, found that his trial balance at 30 September year 12 did not agree and accordingly opened a suspense account. A subsequent search revealed the following errors or omissions:

1. Goods returned by F Mortimer £124 had been credited to his account and entered in the returns outwards book.
2. A cheque for £47 received from L Johnson had been dishonoured and posted in error from the cash book to the general expenses account. Trent had no intention as yet of treating the debt as irrecoverable.
3. Trent had taken goods, value £225 at cost, for his personal use: no entry had been made in the books.
4. A credit note for £850 in respect of a trade-in allowance obtained on one of the business motor vans had been incorrectly credited to both sales account and motor vans disposal account.
5. A payment by cheque of £45 for having the computer installation serviced had been posted to the computer asset account.

Required:

(i) Journal entries correcting these errors/omissions, including narrations.

(ii) The suspense account

Note: If no entry is required in respect of any item, state this as a note beneath the account.

(iii) A statement, in the following form, showing the effect of each of these errors/omissions on the profit of the business:

	Profit under-stated	*Profit over-stated*
	£	£
1.		
2.		
3.		
4.		
5.		

CHAPTER 20 Control Accounts

Q20.1 The sales ledgers of John Hine Limited were split into two sections and each section was balanced separately. Section 1 covered all dealings with food. Section 2 covered all dealings with clothing.

On 1 January the sales ledger balances were:

Section 1	£84,200 debit	Section 2	£136,200 debit
Section 1	£190 credit	Section 2	£1,260 credit

During the twelve months to 31 December the books of original entry showed the following:

	Section 1	*Section 2*
Sales	678,672	497,285
Cash received from debtors	697,384	526,294
Returns inwards	3,475	1,226
Discount allowed	2,760	887
Bad debts written off	3,660	1,284

At 31 December the credit balances in the sales ledger were:

Section 1	£281	Section 2	£1,328

You are required to prepare control accounts for the two sections for the year ended 31 December and to carry down the balances as at that date.

Q20.2 On 1 January 20-7, the balances in the bought ledger (purchases ledger) of John Matthews & Co, were £13,140.

During the half-year ending 30 June 20-7, transactions had taken place which resulted as follows:

	£
Purchases	69,010
Cash paid to creditors	59,328
Discount receivable	2,472
Purchases returns	930
Interest charged by creditors	150
Transfers to credit accounts in sales ledger	220
Cash overpaid returned	20

(a) Prepare the bought ledger control account for the half-year.

(b) Give two reasons for keeping such an account.

Q20.3 Rocker Ltd keeps control accounts for its sales and purchases ledgers which it balances at the end of each month. The balances on these accounts at 31 March 20-0 were:

	Debit	*Credit*
	£	£
Purchases ledger	782	78,298
Sales ledger	95,617	613

The following transactions and adjustments took place during April 20-0:

	£
Sales on credit	759,348
Purchases on credit	621,591
Cash sales	202,651
Cash purchases	7,985
Returns from credit customers	3,549
Returns to credit suppliers	4,581
Cash received from credit customers	703,195
Cash paid to credit suppliers	612,116
Discounts received	8,570
Discounts allowed	25,355
Bad debts written off	5,123
Provision for doubtful debts increased by	458

At 30 April 20-0, there were credit balances on the sales ledger totalling £161 and debit balances on the purchases ledger totalling £329.

Required:

Prepare the sales ledger control account and purchases ledger control account of Rocker Ltd for April 20-0, carrying down the balances as at 30 April 20-0.

Q20.4 Mr James Ip keeps both sales and purchases ledgers. From the following details relating to his debtors and creditors, write up the sales ledger control account and the purchases ledger control account for the month of May 20-0. Explain why Mr Ip would prepare such control accounts and give two reasons for a credit balance on a customer's account.

20-0		£
1 May	Sales ledger – debit balances	9,134
	Sales ledger – credit balances	44
	Purchases ledger – credit balances	13,086
	Purchases ledger – debit balances	53
31 May	Transactions for the month:	
	Sales (including cash sales of £2,794)	14,318
	Purchases (including cash purchases of £3,122)	24,677
	Cash received from debtors	970
	Cheques received from debtors	9,564
	Cheques paid out to creditors	10,532
	Discount allowed	382
	Discount received	532
	Bad debts	250
	Sales returns	200
	Purchases returns	908
	Dishonoured cheques	58
	Transfer of a credit balance from the purchases ledger to the sales ledger	160
	Sales ledger – debit balances	9,226
	Sales ledger – credit balances	80
	Purchases ledger – credit balances	22,572
	Purchases ledger – debit balances	116

Q21.1 James Harvey runs a stationery supplies shop. He is convinced that one of his employees is stealing stationery. He asks you to calculate from the accounting records the value of stock stolen. The following information is available:

- sales for the year, £180,000
- opening stock at the beginning of the year, £21,500
- purchases for the year, £132,000
- closing stock at the end of the year, £26,000
- the gross profit margin achieved on all sales is 30 per cent

You are to calculate the value of stock stolen (if any) during the year.

