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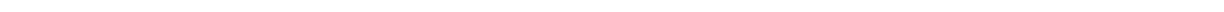
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Passport to Success

Level 1 Book-keeping Solutions Booklet



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Chapter 1

The Accounting Equation and the Balance Sheet

Answers to 'Think about it' Questions

Page 5 – Why are liabilities shown on the right hand side of the balance sheet and not on the left?

- Because based on the accounting equation it has to be on the same side as capital.

Answers to Activities

Activity 1.1

- (a) L
- (b) A
- (c) A
- (d) A
- (e) L
- (f) A
- (g) C

Activity 1.2

	ASSETS £	CAPITAL £	LIABILITIES £
(a)	5 000	3 000	2 000
(b)	4 200	2 500	1 700
(c)	4 100	2 800	1 300
(d)	3 500	2 400	1 100
(e)	6 900	4 100	2 800

Solutions to Target Practice Questions

Question 1

- (a) '...**assets** less **liabilities** equals **capital**'.
- (b) assets
- (c) liabilities
- (d) debtor
- (e) creditor
- (f) Balance Sheet

Question 2

	ASSETS	LIABILITIES
	£	£
Shop fittings	3 100	
Cash register	800	
Stock of goods	2 200	
Creditors		1 000
Loan – T Armani		1 800
Bank	<u>870</u>	
	6 970	2 800

Capital = Assets – Liabilities
Capital = 6970 – 2800 = £4170

Question 3

M Williams
Balance Sheet at 30 June 20X6

	£		£
Cash at Bank	2 614	Creditors	4 150
Stock of goods	5 860	Loan – D Wong	3 600
Fixtures and Fitting	1 900	Capital	
Debtors	3 750	(missing item)	10 574
Motor vehicles	<u>4 200</u>		
	<u>18 324</u>		<u>18 324</u>

Question 4

	Transactions	Effect upon		
		Assets	Liabilities	Capital
(a)	The owner borrows £5000 from L Pole and the money is put into the business' bank account.	+ Bank	+ Loan	
(b)	A debtor pays the business £250 by cheque.	+ Bank - Debtors		
(c)	The owner buys a motor vehicle on credit £6200.	+ Motor Vehicle	+ Creditors	
(d)	The owner withdraws £160 from the business's bank account for his personal use.	- Bank		- Capital
(e)	The business sells goods on credit for £840.	- Stock + Debtors		
(f)	The owner puts a further £3000 in cash into the business. The money is put into the business's bank account.	+ Bank		+ Capital
(g)	The business pays a creditor £290 by cheque.	- Bank	- Creditors	

Question 5

W Mandrake
Balance Sheet at 30 June 20X5

	£		£
Stock of goods	5 360	Creditors	2 900
Debtors	4 500	Loan – L Walter	3 000
Cash at Bank	1 845	Capital	
Fixtures and fittings	2 800	(balancing figure)	13 705
Motor vehicles	<u>5 100</u>		
	<u>19 605</u>		<u>19 605</u>

W Mandrake
Balance Sheet at 31 July 20X5

	£		£
Stock of goods		Creditors	
(5360 + 700 – 600)	5 460	(2900 + 700 – 400)	3 200
Debtors		Loan – L Walter	3 000
(4500 – 1100 + 600)	4 000	Capital	
Cash at Bank		(balancing figure)	13 705
(1845 – 400 + 1100)	2 545		
Fixtures and Fittings	2 800		
Motor Vehicles	<u>5 100</u>		
	<u>19 905</u>		<u>19 905</u>

Question 6

D Duncan
Balance Sheet at 21 January 20X7

	£		£
Motor Vehicles	20 000	Capital	120 000
Stock of goods	2 100	Creditor – Stax Suppliers	
(1500 + 600)		(3000 + 600 – 300)	3 300
Debtor – A Gianna	500		
Cash at Bank			
(101 000 – 300)	<u>100 700</u>		
	<u>123 300</u>		<u>123 300</u>

Question 7

The difference between a cash transaction and a credit transaction is based on when payment is made. With a cash transaction, payment is made immediately for goods and/or services purchased while in a credit transaction payment is made

Chapter 2

Double Entry System for Assets, Liabilities and Capital

Answers to 'Think about it' Questions

Page 16 – Why is it necessary to keep separate accounts for each debtor and creditor?

- So it can clearly be seen how much is owed to individual creditors and how much is owed by individual debtors.

Answers to Activities

Activity 2.1

- (a) Bought office furniture for cash
- (b) Sold some office furniture on credit to C Bing
- (c) Bought motor vehicles on credit from Wong Ltd
- (d) A debtor, P Butler, pays the business by cheque
- (e) The owner puts a further amount into the business by cheque
- (f) Returned one of the motor vehicles to Wong Ltd
- (g) Paid a creditor, T Bird, by cash
- (h) Paid by cheque for the motor vehicle bought from Wong Ltd

Debit	Credit
Office Furniture	Cash
C Bing	Office Furniture
Motor Vehicles	Wong Ltd
Bank	P Butler
Bank	Capital
Wong Ltd	Motor Vehicles
T Bird	Cash
Wong Ltd	Bank

Solutions to Target Practice Questions

Question 1

The left hand side of a 'T' account is the debit side and the right hand side is the credit side. To 'debit' an account the transaction is entered on the left hand side and to 'credit' an account, the transaction is entered on the right hand side.

Question 2

There must be a debit entry and a corresponding credit entry of the same value (and vice versa) for every transaction that occurs.

Question 3

To know when to debit or credit an account, you will first need to determine the type of the account and decide how the transaction will affect the account ;(whether increase or decrease) and then apply the double entry rules as below:

- To increase an asset, DEBIT the account
- To decrease an asset, CREDIT the account
- To increase a liability or capital, CREDIT the account
- To decrease a liability or capital, DEBIT the account

Question 4

Bank					
20X2		£	20X2		£
July 01	Capital	6 000	July 15	Office Machinery	420
			July 29	Elstead Garage	2 900

Capital					
			20X2		£
			July 01	Bank	6 000

Motor Vehicle					
20X2		£			
July 06	Elstead Garage	2 800			

Elstead Garage					
20X2		£	20X2		£
July 29	Bank	2 800	July 06	Motor vehicle	2 800

Office Machinery					
20X2		£			
July 15	Bank	420			

Office Equipment					
20X2		£			
July 23	Longmore & Sons	70			

Longmore & Sons					
			20X2		£
			July 23	Office equipment	370

Question 5

Cash					
20X9		£	20X9		£
April 01	Capital	2 000	April 08	Bank	1 000
April 29	Bank	300	April 30	Furniture World	800

Bank

20X9		£	20X9		£
April 01	Capital	8 000	April 14	Delivery Van	1 500
April 03	Loan – S Lee	3 000	April 23	Loan – S Lee	1 200
April 08	Cash	1 000	April 29	Cash	300

Capital

		20X9	£	
		April 01	Cash	2 000
		April 01	Bank	8 000

Loan – S. Lee

20X9		£	20X9		£
April 23		1 200	April 03	Bank	3 000

Delivery Van

20X9		£
April 14	Bank	1 500

Office Furniture

20X9		£	20X9		£
April 20	Furniture World	1 100	April 26	Furniture World	200

Furniture World

20X9		£	20X9		£
April 26	Office Furniture	200	April 20	Office Furniture	1 100
April 30	Cash	800			

Chapter 3

Recording Double Entry for Stock

Answers to Activities

Activity 3.1

	Debit	Credit
(a) Bought office furniture for use in the business by cash	Office Furniture	Cash
(b) Sold goods for cash	Cash	Sales
(c) Bought goods on credit from A Litton	Purchases	A Litton
(d) Returned to A Litton some of the goods bought	A Litton	Returns Outwards
(e) Sold goods on credit to D Penarth	D Penarth	Sales
(f) Purchased motor van on credit from Grange Garage	Motor Van	Grange Garage
(g) D Penarth returned some goods to us	Returns Inwards	D Penarth
(h) Bought goods paying immediately by cheque	Purchases	Bank

Solutions to Target Practice Questions

Question 1

'Purchases' means goods bought by the business with the intention of reselling them for profit as a part of its trading activities.

'Sales' means goods sold by the business that were originally bought for resale purposes. In other words, the sale of those goods in which the business trades or deals.

Question 2

- (a) This is not good practice. Parts returned to suppliers should be credited to a Returns Outwards Account and parts returned from customers should be debited to Returns Inwards Account. This is necessary to provide information on the totals of the returns and to assess whether these are increasing or decreasing over time.
- (b) Goods sold for cash is recorded by debiting the cash account and crediting the sales account. Goods sold on credit is first recorded by debiting the debtor account and crediting the sales account; when the debtor pays for the goods his account is credited and the bank/cash is debited.

Question 3

		Debit	Credit
(a)	Sold goods on credit to F. Winter	F Winter	Sales
(b)	N. Armour returns goods to you	Returns Inwards	N Armour
(c)	You settle a creditor's account by cheque	Creditor	Bank
(d)	F. Winter pays his account	Bank	F Winter
(e)	You pay Grange Garages by cheque the amount due on the delivery vehicle previously purchased	Grange Garages	Bank
(f)	You return goods to B. Smart	B Smart	Returns Outwards

Question 4

Bank

20X7		£	20X7		£
March 01	Capital	10 000	March 03	Office Furniture	460
March 30	B Wright	70	March 23	Scales Motors	3 600
			March 26	T Hunt	320

Capital

20X7		£
March 01	Bank	10 000

Office Furniture

20X7		£
March 03	Bank	460

Purchases

20X7		£
March 05	Purchases	375

T Hunt

20X7		£	20X7		£
March 08	Returns Outwards	55	March 05	Purchases	375
March 26	Bank	320			

Returns Outwards

20X7		£
March 08	T Hunt	55

B Wright

20X7		£	20X7		£
March 12	Sales	156	March 19	Returns Inwards	26
			March 30	Bank	70

Sales

20X7		£
March 12	B Wright	56

Motor Vehicle

20X7		£
March 15	Scales Motors	3 600

Scales Motors

20X7		£	20X7		£
March 23	Bank	3 600	March 15	Motor Vehicle	3 600

Returns Inwards

20X7		£
March 19	B Wright	26

Question 5**Cash**

20X7		£	20X7		£
October 01	Capital	8 600	October 02	Bank	8 000
October 17	Cash	80	October 07	Purchases	179