Q21.2 Bill Brown took out a statement of his financial position on 1 April 20-8 which showed the following:

	£
Sundry creditors	8,505
Sundry debtors	7,200
Stock in trade	1,350
Cash and bank	450
Furniture and fittings	2,655

After one year, during which Bill Brown introduced additional capital of £500 and withdrew £2,250 for his own requirements, his position was:

	£
Sundry creditors	6,831
Sundry debtors	5,400
Stock in trade	840
Cash and bank	1,350
Furniture and fittings	2,390

Required:

(a) statements of affairs to show Bill Brown's capital position as at 1 April 20-8 and his new capital position one year later.

(b) a statement showing the profit or loss made by Bill Brown for the year.

Q21.3 Brian Withers runs a medium-sized family business as a general trader. He knows a great deal about selling but, sadly, very little about accounting. Brian is being very hard pressed to produce some trading results, and has asked your help in calculating his new profit or loss for the year to 30 April 20-8.

The only information available to you is a statement of his assets and liabilities at 1 May 20-7 and 30 April 20-8; details of these are given below:

	1 May 20-7	30 April 20-8
	£	£
Cash at bank	720	790
Stock in trade	6,400	6,700
Trade debtors	6,240	6,430
Trade creditors	1,330	1,450
Fixed assets	45,000	46,500
Insurance paid in advance	140	180
Wages paid in arrears	70	50
Loan from father	5,000	4,000

During the year Brian had taken monies from the business for his own private use to the value of £700 per month. During the financial year Brian had a small win on the football pools amounting to £2,000 which he paid into the business.

You are required to:

(a) prepare a statement of affairs at 1 May 20-7

(b) prepare a statement of affairs at 30 April 20-8

(c) calculate Brian's net profit or loss for the year

(d) give three advantages which a formal double-entry book-keeping system would have for Brian and his business

(e) explain why Brian should take account of payments in advance and payments in arrears

Q21.4 D Bradley, a retailer, does not keep any books of account, but does operate a business bank account. A summary of the bank statements for the year ending 30 June 20-5 is given below.

	£		£
Receipts from customers	22,820	Opening balance	2,025
Additional capital paid in	5,500	Payments to creditors	18,682
		Electricity	1,825
		Rent and rates	2,350
		Motor van	2,400
		Closing balance	1,038
	28,320		28,320

During the year he paid expenses direct from cash received and these were estimated as £5,280 for wages and £1,250 for general expenses and D Bradley took drawings of £100 each week for himself.

D Bradley supplied the following details of his assets and liabilities at the year-end for the years 30 June 20-4 and 20-5:

	20-4	20-5
	£	£
Fixtures at cost	1,800	1,800
Motor van at cost	2,400	
Stock	13,680	12,790
Debtors	4,250	4,925
Creditors	2,575	3,520
Accrued electricity	485	520
Prepaid rates	280	340
Cash in till	120	210

Depreciation is to be provided at	Fixtures 10%	
	Motor van 25%	

You are required to prepare a trading and profit and loss account for the year ending 30 June 20-5 and a balance sheet as at 30 June 20-5.

Q21.5 At 1 July year 6, the financial position of John Marcus, a dealer in fancy goods, was as follows:

	£	£		£
Fixtures and fittings:			Capital account – J Marcus	28,000
At cost	16,000		Trade creditors	3,050
Less aggregate depreciation	6,400	9,600	Electricity charges accrued	290
Stock-in-trade		12,400		
Trade debtors		2,900		
Prepayments (rates)		340		
Balance at bank		6,100		
		31,340		31,340

Marcus does not keep a full set of account records but he was able to arrive at the following summarised data for the year which ended on 30 June year 7:

1. Sales for the year amounted to £117,460. Gross profit is 25% of sales.
2. Stock-in-trade, at cost, at 30 June year 7, has increased by 25% over the previous year.
3. Trade debtors at 30 June year 7 amounted to £5,200.
4. Trade creditors at 30 June year 7 amounted to £4,650.
5. Cash discounts for the year were as follows: allowed £720; received £560.
6. During the year he had acquired a motor van for £4,200 in cash.
7. Payments were made during the year as follows:
   Wages £12,680
   Rent, rates, electricity £8,950
8. At 30 June year 7, electricity charges accrued were £260 and rent prepaid amounted to £520.
9. Marcus had written off bad debts amounting to £180 during the year.

Additional information:

- Depreciation was to be provided as follows:
  Fixtures and fittings 10% on cost
  Motor van 25% on cost
- Marcus wished to make a provision of 5% of debtors for bad debts at 30 June year 7. No such provision had been made at 30 June year 6.

Required:

Prepare for John Marcus:

(a) a trading and profit and loss account for the year ended 30 June year 7

(b) a balance sheet at 30 June year 7

Q21.6 John Amos Limited (Wholesalers) had a fire at their warehouse on 30 November, the greater part of the stock being destroyed. Some stock was able to be salvaged and this was valued at £6,800.

The accounting records were kept in an office away from the fire and the accountant of John Amos was able to establish that in the last four months, sales were £251,200 and purchases £187,600.

The stock records showed that on 1 August stock had amounted to £94,300. The average gross profit on turnover during the last two years had been 22%. The business was fully insured against fire.

You are required to prepare the claim to be submitted to the insurance company in respect of stock destroyed by fire.

Q22.1 A group of young musicians intend to form a music society, meeting once a week commencing 1 September 20-0. They present the following financial estimates for your consideration:

1. The club would expect 300 members, but only 50% of this target would be achieved in the first year. The membership fee would be £20 per annum.
2. They can hire a hall for £20 per meeting, plus £5 weekly for light and heat.
3. At the outset, they would need to buy stereo equipment costing £1,200.
4. The equipment would be depreciated on a straight line basis over 4 years.
5. The annual premium for all risks insurance will be £90 payable on commencement.
6. Records costing £1,000 would be bought during the year. They would be treated as an expense of the society.
7. It is estimated that each member would spend an average of £40 per annum on light refreshments. It is hoped to sell the refreshments at twice the purchase price.

You are required to:

(a) Prepare an estimated receipts and payments account for the society's first year which would end on 31 August 20-1

(b) Draw up an estimated income and expenditure account for the year ending 31 August 20-1

(c) Draft the society's estimated balance sheet as at 31 August 20-1

Q22.2 The Secretary of the Greenroom Social Club issued the following receipts and payments account to members:

Receipts and Payments Account for the year to 30 June

	£		£
Cash balance	1,620	Wages	15,300
Subscriptions	22,410	Secretary's salary	2,700
Bank loan	4,500	Rent of hall	900
Games' fees	270	Printing and postage	2,115
Drink machine receipts	936	Purchase of new chairs	3,240
		Loss on dance	198
		Cash balance	5,283
	29,736		29,736

The Secretary gave the following information:

Subscriptions included £180 from previous year, £72 received in respect of advance payment for next year, and that £225 was due but unpaid.

Games' fees included £27 paid in advance for the following year's matches.

The cleaner had not been paid £108 for the month of June and was to be paid this amount in July.

Stationery purchased during the year and held in stock on 30 June was valued at £180. The furniture at 30 June was valued at £3,105 and this included what was purchased during the year. The accumulated fund at the previous 1 July was £1,800.

You are required to prepare an income and expenditure account for the club for the year ended 30 June and a balance sheet at that date.

Q22.3 The assets and liabilities of the East Sutton Social Club as at 1 November 20-8 were:

Cash held at bank £380; furniture and equipment £420; bar stock £120; rent owing on premises £30.