Capital

20X7		£
October 01	Cash	8 600

Bank

20X7		£	20X7		£
October 02	Cash	8 000	October 21	Motor Vehicle	1 990
October 23	Loan		October 29	M Price	100
	– R Nandha	1 200			
October 31	J Durrant	303			

Purchases

20X7		£
October 03	M Price	250
October 07	Cash	179

M Price

20X7		£	20X7		£
October 13	Returns		October 03	Purchases	250
	Outwards	32			
October 29	Bank	100			

Fixtures & Fittings

20X7			20X7		
		£			£
October 05	Display Ltd	2 750	October 07	Display Ltd	730

Display Ltd

20X7			20X7		
		£			£
October 09	Fixtures & Fittings	30	October 05	Fixtures & Fittings	2 750

J Durrant

20X7			20X7		
		£			£
October 11	Sales	345	October 26	Returns Inwards	42
			October 31	J Durrant	303

Sales

20X7			20X7		
		£			£
October 11	J Durrant	345	October 17	Cash	80

Returns Outwards

20X7			20X7		
		£			£
October 13	M Price	32			

Motor Vehicle

20X7			20X7		
		£			£
October 21	Bank	1 990			

Loan – R Nandha

20X7			20X7		
		£			£
October 23	Bank	1 200			

Returns Inwards

20X7			20X7		
		£			£
October 26	J Durrant	42			

Chapter 4

The Double Entry System for Expenses and Revenues and the Effect of Profit (or Loss) and Drawings upon Capital

Answers to 'Think about it' Questions

Page 36 – What kinds of expense and revenue accounts would you expect to see in the books of a Bank?

Revenue Accounts

Loan interest receivable
Commission receivable
Service charges (eg. bank charges)

Expense Accounts

Interest payable
Salaries and wages
Insurance
Stationery
Utilities

Answers to Activities

Activity 4.1

Transactions	Accounts	Type of account	Transaction effect	Action in the account
Paid general expenses in cash £150	General Expense	Expense	Increase	Debit
	Cash	Asset	Decrease	Credit
Received commission by cheque £230	Bank	Asset	Increase	Debit
	Commission Receivable	Revenue	Increase	Credit
Paid for office stationery by cash £75	Office Stationery	Expense	Increase	Debit
	Cash	Asset	Decrease	Credit
Paid telephone by cheque £230	Telephone	Expense	Increase	Debit
	Bank	Asset	Decrease	Credit
Received interest of £350 by cheque	Bank	Asset	Increase	Debit
	Interest Receivable	Revenue	Increase	Credit

Solutions to Target Practice Questions

Question 1

- (a) Revenue
- (b) The entries are on the credit side of the account.

Question 2

Expense accounts should be debited and revenue accounts should be credited.

Question 3

Bank					
20X3		£	20X3		£
April 01	Capital	5 000	April 03	Office Equipment	370
April 24	Sales	85	April 05	Rent	260
April 30	Capital	1 000	April 14	Cash	130
			April 21	Stationery	20
			April 27	A Smart	385

Capital					
			20X3		£
			April 01	Bank	5 000
			April 30	Bank	1 000

Office Equipment					
20X3		£			
April 03	Bank	370			

Rent					
20X3		£			
April 05	Rent	260			

Purchases					
20X3		£			
April 08	A Smart	420			

A Smart					
20X3		£	20X3		£
April 11	Returns Outwards	35	April 08	Purchases	420
April 27	Bank	385			

Returns Outwards					
			20X3		£
			April 11	A Smart	35

Cash

20X3		£	20X3		£
April 14	Bank	130	April 15	Wages	115

Wages

20X3		£
April 15	Cash	115

R Squires

20X3		£
April 18	Sales	175

Sales

20X3		£
April 18	R Squires	175
April 24	Bank	85

Stationery

20X3		£
April 21	Bank	20

Question 4**Bank**

20X4		£	20X4		£
May 01	Capital	7 000	May 02	Rent	280
May 28	D Langford	100	May 08	Fixtures & Fittings	170
			May 19	Drawings	160
			May 24	Cash	240
			May 26	R Lester	470
			May 31	Office Equipment	215

Capital

20X4		£
May 01	Bank	7 000

Rent

20X4		£
May 02	Bank	280

Purchases

20X4		£			
May 05	R Lester	520			

R Lester

20X4		£	20X4		£
May 12	Returns Outwards	45	May 05	Purchases	520
May 26	Bank	475			

Fixtures & Fittings

20X4		£			
May 08	Bank	170			

Returns Outwards

			20X4		£
			May 12	R Lester	45

Sales

			20X4		£
			May 15	D Langford	32

D Langford

20X4		£	20X4		£
May 15	Sales	32	May 22	Returns Inwards	24
			May 28	Bank	100

Drawings

20X4		£			
May 19	Bank	160			

Returns Inwards

20X4		£			
May 22	D Langford	30			

Cash

20X4		£	20X4		£
May 24	Bank	240	May 30	Wages	80

Wages		
20X4		£
May 30	Cash	80

Office Equipment		
20X4		£
May 31	Bank	215

Question 5

Drawings are defined as money, goods, or services withdrawn from the business by the owner(s) for their personal use. Drawings reduce the capital of the business.

Question 6

(a) Answer = £2500

Workings:

1 February 20X7

Assets	£	
Equipment	8 000	}
Stock	6 000	
Bank	2 000	
		£16 000
Liabilities	£	
Creditors	2 000	}
Loan	1 000	
		£3 000
Capital		£16 000 - £3000 = £13 000

28 February 20X7

Assets	£	
Equipment	8 000	}
Stock	2 000	
Bank	8 500	
		£18 500
Liabilities	£	
Creditors	2 000	}
Loan	1 000	
		£3 000
Capital		£18 500 - £3000 = £15 500

Therefore, Opening Capital + Profit = Closing Capital

$$£13\,000 + ? = £15\,500$$

$$£15\,500 - £13\,000 = £2\,500$$

(b) Profits increase capital whereas losses reduce it.

Chapter 5

Balancing Accounts and the Trial Balance

Answers to 'Think about it' Questions

Page 49 – How the double entry principle relates to the balancing of accounts.

- For every 'balance c/d' there is a corresponding 'balance b/d' of the same amount on the opposite side of the account.

Answers to Activities

Activity 5.1

- (a) An account will have a debit balance if the total of the debit entries is greater than the total of the credit entries. This means that the balance brought down from the last month (balance b/d) is on the debit side of the account.
- (b) An account will have a credit balance if the total of the credit entries is greater than the total of the debit entries. This means that the balance brought down from the last month (balance b/d) is on the credit side of the account.
- (c) The 'balance c/d' is the amount transferred (carried down or carried forward) from one accounting period to the next; this is the balance at the last date of the accounting period (e.g. a month). The 'balance b/d' is the amount transferred (brought down or brought forward) from a previous accounting period to the current one; this is the balance at the first date of the accounting period.
- (d) The double lines are necessary to show that the account has been balanced and that the totals are final figures.
- (e) Accounts are closed off when there is no balance on the account at the end of the accounting period.

Activity 5.2

20X9		Debit	Credit	Balance
		£	£	£
July 01	Capital	55 000		55 000
July 04	Equipment		5 000	50 000
July 09	Wages		900	49 100
July 13	Sales	9 550		58 650
July 15	Computers		8 000	50 650
July 19	Wages		900	49 750
July 22	Sales	3 880		53 630
July 24	Motor vehicles		6 000	47 630
July 29	Wages		1 100	46 530

Solutions to Target Practice Questions

Question 1

E. Appleby					
20X6		£	20X6	£	
October 03	Sales	650	October 07	Returns Inwards	120
October 12	Sales	276	October 18	Bank	490
October 24	Sales	<u>190</u>	October 31	Balance c/d	<u>506</u>
		<u>1 116</u>			<u>1 116</u>
November 01	Balance b/d	506			

Answer – There is a debit balance of £506.

Question 2

N Small					
20X3		£	20X3	£	
March 04	Sales	145	March 13	Returns Inwards	20
March 18	Sales	215	March 26	Returns Inwards	35
March 23	Sales	185	March 30	Bank	125
		<u>545</u>	March 31	Balance c/d	<u>365</u>
April 01	Balance b/d	365			<u>545</u>

A Smith					
20X3		£	20X3	£	
March 21	Bank	70	March 10	Purchases	360
March 31	Bank	<u>290</u>			<u>360</u>
		<u>360</u>			<u>360</u>

T Dove					
20X3		£	20X3	£	
March 07	Returns Outwards	35	March 02	Purchases	270
March 28	Bank	235	March 15	Purchases	310
March 31	Balance c/d	<u>310</u>			<u>580</u>
		<u>580</u>	April 01	Balance b/d	310

N Small is a debtor and T Dove is a creditor. A Smith is neither.