The following is a summary of receipts and payments for the club for the year ended 31 October 20-9:

Receipts	£	Payments	£
Balance 1 November 20-8	380	Bar purchases	1,485
Subscriptions	1,420	Annual dance expenses	580
Annual dance	750	Rent of premises	840
Bar sales	2,040	Secretary's expenses	225
		Purchase of furniture	200
		Wages of caretaker	580
		Balance 31 October 20-9	680
	4,590		4,590

The following information was also available:

(i) Bar stock at 31 October 20-9 was £150

(ii) Rent for premises of £110 was owing at 31 October 20-9

You are required to:

(a) calculate the accumulated fund at 1 November 20-8

(b) prepare an income and expenditure account for the year ended 31 October 20-9, showing clearly the profit/loss on the bar and the dance

(c) prepare a balance sheet for the club as at 31 October 20-9

Q22.4 The honorary treasurer of the Capella Choir, a club for choral music enthusiasts, has prepared the following receipts and payments account for the year ended 31 May 20-8:

Capella Choir

Receipts and Payments Account for the year ended 31 May 20-8

	£		£
Cash and bank balances b/f	410	Secretarial expenses	550
Members' subscriptions	1,480	Rent of rehearsal room	850
Donations	220	Other rehearsal expenses	350
Sales of concert tickets	2,680	Fees and expenses	2,870
Grants and subsidies	2,500	Purchase of music	1,300
		Travelling expenses	490
		Stationery and printing	670
		Cash and bank balances c/f	210
	7,290		7,290

The following valuations are also available:

	1 June 20-7	*31 May 20-8*
	£	£
Subscriptions in arrears	200	120
Subscriptions in advance	50	140
Owing to suppliers of music	510	660
Stocks of music, at valuation	6,160	7,100
Grants and subsidies receivable	950	1,400
Travelling expenses accrued	0	210

Required:

(a) Prepare a calculation of the accumulated fund of the Capella Choir as at 1 June 20-7.

(b) Draw up a summary subscriptions account for the year ended 31 May 20-8.

(c) Prepare calculations of the following:

1. the depreciation charge on music for the year ended 31 May 20-8, and
2. grants and subsidies for the year ended 31 May 20-8.

(d) Prepare the income and expenditure account for the Capella Choir for the year ended May 20-8 showing clearly the surplus or deficit for the year.

Q23.1 Rexton, Sareeta and Sonia are in partnership, the capital invested in the partnership is £60,000, £35,000 and £20,000 respectively.

During the financial year ended 30 June 20-9 the partnership earned a net profit of £38,000.

The partners have agreed the following:

(i) interest is to be allowed on capital at 12% per annum

(ii) Sareeta and Sonia are to receive salaries of £10,000 and £8,600 respectively

(iii) profits and losses are to be shared in the ratio of 4:3:1

The partners had the following balances in their current accounts as at 30 June 20-9:

	£
Rexton	1,400 Cr
Sareeta	2,900 Dr
Sonia	1,165 Dr

During the year to 30 June 20-9, the partners withdrew the following amounts from the partnership:

	£
Rexton	6,300
Sareeta	4,700
Sonia	9,800

You are required to prepare the appropriation account for the partnership and show each of the partner's current accounts as at 30 June 20-9.

Q23.2 D Brook and T Stream went into partnership on 1 January 20-2, each contributing £16,000 and £12,000 respectively as capital.

They agreed to share profits and losses equally and for T Stream to transfer £2,000 annually from 31 December 20-2 from his current account at each year end and until such time as his capital is the same as D Brook, the first payment being due on 31 December 20-2. Interest is to be allowed on capital at 10 per cent.

The following trial balance was prepared on 31 December 20-2:

		£	£
Capital accounts	D Brook		16,000
	T Stream		12,000
Drawings	D Brook	3,500	
	T Stream	3,000	
Purchases and sales		48,200	72,620
Debtors and creditors		2,000	2,200
Premises		25,000	
Equipment and fixtures		7,000	
Bank		1,260	
Salaries		8,420	
Rates		2,100	
Advertising		320	
Carriage inwards		180	
Motor van rental		1,260	
Discount allowed and received		320	480
Bad debts		210	
Heating and lighting		530	
		103,300	103,300

The following information is available to complete the final accounts:

	£
• stock as at 31 December 20-2	6,280
• a payment for advertising is due	60
• rates were paid in advance to 30 June 20-3	700

- equipment and fixtures are to be depreciated by 20 per cent per annum
- T Stream is to be given a commission of 2 per cent of the sales figure for the year but this is not in the accounts

You are required to prepare:

(a) the partnership trading account for the year

(b) the profit and loss account for the year

(c) the appropriation account for the year

(d) the current accounts for the year

(e) a balance sheet of the partnership as at 31 December 20-2

Q23.3 Gore and Pryor are in partnership with a partnership agreement which provides for the following:

(i) Commission of 2% of sales to Gore

(ii) Salary of £2,000 per annum payable to Pryor

(iii) Interest on partners' drawings: Gore £60; Pryor £50

(iv) Interest on capital at 10% per annum for each partner

(v) Interest on Gore's loan at 12% per annum

(vi) Profit or loss sharing ratio: Gore 60%; Pryor 40%

The trial balance extracted from the partnership books at 31 December 20-9 was as follows:

	Dr	Cr
	£	£
Premises	29,600	
Equipment	5,000	
Staff salaries	4,200	
Administration expenses	7,200	
Selling expenses	5,400	
Bad debts written off	300	
Provision for bad debts (1 January 20-9)		100
Debtors	3,800	
Creditors		4,900
Stock (1 January 20-9)	8,500	
Cash	820	
Sales		92,000
Purchases	53,000	
Carriage inwards	500	
Gore – Capital at 1 January 20-9		12,000
Gore – Current account at 1 January 20-9		900
Gore – Drawings	3,000	
Pryor – Capital at 1 January 20-9		8,000
Pryor – Current account at 1 January 20-9	1,080	
Pryor – Drawings	2,500	
Gore – Loan account		7,000
	124,900	124,900

Notes:

(i) Stock at 31 December 20-9 was valued at £7,000

(ii) Administration expenses paid in advance £400 and selling expenses outstanding at the year end £600

(iii) Provision for doubtful debts at the year end to be adjusted to 5% of debtors

(iv) Depreciation is charged on the book value of the equipment at 1 January 20-9 at the rate of 20% per annum

You are required to prepare from the information provided above, the

(a) partnership trading and profit and loss account and appropriation account for the year ended 31 December 20-9

(b) partnership balance sheet in vertical format as at 31 December 20-9

Q24.1 Rose, Tulip and Crocus are in partnership sharing profits and losses one-seventh, two-sevenths and four-sevenths respectively.

They are to dissolve the partnership and at the date of dissolution, the balances in the partnership books are:

		£
Sundry creditors		3,815
Stock		7,945
Sundry debtors		4,417
Premises		23,177
Loan from Crocus		2,450
Capital accounts	Rose (credit)	9,170
	Tulip (credit)	10,290
	Crocus (credit)	12,432
	Cash	2,618

On sale of the assets the amount realised was:

Stock	£7,812
Premises	£21,000
Debtors	£4,305

and the loan and all the creditors were paid off.

You are required to close all the above accounts and give the amounts each partner received.

Q24.2 Alpha and Beta are in partnership. They share profits equally after Alpha has been allowed a salary of £4,000 pa. No interest is charged on drawings or allowed on current accounts or capital accounts. The trial balance of the partnership at 31 December 20-8 before adjusting for any of the items below, is as follows:

		Dr	Cr
		£000	£000
Capital	– Alpha		30
	– Beta		25
Current	– Alpha		3
	– Beta		4
Drawings	– Alpha	4	
	– Beta	5	
Sales			200
Stock 1 January 20-8		30	
Purchases		103	
Operating expenses		64	
Loan	– Beta (10%)		10
	– Gamma (10%)		20
Land and buildings		60	
Plant and machinery:			
	– cost	70	
	– depreciation to 31 December 20-8		40
Debtors and creditors		40	33
Bank			11
		376	376

(i) Closing stock on hand at 31 December was £24,000.

(ii) On 31 December Alpha and Beta agree to take their manager, Gamma, into partnership. Gamma's loan account balance is to be transferred to a capital account as at 31 December. It is agreed that in future Alpha, Beta and Gamma will all share profits equally. Alpha will be allowed a salary of £4,000 as before, and Gamma will be allowed a salary of £5,000 pa (half of what he received in 20-8 as manager, included in operating expenses).

The three partners agree that the goodwill of the business at 31 December should be valued at £12,000, but is not to be recorded in the books. It is also agreed that land and buildings are to be revalued to a figure of £84,000 and that this revalued figure is to be retained and recorded in the accounts.

(iii) Interest on the loan has not been paid.

(iv) Included in sales are two items sold on 'sale or return' for £3,000 each. Each item had cost the business £1,000. One of these items was in fact returned on 4 January 20-9 and the other one was formally accepted by the customer on 6 January 20-9.