Question 3

		T Dove		
20X3		Debit	Credit	Balance
		£	£	£
March 02	Purchases		270	270 Cr
March 07	Returns Outwards	35		235 Cr
March 15	Purchases		310	545 Cr
March 28	Bank	235		310 Cr

		N Small		
20X3		Debit	Credit	Balance
		£	£	£
March 04	Sales	145		145 Dr
March 13	Returns Inwards		20	125 Dr
March 18	Sales	215		340 Dr
March 23	Sales	185		525 Dr
March 26	Returns Inwards		35	490 Dr
March 30	Bank		125	365 Dr

		A Smith		
20X3		Debit	Credit	Balance
		£	£	£
March 10	Purchases		360	360 Cr
March 21	Bank	70		290 Cr
March 31	Bank	290		NIL

Question 4

(a)

Bank						
20X5		£		20X5		£
January 01	Capital	25 000		January 01	Rent	2 000
January 23	Cash	6 000		January 25	Cash	500
January 26	S Lee	5 500		January 29	Midland Motors	4 000
January 31	Capital	5 000		January 30	D. Terry	8 000
				January 30	E. Appleby	2 000
				January 31	Electricity	2 000
				January 31	Balance c/d	<u>23 000</u>
		<u>41 500</u>				<u>41 500</u>
February 01	Balance b/d	23 000				

Capital						
20X5		£		20X5		£
January 31	Balance b/d	30 000		January 1	Bank	25 000
				January 31	Bank	<u>5 000</u>
		<u>30 000</u>				<u>30 000</u>
				February 01	Balance c/d	30 000

Rent

20X5		£	20X5		£
January 1	Bank	<u>2 000</u>	January 31	Balance c/d	<u>2 000</u>
		<u>2 000</u>			<u>2 000</u>
February 01	Balance b/d	2 000			

Purchases

20X5		£	20X5		£
January 03	D Terry	5 000	January 31	Balance c/d	18 000
January 05	E Appleby	3 000			
January 15	D Terry	<u>10 000</u>			
		<u>18 000</u>			<u>18 000</u>
February 01	Balance b/d	18 000			

D Terry

20X5		£	20X5		£
January 22	Returns		January 03	Purchases	5 000
	Outwards	2 000	January 15	Purchases	10 000
January 30	Bank	8 000			
January 31	Balance c/d	<u>5 000</u>			
		<u>15 000</u>			<u>15 000</u>
			February 01	Balance b/d	5 000

Motor Car

20X5		£	20X5		£
January 04	Midland Motors	<u>4 000</u>	January 31	Balance c/d	<u>4 000</u>
February 01	Balance b/d	4 000			

Midland Motors

20X5		£	20X5		£
January 29	Bank	<u>4 000</u>	January 4	Motor Car	<u>4 000</u>
		<u>4 000</u>			<u>4 000</u>

E Appleby

20X5		£	20X5		£
January 30	Bank	2 000	January 5	Purchases	3 000
January 31	Balance c/d	<u>1 000</u>			
		<u>3 000</u>			<u>3 000</u>
			February 01	Balance b/d	1 000

Cash

20X5		£	20X5		£
January 10	Sales	6 000	January 23	Bank	6 000
January 25	Bank	500	January 28	Office expenses	250
			January 31	Balance c/d	<u>250</u>
					<u>6 500</u>
February 01	Balance b/d	250			

Sales

20X5		£	20X5		£
January 31	Balance c/d	14 000	January 10	Cash	6 000
			January 20	S Lee	<u>8 000</u>
					<u>14 000</u>
			February 01	Balance b/d	14 000

S Lee

20X5		£	20X5		£
January 20	Sales	8 000	January 24	Returns Inwards	1 000
			January 25	Bank	5 500
			January 31	Balance c/d	<u>1 500</u>
					<u>8 000</u>
February 01	Balance b/d	1 500			

Returns Outwards

20X5		£	20X5		£
January 31	Balance c/d	<u>2 000</u>	January 22	D Terry	<u>2 000</u>
		<u>2 000</u>			<u>2 000</u>
			February 01	Balance b/d	2 000

Returns Inwards

20X5		£	20X5		£
January 24	S Lee	<u>1 000</u>	January 31	Balance c/d	<u>1 000</u>
		<u>1 000</u>			<u>1 000</u>
February 01	Balance b/d	1 000			

Office Expenses

20X5		£	20X5		£
January 28	Cash	<u>250</u>	January 31	Balance c/d	<u>250</u>
		<u>250</u>			<u>250</u>
February 01	Balance b/d	250			

Electricity

20X5		£	20X5		£
January 31	Bank	<u>2 000</u>	January 31	Balance c/d	<u>2 000</u>
		<u>2 000</u>			<u>2 000</u>
February 01	Balance b/d	2 000			

(b)

Steve Trial Balance at 31 January 20X5

	DR £	CR £
Bank	23 000	
Capital		30 000
Rent	2 000	
Purchases	18 000	
D Terry		5 000
Motor Car	4 000	
E Appleby		1 000
Cash	250	
Sales		14 000
S Lee	1 500	
Returns Outwards		2 000
Returns Inwards	1 000	
Office Expenses	250	
Electricity	<u>2 000</u>	
	<u>52 000</u>	<u>52 000</u>

Question 5

Bank

20X8		£	20X8		£
May 01	Balance b/d	5 000	May 16	Dodd	2 900
May 18	Bank	700	May 27	Delivery Van	1 200
			May 30	Cash	300
			May 31	Balance c/d	<u>1 300</u>
		<u>5 700</u>			<u>5 700</u>
June 01	Balance b/d	1 300			

Capital

20X8		£	20X8		£
May 31	Balance c/d	<u>20 000</u>	May 01	Balance b/d	<u>20 000</u>
		<u>20 000</u>			<u>20 000</u>
			June 01	Balance b/d	20 000

Cash

20X8		£	20X8		£
May 01	Balance b/d	1 000	May 07	Purchases	1 500
May 04	Sales	2 000	May 23	Office Expenses	900
May 30	Bank	<u>300</u>	May 31	Balance c/d	<u>900</u>
		<u>3 300</u>			<u>3 300</u>
June 01	Balance b/d	900			

Dodd

20X8		£	20X8		£
May 16	Bank	2 900	May 01	Balance b/d	2 000
May 31	Balance c/d	<u>2 100</u>	May 02	Purchases	<u>3 000</u>
		<u>5 000</u>			<u>5 000</u>
			June 01	Balance b/d	2 100

Fish

20X8		£	20X8		£
May 01	Balance b/d	6 000	May 18	Bank	700
May 10	Sales	<u>5 000</u>	May 31	Balance b/d	<u>10 300</u>
		<u>11 000</u>			<u>11 000</u>
June 01	Balance c/d	10 300			

Furniture

20X8		£	20X8		£
May 01	Balance b/d	<u>10 000</u>	May 31	Balance c/d	<u>10 000</u>
		<u>10 000</u>			<u>10 000</u>
June 01	Balance b/d	10 000			

Purchases

20X8		£	20X8		£
May 02	Dodd	3 000	May 31	Balance c/d	4 500
May 07	Cash	<u>1 500</u>			<u>4 500</u>
		<u>4 500</u>			<u>4 500</u>
June 01	Balance b/d	4 500			

Sales

20X8			20X8		
		£			£
May 31	Balance c/d	7 000	May 04	Cash	2 000
		<u>7 000</u>	May 10	Fish	<u>5 000</u>
			June 01	Balance b/d	<u>7 000</u>

Office Expenses

20X8			20X8		
		£			£
May 23	Cash	<u>900</u>	May 31	Balance c/d	<u>900</u>
		<u>900</u>			<u>900</u>
June 01	Balance b/d	900			

Delivery Van

20X8			20X8		
		£			£
May 27	Bank	<u>1 200</u>	May 31	Balance c/	<u>1 200</u>
		<u>1 200</u>			<u>1 200</u>
June 01	Balance b/d	1 200			

(b)

Tom

Trial Balance at 31 May 20X8

	DR	CR
	£	£
Bank	1 300	
Capital		20 000
Cash	900	
Dodd		2 100
Fish	10 300	
Furniture	10 000	
Purchases	4 500	
Sales		7 000
Office Expenses	900	
Delivery Van	<u>1 200</u>	
	<u>29 100</u>	<u>29 100</u>

Question 6

(a)

T. Lennon		
Trial Balance at 31 December 20X9		
	DR	CR
	£	£
Motor Vehicle	4 500	
Purchases	2 960	
Sales		4 230
Stock of Goods	1 800	
Cash at Bank	6 740	
Fixtures and Fittings	7 900	
Wages	2 310	
Debtors	1 960	
Creditors		2 600
Rent	1 250	
Drawings	180	
General Expenses	930	
Loan from D. Waller		2 000
Capital		<u>21 700</u>
	<u>30 530</u>	<u>30 530</u>

(b) A trial balance checks the arithmetical accuracy of the double entry.

(c) **Errors not revealed by the trial balance:**

1. A transaction that has been completely omitted
2. A transaction that was entered correctly but using the wrong amount

Errors revealed by the trial balance

1. Entering only one side of a transaction
2. Addition errors

Question 7

- (a) Credit
- (b) Debit
- (c) Debit
- (d) Credit
- (e) Credit
- (f) Debit

Chapter 6

Trading and Profit & Loss Accounts: An Introduction

Answers to Activities

Activity 6.1

Year	Sales	Cost of goods sold	Gross Profit/Loss	Operating Expenses	Other Revenue	Net Profit / Loss
	£	£	£	£	£	£
2005	29 120	23 230	5 890	3 311	600	3 179
2006	26 789	23 900	2 889	3 600	200	(511)
2007	28 500	21 500	7 000	2 900	-	4 100

Solutions to Target Practice Questions

Question 1

Andrew Gordon
Trading and Profit & Loss Account
for the year ended 31 December 20X2

Purchases	£ 26 200	Sales	£ 34 670
Less Stock at 31 December 20X2	<u>3 100</u>		
Cost of goods sold	23 100		
Gross profit c/d	<u>11 570</u>		
	<u>34 670</u>		<u>34 670</u>
Wages	6 100	Gross profit b/d	11 570
Rent	1 200		
Insurance	160		
Lighting and heating	380		
Net profit	<u>3 730</u>		
	<u>11 570</u>		<u>11 570</u>

Question 2

A. Darnell
Trading and Profit & Loss Account
for the year ended 30 September 20X7

	£		£
Purchases	23 380	Sales	30 870
Less Stock at 30 September 20X7	<u>3 650</u>		
Cost of goods sold	19 730		
Gross profit c/d	<u>11 140</u>		
	<u>30 870</u>		<u>30 870</u>
Rent	900	Gross profit b/d	11 140
Insurance	320		
Motor vehicle expenses	860		
Wages	4 200		
General expenses	165		
Net profit	<u>4 695</u>		
	<u>11 140</u>		<u>11 140</u>

Question 3

B. Betty
Trading and Profit & Loss Account
for the year ended 30 June 20X5

	£		£
Purchases	21 160	Sales	28 640
Less Stock at 30 June 20X5	<u>2 800</u>		
Cost of goods sold	18 360		
Gross profit c/d	<u>10 280</u>		
	<u>28 640</u>		<u>28 640</u>
Rent	2 240	Gross profit b/d	10 280
Wages	5 100		
Insurance	190		
Office expenses	315		
Net profit	<u>2 435</u>		
	<u>10 280</u>		<u>10 280</u>

Question 4

Ada Cheung
Trading and Profit & Loss Account
for the year ended 31 March 20X3

	£		£
Purchases	46 820	Sales	53 700
Less Stock at 31 March 20X3	<u>9 140</u>		
Cost of goods sold	37 680		
Gross profit c/d	<u>16 020</u>		
	<u>53 700</u>		<u>53 700</u>
Wages	7 360	Gross profit b/d	16 020
Rent	2 370		
Advertising	840		
Lighting and heating	765		
Sundry expenses	1210		
Net profit	<u>3 475</u>		
	<u>16 020</u>		<u>16 020</u>

Question 5

(a)

1. Comparing performance with other businesses or with previous periods of time to see if the business is growing.
2. Planning ahead – profits will allow the firm to expand so information about how much profit has been made and how it was made will be important in deciding what to do in the future.
3. To help the business to control and monitor its expenses.