Required:

(a) Submit with appropriately labelled headings and subheadings:
   (i) partners' capital accounts in columnar form;
   (ii) partners' current accounts in columnar form;
   (iii) trading, profit and loss and appropriation account for 20-8;
   (iv) balance sheet as at 31 December 20-8

(b) Write a brief note to Gamma, who cannot understand why his capital account balance seems so much less than those of Alpha and Beta. Explain to him the adjustments you have made.

Q25.1 The balances shown below are from the books of the Protem Manufacturing Company as at 30 September year 9:

		£
Stocks at 1 October year 8:		
Raw materials		39,000
Work-in-progress at prime cost		8,100
Finished goods		51,930
Purchases of raw materials for the year		214,760
Sales		365,752
Returns outwards – raw materials		1,350
Plant and machinery, at cost		93,000
Office equipment		19,800
Factory wages		33,560
Factory	– lighting and heating	13,700
	– power	7,600
	– rates and insurance	3,800

The following details are also available:

1. Stocks at 30 September year 9:

Raw materials	£43,630
Work-in-progress at prime cost	£5,160
Finished goods	£57,400

2. Factory lighting and heating expenses accrued at 30 September year 9 £760
3. Factory rates and insurance paid in advance at 30 September year 9 £240
4. Depreciation is to be provided on plant and machinery at the rate of 15% per annum on cost

Required:

Prepare the manufacturing and trading account of Protem Manufacturing Company for the year ended 30 September year 9.

Q25.2 Chesterton & Company is a manufacturer.
At the end of their accounting year, 30 April 20-9, the following information was available:

	£
Stocks, 1 May 20-8:	
raw materials	17,500
finished goods	24,800
work-in-progress	15,270
Wages and salaries:	
factory direct	138,500
factory indirect	27,200
Purchases of raw materials	95,600
Power and fuel (indirect)	18,260
Sales	410,400
Insurance	3,680
Returns inwards (finished goods)	5,200
Stocks, 30 April 20-9	
raw materials	13,200
finished goods	14,600
work-in-progress	15,700

Notes:

- The company's machinery cost £82,000 and the provision for depreciation on 1 May 20-8 was £27,000. Machinery is to be depreciated by 20% per annum using the reducing balance method.
- Fuel and power £390 is in arrears at 30 April 20-9; at the same date insurance £240 is prepaid.
- Insurance is to be allocated 5/8ths factory; 3/8ths administration

Required:

For Chesterton & Company

(a) A manufacturing account for the year ended 30 April 20-9, showing clearly
 (i) cost of raw materials consumed
 (ii) prime cost
 (iii) total cost of production

(b) A trading account for the year ended 30 April 20-9 showing clearly
 (i) cost of sales of finished goods
 (ii) gross profit

Q25.3 Makit is in business as a manufacturer and the following balances were extracted from his books on 31 October 20-9:

	£	£
Stocks at 1 November 20-8:		
Raw materials	2,400	
Finished goods	16,750	
Work-in-progress	4,500	
Purchases raw materials	87,900	
Manufacturing wages	94,000	
Factory expenses	22,670	
Rent and property insurance	6,780	
Carriage on raw materials	650	
Plant and machinery at cost	85,000	
Office equipment at cost	9,500	
Motor vehicles at cost	14,500	
Provision for depreciation:		
Plant and machinery		22,000
Office equipment		3,400
Motor vehicles		4,500
Light and heat	6,000	
Office salaries	22,000	
Office expenses	7,800	
Selling and distribution costs	28,000	
Sales		300,000
Drawings	18,000	
Cash in hand	780	
Bank		8,680
Capital		89,280
Debtors	6,400	
Creditors		5,770
	433,630	433,630

You are required to:

Prepare the manufacturing, trading, profit and loss account for the year ended 31 October 20-9 and a balance sheet as at that date, after giving effect to the following adjustments:

(i) The stocks on 31 October 20-9 were:

Raw materials	£2,870
Finished goods	£14,600
Work-in-progress	£4,750

(ii) Light and heat and rent and insurance are to be apportioned three-quarters to manufacturing account and one-quarter to profit and loss account.

(iii) At 31 October 20-9 manufacturing wages of £600 were unpaid and rent had been prepaid by £380

(iv) Depreciation is to be written off fixed assets as follows:

	£
Plant and machinery	8,500
Fixtures and fittings	950
Vehicles	2,500

Q26.1 Swift Traders Limited has an authorised share capital of 200,000 ordinary shares of £1 each, of which 150,000 shares have been issued at a premium of 25p per share and are fully paid.

On 1 November 20-8 the company's statement of financial position showed retained earnings of £12,890 and a general reserve of £22,760.

For the year to 31 October 20-9 the company made a profit for the year of £52,000. During the year the directors:

- paid an ordinary dividend of 12 pence per share
- transferred £5,000 to general reserve

You are required to:
prepare the company's statement of changes in equity for the year ended 31 October 20-9 and the capital section of the statement of financial position as at that date.

Q26.2 The authorised share capital of Highwood Co Ltd is 500,000 ordinary shares of £1 each. The following trial balance was extracted from the books of the company at the close of business on 31 December 20-2.

	£	£
Issued share capital (£1 ordinary shares)		200,000
Land	180,000	
Fixtures and fittings at cost	70,000	
Purchases and sales (revenue)	327,000	509,000
Trade receivables and trade payables	79,000	32,000
Provision for depreciation on fixtures and fittings		15,000
Wages and salaries	72,000	
Returns inwards	7,000	
General expenses	29,000	
Interest on debentures, half-year to 30 June 20-2	3,000	
Insurance	5,000	
Bad debts	2,000	
Provision for doubtful debts		2,000
Inventories at 1 January 20-2	28,000	
Bank balance	3,000	
Retained earnings at 1 January 20-2		17,000
10% debentures		60,000
Ordinary dividends paid	30,000	
	835,000	835,000

Additional information:

1. Inventories at 31 December 20-2 were valued at £29,000
2. Wages due amounted to £2,000
3. Insurance paid in advance amounted to £1,000
4. The provision for doubtful debts is to be increased to £3,000
5. The provision for depreciation on fixtures and fittings is to be increased by 10% of the cost price

Required:

(i) An income statement and a statement of changes in equity for the year ended 31 December 20-2

(ii) A statement of financial position as at 31 December 20-2

Note: Ignore taxation.

Q26.3 The following balances remain in the books after the completion of the profit and loss account of Maginn Company Ltd for the year ended 31 December 20-9.

	£
Retained earnings at 1 January 20-9	17,400
Profit for the year to 31 December 20-9	36,720
Authorised Share Capital:	
175,000 £1 ordinary shares	175,000
Issued Share Capital:	
150,000 £1 ordinary shares	150,000
Land and buildings at cost	212,500
Office equipment at cost	6,750
Vehicles at cost	30,000
Provisions for depreciation at 31 December 20-9:	
Buildings	14,000
Office equipment	2,550
Vehicles	18,750
Share premium account	15,000
8% debentures	73,975
Dividends paid in the year to 31 December 20-9:	
Ordinary shareholders	17,500
General reserves	15,000
Trade receivables	60,375
Trade payables	38,900
Inventories at 31 December 20-9	49,730
Expenses outstanding	1,365
Expenses prepaid	1,800
Bank balance	5,005

At 31 December 20-9 the directors wish to transfer £7,500 to general reserve.

From the information provided, you are required to prepare:

(a) Maginn Company Ltd's statement of changes in equity for the year ended 31 December 20-9

(b) the company's statement of financial position as at 31 December 20-9

Note: Ignore taxation

Q27.1

The following are the statements of financial position of JC Limited for 20-3 and 20-4:

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER

		20-3		20-4
Non-current Assets	£	£	£	£
Machinery at cost	20,000		20,000	
Less depreciation to date	11,000		13,500	
		9,000		6,500
Vehicles at cost	80,000		100,000	
Less depreciation to date	25,000		40,000	
		55,000		60,000
		64,000		66,500
Current Assets				
Inventories	22,500		33,000	
Trade receivables	18,000		27,500	
Bank	6,250		–	
	46,750		60,500	
Less Current Liabilities				
Trade payables	14,250		25,350	
Bank	–		9,600	
	14,250		34,950	
Net Current Assets		32,500		25,550
		96,500		92,050
Less Non-current Liabilities				
Bank loan		12,500		–
NET ASSETS		84,000		92,050
EQUITY				
Share capital		70,000		70,000
Retained earnings		14,000		22,050
TOTAL EQUITY		84,000		92,050

Note the following points:

- Extract from the income statement for 20-4:

	£
Profit from operations	25,800
Less Interest paid	2,250
Profit for the year	23,550

- Ignore tax
- Dividends of £12,500 were paid in 20-3, and £15,500 in 20-4

You are to prepare a statement of cash flows for the year ended 30 September 20-4.