(b) This means that his cost of goods sold was more than the sales revenue; he sold the goods for less than he paid for them.

Chapter 7

The Balance Sheet

Answers to 'Think about it' Questions

Page 72 – Why the balance sheet is prepared at a specified date while the trading and profit and loss is prepared for a period of time.

- Because it shows the financial position of a business *at* a particular date and not for a particular period of time. It shows the value of assets and liabilities as they are at a specific date.

Solutions to Target Practice Questions

Question 1

1. Fixed assets are presented in order of decreasing permanence while current assets are presented in increasing order of liquidity.

Question 2

J Robinson
Balance Sheet at 31 March 20X7

	£	£		£
Fixed Assets			Capital	47 020
Buildings		35 000	(missing figure)	
Fixtures and fittings		2 860		
Motor vehicle		<u>6 400</u>	Current Liabilities	
		44 260	Creditors	6 830
Current Assets			Long-term Liabilities	
Stock	4 360		Loan	5 000
Debtors	7 200			
Bank	2 950			
Cash	<u>80</u>			
		<u>14 590</u>		
		<u>58 850</u>		<u>58 850</u>

Question 3

Andrew Gordon
Balance Sheet as at 31 December 20X2

	£	£		£	£
Fixed Assets			Capital		68 660
Premises		54 000	<i>Add:</i> Net profit	3 730	
Fixtures and fittings		1 200	<i>Less:</i> Drawings	<u>2 600</u>	
Motor vehicle		<u>5 600</u>			<u>1 130</u>
		60 800			69 790
Current Assets			Current Liabilities		
Stock	3 180		Creditors		1 700
Debtors	3 460				
Bank	<u>4 130</u>				
		<u>10 690</u>			
		<u>71 490</u>			<u>71 490</u>

Question 4

A Darnell
Balance Sheet as at 30 September 20X7

	£	£		£	£
Fixed Assets			Capital		34 555
Premises		24 000	<i>Add:</i> Net profit	4 695	
Fixtures and fittings		850	<i>Less:</i> Drawings	<u>3 200</u>	
Motor vehicle		<u>4 200</u>			<u>1 495</u>
		29 050			36 050
Current Assets			Current Liabilities		
Stock	3 650		Creditors		2 900
Bank	2 130				
Cash	<u>70</u>				
		<u>9 900</u>			
		<u>38 950</u>			<u>38 950</u>

Question 5

B Betty
Balance Sheet as at 31 June 20X5

	£	£		£	£
Fixed Assets			Capital		7 500
Office furniture		650	Add: Net profit	2 435	
Motor vehicle		2 800	Less: Drawings	<u>1 230</u>	
		<u>3 450</u>			<u>1 205</u>
					8 705
Current Assets			Current Liabilities		
Stock	2 800		Creditors		1 870
Debtors	2 360				
Bank	1 890				
Cash	<u>75</u>				
		<u>7,125</u>			
		<u>10 575</u>			<u>10 575</u>

Question 6

Ada Cheung
Balance Sheet as at 31 March 20X3

	£	£		£	£
Fixed Assets			Capital		68 335
Premises		43 000	Add: Net profit	3 475	
Fixtures and fittings		5 700	Less: Drawings	<u>3 700</u>	
Motor vehicle		<u>5 300</u>			<u>(225)</u>
		54 000			68 110
Current Assets			Current Liabilities		
Stock	9 140		Creditors		4 940
Debtors	8 200				
Bank	<u>1 710</u>				
		<u>19 052</u>			
		<u>73 050</u>			<u>73 050</u>

Chapter 8

Final Accounts with Further Considerations

Answers to Activities

Activity 8.1

T Antonio
Trading Account for the month ending 30 April 20X8

	£		£
Opening Stock	3 855	Sales	5 280
Purchases	2 680	Less Returns inwards	<u>139</u>
Add Carriage inwards	<u>102</u>	Turnover	5 141
	2 782		
Less Returns outwards	<u>139</u>		
	<u>2 643</u>		
	6 498		
Less Closing Stock	<u>2 631</u>		
Cost of goods sold	3 867		
Gross profit c/d	<u>1 274</u>		
	<u>5 141</u>		<u>5 141</u>

Solutions to Target Practice Questions

Question 1

- (a) **Carriage Inwards** is associated with the cost of getting goods into the business and ready for resale so it is always added to the cost of purchases in the Trading Account.

Carriage Outwards is a necessary cost of 'distribution' of sales to customers and so it is debited to the Profit & Loss Account with other expenses.

- (b) It is necessary to include returns inwards and returns outwards in the trading account to adjust the purchases and sales figures to find the amounts actually bought and sold.
- (c) It shows the amount of resources a business has that can be readily turned into cash.

Question 2

R Knight Trading and Profit & Loss Account for the year ended 31 October 20X6

	£	£	£
Sales			120 500
Less: Returns inwards			<u>740</u>
Turnover			119 760
Less: Cost of goods sold			
Opening stock		15 200	
Purchases	75 400		
Add: Carriage inwards	<u>2 150</u>		
Net purchases		<u>77 550</u>	
		92 750	
Less: Closing stock		<u>13 600</u>	
			<u>79 150</u>
Gross Profit			40 610
Less: Expenses			
Carriage outwards		3 200	
Wages		28 500	
Sundry expenses		<u>2 230</u>	
			<u>33 930</u>
Net Profit			<u><u>6 680</u></u>

Question 3

T Pearl
Trading and Profit & Loss Account
for the year ended 31 August 20X7

	£	£	£
Sales			34 350
Less: Returns inwards			<u>1 230</u>
Turnover			33 120
Less: Cost of goods sold			
Opening stock		4 360	
Purchases	26 500		
Add: Carriage inwards	<u>940</u>		
	27 440		
Less Returns outwards	<u>1 050</u>		
Net purchases		<u>26 390</u>	
		30 750	
Less: Closing stock		<u>4 210</u>	
			<u>26 540</u>
Gross Profit			6 580
Add: Rent Receivable			<u>600</u>
			7 180
Less: Expenses			
Carriage Outwards		540	
Rent Payable		2 100	
Lighting and heating		430	
Telephone		<u>215</u>	
			<u>3 305</u>
Net Profit			<u><u>3 875</u></u>

Question 4

P Franks
Trading and Profit & Loss Account
For the year ended 28 February 20X8

	£	£	£
Sales			221 300
Less: Returns Inwards			<u>5 200</u>
Turnover			216 100
Less: Cost of goods sold			
Opening stock		12 600	
Purchases	155 400		
Less: Returns outwards	<u>6 650</u>		
		<u>148 750</u>	
Net purchases		161 350	
Less: Closing stock		<u>16 100</u>	
			<u>145 250</u>
Gross Profit			70 850
Less: Expenses			
Lighting and heating		3 900	
Salaries and wages		48 500	
Sundry expenses		4 650	
Rent and rates		<u>2 300</u>	
			<u>59 350</u>
Net Profit			<u>11 500</u>

P Franks
Balance Sheet at 28 February 20X8

	£	£
Fixed assets		
Premises		104 000
Equipment		28 000
Motor vehicle		<u>21 000</u>
		153 000
Current assets		
Stock	16 100	
Debtors	23 750	
Bank	960	
Cash	<u>76</u>	
	40 886	
<i>Less: Current liabilities</i>		
Creditors	<u>15 716</u>	
Net current assets		<u>25 170</u>
		178 170
Long-term liabilities		
Loan		<u>32 000</u>
		<u>146 170</u>
Financed by:		
Capital Balance b/d		145 270
Add: Net profit		<u>11 500</u>
		156 770
Less: Drawings		<u>10 600</u>
		<u>146 170</u>

Question 5

T Williams
Trading and Profit & Loss Account
for the year ended 31 May 20X8

	£	£	£
Sales			139 200
<i>Less: Returns inwards</i>			<u>430</u>
Turnover			138 770
<i>Less: Cost of goods sold</i>			
Opening Stock		27 230	
Purchases	103 500		
<i>Add: Carriage inwards</i>	<u>630</u>		
	104 130		
<i>Less: Returns outwards</i>	<u>960</u>		
Net purchases		<u>103 170</u>	
		130 400	
<i>Less: Closing stock</i>		<u>30 580</u>	
			<u>99 820</u>
Gross Profit			38 950
<i>Less: Expenses</i>			
Wages and salaries		15 320	
Rent		5 400	
Insurance		325	
Sundry expenses		475	
Carriage Outwards		<u>2 340</u>	
			<u>23 860</u>
Net Profit			<u>15 090</u>

T Williams
Balance Sheet at 31 May 20X8

	£	£
Fixed assets		
Buildings		32 000
Fixtures and fittings		<u>4 250</u>
		36 250
Current assets		
Stock	30 580	
Debtors	21 460	
Bank	4 450	
Cash	<u>195</u>	
	56 685	
<i>Less: Current liabilities</i>		
Creditors	<u>12 240</u>	
Net current assets		<u>44 445</u>
		80 695
Long-term liabilities		
Loan		<u>15 000</u>
		<u>65 695</u>
Financed by:		
Capital balance b/d		62 005
Add: Net profit		<u>15 090</u>
		77 095
Less: Drawings		<u>11 400</u>
		<u>65 695</u>

Chapter 9

The Division of the Ledger and Books of Original Entry

Answers to 'Think about it' Questions

Page 93 – What have you noticed about the Cash Book?

- It is a Book of Original Entry as well as a Ledger.

Answers to Activities

Activity 9.1

1. General Ledger
2. Sales Ledger
3. General Ledger
4. General Ledger
5. General Ledger or Private Ledger
6. General Ledger

Solutions to Target Practice Questions

Question 1

- (a) They provide documentation (proof) that a transaction has occurred.
- (b)
1. They save time as they summarise similar transactions for the period, resulting in less information and less frequent postings to the General Ledger.
 2. They allow a business to have different individuals responsible for different journals therefore increasing internal control.