Q27.2 The statements of financial position of Simplex Limited are shown below.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	20-6			20-7		
	£	£	£	£	£	£
	Cost	*Dep'n*	*Net*	*Cost*	*Dep'n*	*Net*
Non-current Assets						
Land and buildings	100,000	10,000	90,000	100,000	12,000	88,000
Plant and equipment	51,400	8,400	43,000	70,300	14,300	56,000
	151,400	18,400	133,000	170,300	26,300	144,000
Current Assets						
Inventories		44,000			61,000	
Trade receivables		28,000			32,000	
Bank		-			5,000	
		72,000			98,000	
Less Current Liabilities						
Trade payables	23,000			27,500		
Bank overdraft	6,500			-		
Tax liability	13,500			16,000		
		43,000			43,500	
Net current assets			29,000			54,500
			162,000			198,500
Less Non-current Liabilities						
Debentures			30,000			40,000
NET ASSETS			132,000			158,500
EQUITY						
Share capital			110,000			125,000
Share premium			–			5,000
Retained earnings			22,000			28,500
			132,000			158,500

Note the following points:

- Extract from the income statement for 20-7:

	£
Profit from operations	46,250
Less Interest paid	3,750
Profit before tax	42,500
Less tax	16,000
Profit for the year	26,500

- Dividends of £15,000 were paid in 20-6, and £20,000 in 20-7

You are to prepare a statement of cash flows for the year ended 31 December 20-7.

Q27.3 Pancholi Limited's income statement for the year ended 31 December 20-3 and statements of financial position for 20-2 and 20-3 were as follows:

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20-3

	£000	£000
Revenue		652
Cost of Goods Sold		349
Gross profit		303
Less Overheads:		
Wages and salaries	107	
Depreciation charges	30	
Administrative expenses	62	199
Profit from operations		104
Less Finance costs		5
Profit before tax		99
Less Tax		22
PROFIT FOR THE YEAR		77

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	20-3		20-2	
	£000	£000	£000	£000
Non-current Assets		570		600
Current Assets				
Inventories	203		175	
Trade receivables	141		127	
Cash and cash equivalents	6			
	350		302	
***Less* Current Liabilities**				
Trade payables	142		118	
Tax liability	22		19	
Bank overdraft	–		16	
	164		153	
Net Current Assets		186		149
		756		749
***Less* Non-current Liabilities**				
Loans and debentures		–		50
NET ASSETS		756		699
EQUITY				
Share capital		300		300
Share premium		60		60
Retained earnings		396		339
TOTAL EQUITY		756		699

Note the following points:
- Dividends of £20,000 were paid in 20-3.
- During the year there were no purchases or sales of non-current assets.

REQUIRED

(a) Prepare a statement of cash flows for Pancholi Limited for the year ended 31 December 20-3.

(b) Assess the statement of cash flows of Pancholi Limited from the point of view of the company's shareholders.

Q28.1 The summarised statements of financial position of Ritt Ltd at the end of two consecutive financial years were as shown below.

SUMMARISED STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH

20-6			20-7	
£000	£000		£000	£000
		Non-current Assets (at written down values)		
50		Premises	48	
115		Plant and equipment	196	
42		Vehicles	81	
	207			325
		Current Assets		
86		Inventories	177	
49		Trade receivables	62	
53		Bank and cash	30	
188			269	
		Current Liabilities		
72		Trade payables	132	
20		Tax liability	30	
92			162	
	96	**Net Current Assets**		107
	303	**NET ASSETS**		432
		EQUITY		
250		Ordinary share capital	250	
53		Retained earnings	82	
	303	Total equity		332
	–	Non-current liability: 7% debentures		100
	303			432

Revenue was £541,000 and £675,000 for the years ended 31 March 20-6 and 20-7 respectively. Corresponding figures for cost of goods sold were £369,000 and £481,000, respectively.

At 31 March 20-5, retained earnings had totalled £21,000. Ordinary share capital was the same at the end of 20-5 as at the end of 20-6. No dividends were paid in 20-6 and 20-7.

Required:

(a) Calculate, for each of the two years, the ratios listed below:

- gross profit percentage
- net profit percentage
- asset turnover ratio
- return on net assets
- current assets/current liabilities
- quick assets/current liabilities
- (Calculations should be correct to one decimal place)

(b) Comment on each of the figures you have calculated in (a) above, giving probable reasons for the differences between the two years.