Question 2

- (a) Debtors Ledger
(b) Creditors Ledger
(c) Nominal Ledger

Question 3

- (a) Real
(b) Nominal
(c) Nominal
(d) Real
(e) Real

Question 4

- (a) Cash Book
(b) Cash Book
(c) Cash Book
(d) Cash Book
(e) Purchases Day Book
(f) Cash Book

Chapter 10 Bank Facilities

Answers to Activities

Activity 10.1

Payee	Cheque number	Drawer	Counterfoil	Crossed cheque
<p>Mary White is writing a cheque for £200 to John Blue. As she is the drawer she must make sure that she signs the cheque. Her book-keeper told her to always fill out the counterfoil so she will have a record of the payment. As the cheque number is on the counterfoil as well as the cheque it will help her to trace the payment.</p> <p>She has decided to give John a crossed cheque as she is worried that the cheque might get lost. John is not very happy about this. As he is the payee it means he will not be able to get the money from the bank immediately.</p>				

Solutions to Target Practice Questions

Question 1

Bank			
20X7		£	20X7
November 30	Interest receivable	145	December 15 Interest payable 320
			December 22 Bank charges 45

Interest Receivable			
			20X7
			November 30 Bank £ 145

Interest Payable			
20X7		£	
December 15	Bank	320	

Bank Charges			
20X7		£	
December 22	Bank	45	

Question 2

A bank overdraft occurs when the bank allows a current account holder to withdraw more money from the account than is actually in the account. For example, the account holder only has £800 in the account but with the permission of the bank is allowed to withdraw up to a maximum of £1500.

Question 3

A standing order is used for payments of fixed amounts at regular intervals at the request of the account holder while a direct debit is made at the request of the payee (the person/organisation that is owed) and can be used for either fixed or changing amounts and for payments at irregular intervals.

Question 4

- (a) Interest receivable is the interest received on the balance of an interest bearing account; the amount the bank pays the account holder for the use of the money in the account.
- (b) Interest payable is the cost of borrowing; it is the payment to the lender (the bank) for the use of its money.
- (c) Bank charges is a charge by a bank for the services it provides.

Question 5

- (a) Direct Debit
- (b) Credit transfer
- (c) Standing order
- (d) Dividend

Question 6

- (a) 1. Current account
2. Deposit account
- (b) Current accounts do not always earn interest, deposit accounts do.

Question 7

- (a) $£2738.57 - £206.05 = \mathbf{£2532.52}$
- (b) Credit column
- (c) Credit transfer
- (d) Loan repayment through a standing order

Chapter 11 Cash Books

Answers to 'Think about it' Questions

Page 111 – Is it possible for the cash columns to have a credit balance? Give reasons for your answer.

- No – because it is impossible to spend more cash than is available. If the business has cash in hand of only £50 then it cannot spend more than this amount.

Solutions to Target Practice Questions

Question 1

- (a) As a book of original entry it is the first place where all the cash and cheque transactions are recorded; it is also one side of the double entry.
- (b) Where the debit and credit entries for a transaction are in the same ledger or book.

Question 2

F. Patel – Cash Book

20X3	Details	Cash £	Bank £	20X3	Details	Cash £	Bank
Nov 01	Capital	3 000		Nov 02	Bank (C)	2 800	
Nov 02	Cash (C)		2 800	Nov 03	Rent		140
Nov 14	Bank (C)	160		Nov 07	Purchases		370
Nov 17	Sales		230	Nov 10	Stationery	46	
Nov 23	Sales	220		Nov 12	Wages	120	
Nov 28	Cash (C)		200	Nov 14	Cash (C)		160
				Nov 20	Carriage in	34	
				Nov 26	Drawings	60	
				Nov 28	Bank (C)	200	
				Nov 30	Purchases		430
				Nov 30	Balances c/d	120	2 130
		<u>3 380</u>	<u>3 230</u>			<u>3 380</u>	<u>3 230</u>
Dec 1	Balances b/d	120	2 130				

Question 3

T. Karekla – Cash Book

20X9	Details	Cash £	Bank £	20X9	Details	Cash £	Bank £
July 1	Capital		6 000	July 3	Motor vehicle		3 000
July 4	Bank (C)	150		July 4	Cash (C)		150
July 15	Loan		2 000	July 8	Rent	85	
July 20	Bank (C)	100		July 10	Purchases		460
July 23	Sales	390		July 18	Carriage in	40	
July 29	Sales		540	July 20	Cash (C)	100	
July 30	Cash (C)		300	July 24	Purchases		670
				July 24	Wages	20	100
				July 30	Bank (C)	300	
				July 31	Balances c/d	<u>95</u>	<u>4 460</u>
		<u>640</u>	<u>8 840</u>				<u>8 840</u>
Aug 1	Balances b/d	95	4 460				

Question 4

Maria Metaxa – Cash Book

20X7	DETAILS	Discount Allowed £	Cash £	Bank £	20X7	DETAILS	Discount Received £	Cash £	Bank £
Feb 01	Balances b/d		65	3 196	Feb 02	Postage		50	
Feb 04	Sales			2 610	Feb 06	Purchases			1 075
Feb 08	D Pole	30		1 250	Feb 06	Wages			2 167
Feb 10	Sales			2 730	Feb 12	Cash (C)			100
Feb 12	Bank (C)		100		Feb 12	Wages			1 964
Feb 19	Sales			2 945	Feb 15	Electricity			53
Feb 23	E Holme	40		1 760	Feb 16	Stationery		38	
					Feb 19	Wages			1 840
					Feb 21	Travelling expenses		19	
					Feb 25	Telephone			132
					Feb 27	Wages			1 920
					Feb 28	P Barratt	20		1 240
					Feb 28	D Smart	55	<u>58</u>	2 145
		<u>70</u>	<u>165</u>	<u>14 491</u>	Feb 28	Balances c/d	<u>75</u>	<u>165</u>	<u>1 855</u>
Mar 1	Balances b/d		58	1 855					

(b)

Discount Allowed

20X7		£
February 28	Total for the month	70

Discount Received

	20X7	£
February 28	Total for the month	75

Question 5

(a)

Sally Foon – Cash Book

20X2	DETAILS	Discount Allowed £	Cash £	Bank £	20X2	DETAILS	Discount Received £	Cash £	Bank £
Oct 01	Balances b/d		68		Oct 01	Balances b/d			1 692
Oct 02	P Mace	8		160	Oct 12	W Eastern			75
Oct 10	Sales			2 086	Oct 14	Stationery		35	
Oct 12	G Lai			560	Oct 16	F Samway	4		86
Oct 18	Bank (C)		150		Oct 18	Cash (C)			150
Oct 20	Sales		1 120		Oct 21	Bank (C)		1 120	
Oct 21	Loan interest		60		Oct 22	Wages			35
Oct 21	Cash (C)			1 120	Oct 22	G Lai			560
Oct 26	B Chalke	16		704	Oct 24	Telephone			147
					Oct 28	Office Expenses		40	
					Oct 30	L. Hall	13		247
					Oct 30	Interest paid	17		20
		<u>24</u>		<u>4 630</u>	Oct 31	Balances c/d		<u>203</u>	<u>1 618</u>
Nov 1	Balances b/d		<u>1 398</u>	<u>4 630</u>				<u>1 398</u>	<u>14 491</u>
			203	1 618					

- (b) The £24 discount allowed will be posted to the debit side of the discount allowed account.
The £17 discount received will be posted to the credit side of the discount received account.

(c)

Discount Allowed

20X2	£
October 31	Total for the month
	24

Discount Received

	20X2	£
October 31	Total for the month	17

Chapter 12

The Sales and Purchases Day Books

Answers to 'Think about it' Questions

Page 125 – Why do you think the invoice numbers are not sequential in S French's Purchases Day Book?

- Because S French has not assigned unique numbers to each invoice but is instead using the invoice numbers as received from the different sellers.

Solutions to Target Practice Questions

Question 1

(a)

Sales Day Book

Date	Details	Net Amount
20X8		£
Oct 01	F Law	612
Oct 04	G Harding	436
Oct 09	S Wilks	370
Oct 15	L Ryle	810
Oct 23	F Law	354
Oct 29	G Harding	508
Oct 31	Transferred to Sales Account	<u>3 090</u>

(b)

Sales Ledger

F Law

20X8		£	
October 01	Sales	612	

G Harding

20X8		£	
October 04	Sales	436	

S Wilks

20X8		£	
October 09	Sales	370	

L Ryle

20X8		£
October 15	Sales	810

F Law

20X8		£
October 23	Sales	354

G Harding

20X8		£
October 29	Sales k	508

General Ledger

(c)

Sales

20X8		£
October 30	Credit sales for the month	3 090

Question 2

(a)

Sales Day Book

Date	Details	Net Amount
20X5		£
July 02	D Smith	488
July 07	T Ronald	480
July 12	N Smithers	256
July 18	L Malt	186
July 23	D Smith	221
July 30	T Ronald	435
July 31	Transferred to Sales Account	<u>2 066</u>

(b)

Sales Ledger

D Smith

20X5		£
July 02	Sales	488

T Ronald

20X5		£
July 07	Sales	480
July 30	Sales	435

N Smithers

20X5		£
July 12	Sales	256

L Malt

20X5		£
July 18	Sales	186

D Smith

20X5		£
July 23	Sales	221

General Ledger

Sales

20X5		£
July 31	Credit sales for the month	2 066

Question 3

(a)

Purchases Day Book

Date	Details	Net Amount
20X3		£
April 01	D Bellamy	306
April 03	A Browne	215
April 10	Swift & Co	438
April 14	D Bellamy	280
April 21	R Green	176
April 27	Swift & Co	<u>342</u>
April 30	Transferred to Purchases Account	<u>1 757</u>

(b)

Purchases Day Book

D Bellamy

		20X3	£
	April 01	Purchases	306
	April 14	Purchases	280

A Browne

		20X3	£
	April 03	Purchases	215

Swift & Co

		20X3	£
	April 10	Purchases	438
	April 27	Purchases	342

R Green

		20X3	£
	April 21	Purchases	176

General Ledger

Purchases

		20X3	£
April 30	Credit purchases for the month		1 757

Question 4

- (a)
1. Name of buyer
 2. Name of seller
 3. Quantity of units sold
 4. Total amount owed
 5. Unit price for goods

- (b) Trade discounts do not appear in the books. Cash discounts are recorded in the Cash Book and then posted to the Purchases or Sales Ledger and the General Ledger.

Chapter 13 The Returns Day Books

Answers to 'Think about it' Questions

Page 129 – What are some of the possible reasons that a customer may return goods to the seller?

- Goods may be damaged or faulty
- Goods of the wrong type
- More received than ordered

Solutions to Target Practice Questions

Question 1

(a)

Sales Day Book

Date	Details	Net Amount
20X7		£
Sept 02	F Bloome	236
Sept 04	T Francesca	370
Sept 14	T Francesca	284
Sept 20	T Sharpe	<u>405</u>
Sept 30	Transferred to Sales Account	<u>1 295</u>

Returns Inwards Day Book

Date	Details	Net Amount
20X7		£
Sept 07	F Bloome	56
Sept 20	T Francesca	<u>24</u>
Sept 30	Transferred to Returns Inwards Account	<u>80</u>

(b)

Sales Ledger

F Bloome			
20X7		£	20X7
Sept 02	Sales	236	Sept 07 Returns Inwards
			56

T Francesca			
20X7		£	20X7
Sept 04	Sales	370	Sept 20 Returns Inwards
Sept 14	Sales	284	24

T. Sharpe

20X7		£
Sept 26	Sales	405

General Ledger

Sales

20X7		£
Sept 30 Credit sales for the month		1 295

Returns Inwards

20X7		£
Sept 30	Returns for the month	80

Question 2

(a)

Purchases Day Book

Date	Details	Net Amount
20X9		£
Jan 03	S Letts	477
Jan 18	P Boyle	<u>89</u>
Jan 31	Transferred to Purchases Account	<u>566</u>

Sales Day Book

Date	Details	Net Amount
20X9		£
Jan 01	K Devine	280
Jan 15	K Devine	234
Jan 21	D Lemon	416
Jan 28	P Starkey	<u>245</u>
Jan 31	Transferred to Sales Account	<u>1 175</u>

Returns Outwards Day Book

Date	Details	Net Amount
20X9		£
Jan 12	S Letts	54
Jan 24	P Boyle	<u>17</u>
Jan 31	Transferred to Returns Outwards Account	<u>71</u>

Returns Inwards Day Book

Date	Details	Net Amount
20X9		£
Jan 06	K Devine	49
Jan 31	D Lemon	<u>64</u>
Jan 31	Transferred to Returns Inwards Account	<u>113</u>

(b)

Purchases Ledger

S Letts

20X9		£	20X9		£
Jan 12	Returns Outwards	54	Jan 03	Purchases	477

P Boyle

20X9		£	20X9		£
Jan 24	Returns Outwards	17	Jan 18	Purchases	89

Sales Ledger

K Devine

20X9		£	20X9		£
Jan 01	Sales	280	Jan 06	Returns Inwards	49
Jan 15	Sales	234			

D Lemon

20X9		£	20X9		£
Jan 21	Sales	416	Jan 31	Returns Inwards	64

P Starkey

20X9		£			
Jan 28	Sales	245			

General Ledger

(c)

Purchases

20X9		£			
Jan 31	Credit purchases for the month	566			

Sales

20X9		£
Jan 31	Credit sales for the month	1 175

Returns Outwards

20X9		£
Jan 31	Returns for the month	71

Returns Inwards

20X9		£
Jan 31	Returns for the month	71

Question 3

Purchases Day Book

Date	Details	Net Amount
20X1		£
Aug 04	G Mann	300
Aug 11	B Jollie	<u>200</u>
Aug 31	Transferred to Purchases Account	<u>500</u>

Sales Day Book

Date	Details	Net Amount
20X1		£
Aug 05	B Allen	240
Aug 12	G Parker	360
Aug 21	E Todd	<u>243</u>
Aug 31	Transferred to Sales Account	<u>843</u>

Cash Book

20X1	DETAILS	Discount Allowed	Cash	Bank	20X1	DETAILS	Discount Received	Cash	Bank
		£	£	£			£	£	£
Aug 18	G Parker	36		324	Aug 15	B Jollie			
Aug 31	B Allen			240	Aug 29	G Mann	10		190
									300

Question 4

- (a) Purchases Day Book
- (b) Sales Day Book
- (c) Returns Inwards Day Book
- (d) Returns Outwards Day Book

Question 5

A credit note is sent to the buyer (customer) by the supplier showing the amount of allowance to be given.

A debit note is sent to the supplier from the buyer, giving details of returned goods and the reason for their return.

Chapter 14 The Journal

Solutions to Target Practice Questions

Question 1

(a)

	Debit £	Credit £
Premises	25 000	
Equipment	3 500	
Stock	1 400	
Debtors	2 100	
Creditors		3 400
Loan		7 600
Bank overdraft		2 500
Cash	500	
Office equipment	<u>5 000</u>	
	37 500	13 500
Capital (balancing figure)	<u>-</u>	<u>24 000</u>
	<u>37 500</u>	<u>37 500</u>

(b)

M Jones Journal

20X7		Debit £	Credit £	
Jan 1	Premises	25 000		
	Equipment	3 500		
	Stock	1 400		
	Debtors	2 100		
	Cash	500		
	Office equipment	5 000		
	Creditors		3 400	
	Loan		7 600	
	Bank overdraft		2 500	
	Capital		<u>24 000</u>	
			<u>37 500</u>	<u>37 500</u>
		<i>Assets and liabilities at this date entered to open the books</i>		

(c)

M Jones
Balance Sheet at 1 January 20X7

	£	£	£
Fixed assets			25 000
Premises			3 500
Office equipment			<u>5 000</u>
			33 500
Current assets			
Stock		1 400	
Debtors		2 100	
Cash		<u>500</u>	
		4 000	
Less: Current liabilities			
Creditors	3 400		
Bank overdraft	<u>2 500</u>		
		<u>5 900</u>	
Net current liabilities			<u>(1 900)</u>
			31 600
Less: Long Term liabilities			
Loan			<u>(7 600)</u>
			<u>24 000</u>
Financed by:			
Capital account			<u>24 000</u>

Question 2

G Gunter
Journal

20X8		Debit £	Credit £
Dec 10	Y Underberg Office furniture	120	120
Dec 12	Delivery van KN Traders	14 500	14 500
Dec 15	Drawings Sales	340	340
Dec 20	Bank Bad debts F Fern	130 100	230

Question 3**Journal**

20X7		Debit £	Credit £
Aug 1	Computers Siskin Computers	900	900
Aug 2	Drawings Cash	350	350
Aug 7	Siskin Computers Computers	300	300
Aug 3	Motor Van Motor Traders	5 700	5 700
Aug 18	Bank Bad debts D Wong	990 2 000	2 990
Aug 23	Drawings Telephone	120	120
Aug 29	J Cummings Fixtures & fittings	1 250	1 250

Chapter 15 The Petty Cash Imprest System

Solutions to Target Practice Questions

Question 1

(a)

**M Leighton
Petty Cash book**

Receipts	Date 20X7	Details	Voucher Number	Total	Wages	Stationery	Postage	Ledger
£				£	£	£	£	£
9.34	Feb 01	Balance b/d						
90.66	Feb 01	Bank						
	Feb 03	Wages	21	17.52	17.52			
	Feb 07	Stationery	22	5.88			5.88	
	Feb 10	Wages	23	18.22	18.22			
	Feb 14	Stationery	24	4.56		4.56		
	Feb 17	Wages	25	17.68	17.68			
	Feb 20	A. Bush	26	8.32				8.32
	Feb 21	Stationery	27	9.00		9.00		
	Feb 24	Wages	28	16.96	16.96			
	Feb 28	Balance c/d		98.14				
				1.86	70.38	13.56	5.88	8.32
100.00				100.00				
1.86	Mar 01	Balance b/d						
98.14	Mar 01	Bank						

(b)

Wages

20X7		£
Feb 28	Petty Cash	70.38

Stationery

20X7		£
Feb 28	Petty Cash	13.56

Postage

20X7		£
Feb 28	Petty Cash	5.88

A Bush

20X7		£
Feb 28	Petty Cash	8.32

(c)

1. It deals with small payments.
2. Enables the person looking after the Cash Book to concentrate on the bigger transactions.

Question 2

F Salmon Petty Cash Book

Receipts	Date 20X6	Details	Vouch No.	Total	Postage	Travel Expns	Motor Vehicle Expense	Stationery	Misc.	Ledger
£				£	£	£	£	£	£	£
155	01 Mar	Bal b/d								
195	01 Mar	Bank								
	04 Mar	Postage	36	20	20					
	06 Mar	Train fare	37	25		25				
	09 Mar	Petrol	38	15			15			
	10 Mar	Stationery	39	38				38		
	12 Mar	Bus fare	40	2		2				
	15 Mar	P Gates	41	16						16
	16 Mar	Stamps	42	30	30					
	18 Mar	Repairs	43	35			35			
	20 Mar	Stationery	44	47				47		
	23 Mar	Petrol	45	28			28			
	25 Mar	Misc.	46	17					17	
	28 Mar	Parcel post	47	19	19					
	31 Mar	Bal c/d		292	69	27	78	85	17	16
				58						
350	Apr 1	Bal b/d		350						
58	Apr 1	Bank								
292										

Question 3

(a)

Receipts	Date 20X3	Details	Total	Motor Vehicle Expense	Stationery	Postage	Travel Expense	Cleaning Expense	Ledger
£			£	£	£	£	£	£	£
87.00	1 May	Bal c/d							
113.00	1 May	Bank							
	3 May	Motor exp	32.00	32.00					
	5 May	Stationery	12.70		12.70				
	8 May	Stamps	9.50			9.50			
	11 May	Cleaning	8.00					8.00	
	14 May	Travel exp	11.30				11.30		
	16 May	D Kane	24.80						
	18 May	Stamps	12.80			12.80			24.80
	21 May	Stationery	15.10		15.10				
	25 May	Cleaning	9.00					9.00	
	27 May	Petrol	14.50				14.50		
	30 May	Post	13.20			13.20			
			162.90	32.00	27.80	35.50	25.80	17.00	24.80
	31 May	Bal c/d	37.10						
200.00			200.00						
37.10	1 June	Bal b/d							
212.90	1 June	Bank							

(b) General Ledger

(c) Petty Cash Voucher

Chapter 16

Adjusting for Accruals and Prepayments

Answers to 'Think about it' Questions

Page 160 – Why are expense prepayment and income accrual shown as current assets on the Balance Sheet?

- Where an expense has been paid for before it is actually used, the supplier owes the business the amount until such time when the expense prepayment is used up. Since the expense supplier owes the business, he is similar to a debtor, which is a current asset. In terms of an income accrual, the amount has not be paid when due so it is owing similar to a debtor, which is a current asset.

Solutions to Target Practice Questions

Question 1

(a)

B. Kouzalai
Trading and Profit & Loss Account
For the year ended 30 June 20X7

	£	£
Sales		286 370
<i>Less: Cost of goods sold:</i>		
Opening stock	19 223	
Purchases	<u>129 860</u>	
	149 083	
<i>Less: Closing stock</i>	<u>13 980</u>	
		<u>135 103</u>
Gross profit		151 267
<i>Add: Commission received (1210 + 141)</i>		<u>1 351</u>
		152 618
<i>Less: Expenses</i>		
Wages + salaries (65840 + 820)	66 660	
Stationery	3 650	
Heat and light (2840 – 80)	2 760	
Motor vehicle expenses	1 620	
Rent payable (11920 + 300)	<u>12 220</u>	
		<u>86 910</u>
Net profit		<u>65 708</u>

(b)

B. Kouzalai
Balance Sheet (extract) at 30 June 20X7

	£	£
Current assets		
Debtors		9 430
Prepayment		80
Commission receivable		141
Current liabilities		
Creditors	7 620	
Accruals (820 + 300)	1 120	

(c)

An accrual is an amount owing for an accounting or financial period which remains unpaid at the end of that period. A prepayment is an amount paid during the current accounting or financial period to cover an expense for the next period.

Question 2

Birch
Trading and Profit & Loss Account
For the year ended 31 December 20X6

	£	£
Sales		113 750
<i>Less: Cost of sales:</i>		
Opening stock	4 025	
Purchases (50925 + 665)	<u>51 590</u>	
	55 615	
<i>Less: Closing stock</i>	<u>3 765</u>	<u>(51 850)</u>
Gross profit		61 900
<i>Less: Expenses</i>		
Wages	27 438	
Rent, rates and insurance (6125 + 350 – 1312)	5 163	
Heat and light (5525 – 210)	5 315	
Motor expenses (3489 + 300 – 442)	3 347	
Telephone and stationery (1672 + 136 – 95)	1 713	<u>(42 976)</u>
Net Profit		<u>18 924</u>

Birch
Balance Sheet at 31 December 20X6

	£	£
Fixed assets		
Motor vehicles: cost		9 843
 Current assets		
Stock	3 765	
Debtors	3 553	
Prepayments	2 059	
Bank	<u>195</u>	
	9 572	
 Current liabilities		
Creditors	(3 290)	
Accruals	<u>1 451</u>	
Net current assets		<u>4 831</u>
		<u>14 674</u>
 Financed by:		
Capital Balance b/d		13 250
Add: Net profit		<u>18 924</u>
		32 174
Less: Drawings		<u>(17 500)</u>
		<u>14 674</u>

Chapter 17

Depreciation of Fixed Assets

Answers to 'Think about it' Questions

Page 168 – What can be said about the yearly depreciation charge under the two different methods?

- Under the straight line method, the yearly depreciation charge is the same each year over the useful life of the asset. Under the reducing balance method the yearly depreciation charge is greater in the early years and lower in the later years; the yearly charge gets decreases over the useful life of the asset.

Answers to Activities

Activity 17.1

- (a) Depreciation is an expense to the business and so like other expenses it is accounted for in the profit and loss account. If no allowance is made for depreciation in the profit and loss the profit for the year will be overstated, i.e. seem greater than it really is.
- (b)

Straight line method

$$= \frac{\pounds 10\,400 - \pounds 4\,100}{3} = \frac{\pounds 6\,300}{3} = \pounds 2\,100$$

Depreciation charge = £2100

Net book value at 31 December 20X8 = £10 400 - £2100 = £8300

Reducing balance method

$$= \pounds 10\,400 \times 40\% = \pounds 4\,160$$

Depreciation charge = £4160

Net book value at 31 December 20X8 = £10 400 - £4160 = £6240

- (c) As the asset concerned is a motor vehicle, the most suitable method is the reducing balance method.

Solutions to Target Practice Questions

Question 1

(a) $\frac{\pounds 25\,000 - \pounds 1\,000}{8} = \pounds 3\,000$

(b) $\frac{\pounds 18\,400 - \pounds 200}{10} = \pounds 1\,820$

Question 2

(a)			£
	Cost		8 000
	20X5 depreciation	(25%)	<u>2 000</u>
	Net Book Value at 31 Dec 20X5		6 000
	20X6 depreciation	25% x £6000	<u>1 500</u>
	Net Book Value at 31 Dec 20X6		4 500
	20X7 depreciation	25% x £4500	<u>1 125</u>
	Net Book Value at 31 Dec 20X7		3 375

(b)

Provision for Depreciation – Machinery Account					
20X5		£	20X5		£
Dec 31	Balance c/d	<u>2 000</u>	Dec 31	Profit & Loss	<u>2 000</u>
		<u>2 000</u>			<u>2 000</u>
20X6			20X6		
Dec 31	Balance c/d	3 500	Jan 1	Balance b/d	2 000
		<u>3 500</u>	Dec 31	Profit & Loss	<u>1 500</u>
		<u>3 500</u>			<u>3 500</u>
20X7			20X7		
Dec 31	Balance c/d	4 625	Jan 1	Balance b/d	3 500
		<u>4 625</u>	Dec 31	Profit & Loss	<u>1 125</u>
		<u>4 625</u>			<u>4 625</u>

(c)

	£	Net Book Value £
At 31 December 20X5		
Machinery at cost	8 000	
Less Aggregate Depreciation	<u>2 000</u>	6 000
At 31 December 20X6		
Machinery at cost	8 000	
Less Aggregate Depreciation	<u>3 500</u>	4 500
At 31 December 20X7		
Machinery at cost	8 000	
Less Aggregate Depreciation	<u>4 625</u>	3 375

Question 3

Motor Vans					
20X7			20X7		
		£			£
Jan 1	Bank	8 400	Dec 31	Balance c/d	14 000
Aug 1	Bank	<u>5 600</u>			
		<u>14 000</u>			<u>14 000</u>
20X8			20X8		
Jan 1	Balance b/d	14 000			

Provision for Depreciation – Motor Vans					
20X7			20X7		
		£			£
Dec 31	Balance c/d	<u>2 147</u>	Dec 31	Profit & Loss [W1]	<u>2 147</u>
		<u>2 147</u>			<u>2 147</u>
			Jan 1	Balance b/d	2 147

Working 1 [W1]

Depreciation charge

£8400 x 20% x 12/12 =

£5600 x 20% x 5/12 =

£

1 680

467

2 147

Question 4

(a)

Furniture & Fittings					
20X4			20X4		
		£			£
Jan 1	Bank	<u>9 200</u>	Dec 31	Balance c/d	<u>9 200</u>
		<u>9 200</u>			<u>9 200</u>
20X5			20X5		
Jan 1	Balance b/d	<u>9 200</u>	Dec 31	Balance c/d	<u>9 200</u>
		<u>9 200</u>			<u>9 200</u>
20X6			20X6		
Jan 1	Balance b/d	<u>9 200</u>	Dec 31	Balance c/d	<u>9 200</u>
		<u>9 200</u>			<u>9 200</u>
20X7			20X7		
Jan 1	Balance b/d	<u>9 200</u>	Dec 31	Balance c/d	<u>9 200</u>
		<u>9 200</u>			<u>9 200</u>

Provision for Depreciation – Furniture & Fittings

20X4		£	20X4		£
Dec 31	Balance c/d	<u>975</u>	Dec 31	Profit & Loss [W1]	<u>975</u>
		<u>975</u>			<u>975</u>
20X5			20X5		
Dec 31	Balance c/d	<u>1 950</u>	Jan 1	Balance c/d	975
		<u>1 950</u>	31 Dec	Profit & Loss	<u>975</u>
					<u>1 950</u>
20X6			20X6		
Dec 31	Balance c/d	<u>3 900</u>	Jan 1	Balance c/d	1 950
		<u>3 900</u>	31 Dec	Profit & Loss	<u>1 950</u>
					<u>3 900</u>
20X7			20X7		
Dec 31	Balance c/d	<u>7 800</u>	Jan 1	Balance c/d	3 900
		<u>7 800</u>	31 Dec	Profit & Loss	<u>3 900</u>
					<u>7 800</u>

Motor Vehicles

20X4		£	20X4		£
July 1	Bank	<u>15 000</u>	Dec 31	Balance c/d	<u>15 000</u>
		<u>15 000</u>			<u>15 000</u>
20X5			20X5		
Jan 1	Balance b/d	<u>15 000</u>	Dec 31	Balance c/d	<u>15 000</u>
		<u>15 000</u>			<u>15 000</u>
20X6			20X6		
Jan 1	Balance b/d	<u>15 000</u>	Dec 31	Balance c/d	<u>15 000</u>
		<u>15 000</u>			<u>15 000</u>
20X7			20X7		
Jan 1	Balance b/d	<u>15 000</u>	Dec 31	Balance c/d	<u>15 000</u>
		<u>15 000</u>			<u>15 000</u>

Provision for Depreciation – Motor Vehicles

20X4		£	20X4		£
Dec 31	Balance c/d	<u>3 000</u>	Dec 31	Profit & Loss [W2]	<u>3 000</u>
		<u>3 000</u>			<u>3 000</u>
20X5			20X5		
Dec 31	Balance c/d	<u>7 800</u>	Jan 1	Balance b/d	3 000
		<u>7 800</u>	Dec 31	Profit & Loss [W2]	<u>4 800</u>
					<u>7 800</u>
20X6			20X6		
Dec 31	Balance c/d	<u>10 680</u>	Jan 1	Balance b/d	7 800
		<u>10 680</u>	Dec 31	Profit & Loss [W2]	<u>2 880</u>
					<u>10 680</u>
20X7			20X7		
Dec 31	Balance c/d	<u>12 408</u>	Jan 1	Balance b/d	10 680
		<u>12 408</u>	Dec 31	Profit & Loss [W2]	<u>1 728</u>
					<u>12 408</u>

Working 1 [W1]

$$\frac{\pounds 9200 - \pounds 1400}{8} = \pounds 975$$

Working 2 [W2]

		£
Cost		15 000
20X4 depreciation	(£15 000 x 40% x 6/12)	<u>3 000</u>
Net Book Value at 31 Dec 20X4		12 000
20X5 depreciation	(£12 000 x 40%)	<u>4 800</u>
Net book Value at 31 Dec 20X5		7 200
20X6 depreciation	(£7200 x 40%)	<u>2 880</u>
Net Book Value at 31 Dec 20X6		4 320
20X7 depreciation	(£4320 x 40%)	<u>1 728</u>
Net Book Value at 31 Dec 20X7		<u>2 592</u>

(b)

Tisha Lee
Balance Sheet (extract) at 31 December 20X7

	£	Net Book Value £
Furniture and Fittings at cost	9 200	
Less Aggregate Depreciation (£975 x4)	<u>3 900</u>	
		5 300
Motor Vehicles at cost	15 000	
Less Aggregate Depreciation (£3000 + £4800 + £2880 + £1728)	<u>12 408</u>	
		2 592

Question 5

(a)

- (i) The profit will be overstated; greater than it should be
- (ii) The value will be overstated

(b)

	Dr £	Cr £
Profit and Loss Account	3000	
Motor van – Provision for Depreciation		3000

(c) The straight line method is calculated by:

$$\frac{\text{Cost} - \text{Disposal Value}}{\text{Number of years of Life}} = \text{Depreciation per annum}$$

The reducing balance method writes off a fixed percentage of the cost in the first year. In later years, the same percentage is written off the net book value.

Under the straight line method the same amount is charged for each year of the useful life of the asset, while under the reducing balance method the charge gets lower over the useful life of the asset.

(d)

1. Economic factors, i.e. the fixed asset may become obsolete or out of date due to an improved product being available, e.g. computers.
2. Passage of time, i.e. even if an item is not used very often, as the years pass and it becomes older, it will lose value.

Chapter 18 Bad Debts

Solutions to Target Practice Questions

Question 1

(a)

Bad Debts							
20X7			£	20X7			£
Jan 30	C Lumas		348	Mar 31	Profit & Loss		1 161
Feb 28	Dent and Son		268				
Mar 31	J Lowe		125				
Mar 31	B Down (560 -140)		<u>420</u>				
			<u>1 161</u>				<u>1 161</u>

(b)

M Kassolides
Profit and Loss (Extract) for the year ended 31 March 20X7

	£	£
Gross Profit		xxxx
Less: Expenses:		
Bad Debts	1 161	

(c)

Debtor account - debit
Bad Debts Recovered Account – credit
Bank/Cash - debit
Debtor - credit

Question 2

(a)

Bad Debts							
20X7			£	20X7			£
Apr 01	Balance		3 128	Apr 27	G West		1 220
Apr 30	A Rover			Apr 30	Profit & Los		4 016
	(£2480 x 85%)		<u>2 108</u>				
			<u>5 236</u>				<u>5 236</u>

(b)

G West							
20X6			£	20X7			£
Sept 01	Balance b/d		<u>1 220</u>	Jan 30	Bad Debts		<u>1 220</u>
20X7				20X7			
Apr 27	Bad Debts		<u>1 220</u>	Apr 27	Bank		<u>1220</u>

(c)

C Shaw
Profit and Loss (Extract) for the year ended 30 April 20X7

	£	£
Gross Profit		xxxx
Less: Expenses:		
Bad Debts	4 016	

Question 3

(a)

Bad Debts					
20X5		£	20X5		£
Dec 01	Balance	4 340	Dec 31	Profit & Loss	6 215
Dec 10	M Gorn	<u>1 875</u>			
		<u>6 215</u>			<u>6 215</u>

(b)

B Late					
20X5		£	20X5		£
Dec 12	Bad Debts Recovered	<u>1 304</u>	Dec 12	Bank	<u>1 304</u>
		<u>1 304</u>			<u>1 304</u>

(c)

Bad Debts Recovered					
20X5		£	20X5		£
Dec 31	Profit and Loss	<u>1 304</u>	Dec 12	B Late	<u>1 304</u>
		<u>1 304</u>			<u>1 304</u>

(d)

P Zander
Profit and Loss (Extract) for the year ended 30 April 20X7

	£	£
Gross Profit		xxxx
Bad Debts Recovered		1 304
Less: Expenses:		
Bad Debts	6 215	

Question 4

(a)

F Turner				
20X7		£	20X7	£
July 1	Balance	700	July 16	Bank (£700 x 98%) 686
July 4	Sales (£600 x 80%)	480	July 16	Discount Allowed
				(£700 x 2%) 14
			July 27	(£200 x 80) 160
			July 31	Balance c/d 320
		<u>1 180</u>		<u>1 180</u>

(b)

	Dr	Cr
	£	£
Bad debts	320	
F Turner		320
<i>Bad debts written off</i>		

Chapter 19 Bank Reconciliation Statements

Answers to 'Think about it' Questions

Page 184 – Why items on the bank statement appear on the opposite side to the cash book?

- Because the bank statement is prepared from the point of view of the bank, while the cash book is prepared from the point of view of the business. To the bank the business is a creditor so money deposited in the account would show on the credit side instead of the debit side.

Page 186 – Why unpresented cheques and late lodgements are treated the way they are in the bank reconciliation statement?

- If the bank reconciliation statement starts with the cash book balance then unpresented cheques are added and late lodgements are subtracted in order to work towards the balance on the bank statement. As unpresented cheques reduces the cash book balance these are added back to get to the bank statement balance and as late lodgements increase the cash book balance these are subtracted to get to the bank statement balance. If the bank reconciliation statement starts with the bank statement balance then it would be the opposite of the explanation given.

Answers to Activities

Activity 19.1

Cash Book			
	£		£
Balance	1 800	Dishonoured cheque – T Bell	200
		Bank charges	40
		Balance c/d	<u>1 560</u>
	<u>1 800</u>		<u>1 800</u>
Balance b/d	1 560		

Solutions to Target Practice Questions

Question 1

(a)

Cash Book			
	£		£
Balance	2 716	Rates	136
T Palmer	268	Insurance	153
Bank interest	<u>8</u>	Balance c/d	<u>2 703</u>
	<u>2 992</u>		<u>2 992</u>
Balance b/d	2 703		

(b)

N Swann
Bank Reconciliation Statement at 31 August 20X9

	£	£
Balance as per Bank statement		2 670
Add: Late lodgements		
R Quaile	185	
Sales	<u>640</u>	
		<u>825</u>
		3 495
Less: Unpresented cheques		
Rent (1016)	290	
T Wagstaffe (1018)	<u>502</u>	
		<u>792</u>
Balance as per cash book		<u><u>2 703</u></u>

Question 2

(a)

Cash Book			
	£		£
Balance	4 024	Bank and interest charges	56
Credit transfer (A Cox)	185	Dishonoured Cheque (B Lampe)	97
Dividends received	420	Standing order (Rent)	350
	<u>4 629</u>	Balance c/d	<u>4 126</u>
Balance b/d	4 126		<u>4 629</u>

- (b)
1. A Cox – credit £185
 2. Bank and interest charges – debit £56
 3. B Lampe – debit £97
 4. Rent – debit £350
 5. Dividends received – credit £420

(c)

D Marr
Bank Reconciliation Statement at 30 June 20X6

	£	£
Balance as per Bank statement		4 075
Add: Late lodgements		1 068
Less: Unpresented cheques		
363147	720	
363152	39	
363161	<u>258</u>	
		<u>1 017</u>
Balance as per cash book		<u><u>4 126</u></u>

Question 3

(a)

Cash Book			
	£		£
Balance	23 399	Standing order (Rent)	672
Credit Transfer (T Brock)	814	Bank charges	46
P May (£740 - £470)	270	Dishonoured cheque (D Holt)	520
Sales	<u>626</u>	Balance c/d	<u>23 871</u>
	<u>25 109</u>		<u>25 109</u>
Balance b/d	23 871		

(b)

G Johnson
Bank Reconciliation Statement at 31 March 20X8

	£
Balance as per Bank statement	22 900
Less: Unpresented cheques	(1 215)
Add: Late lodgements	<u>2 186</u>
Balance as per cash book	<u>23 871</u>

(c)

A bank reconciliation statement is prepared to show an agreement between the balances on the bank statement and the cash book and to get an explanation for any differences.

Question 4

(a)

Cash Book			
	£		£
Credit transfer (S Jolly)	528	Balance b/d	271
		Bank charges	62
		Bankers order (Subscription)	37
		Dishonoured Cheque (P Rose)	44
		Balance c/d	<u>114</u>
	<u>528</u>		<u>528</u>
Balance b/d	114		

(b)

T Merry
Bank Reconciliation Statement at 31 July 20X1

	£	£
Balance as per cash book		114
Add: Unpresented cheques	91	
	67	
	<u>211</u>	
		<u>369</u>
		453
Less: Late lodgement		<u>233</u>
Balance as per Bank statement		<u>250</u>

(c)

An overdraft is like a short-term loan. It is where the bank allows the account holder to withdraw more money than is actually in the account.

(d)

1. The amount in words and figures did not agree.
2. The cheque is more than 6 months old.
3. P Rose did not have sufficient money in his account to cover the value of the cheque.

Chapter 20 Capital and Revenue Expenditure

Answers to 'Think about it' Questions

Page 194 – What is meant by the term fixed assets? Give examples.

- Fixed assets are bought for use in the business and are expected to have a long life. Examples include land and buildings, fixtures and fittings, machinery, motor vehicles, office equipment etc.

Answers to Activities

Activity 20.1

Expenditure	Type of Expenditure
Purchase of a delivery van for the business	Capital
Maintenance of the van	Revenue
Signage on the van	Revenue
Purchase of stock	Revenue
Installation cost of a new computer	Capital
Repainting the office	Revenue
Painting new offices	Capital
Insurance for 1 year	Revenue
Wages to cleaners	Revenue
Wages to employees who are extending the offices	Capital

Solutions to Target Practice Questions

Question 1

- (a) Revenue
- (b) Revenue
- (c) Capital
- (d) Capital
- (e) Revenue
- (f) Revenue
- (g) Revenue

Question 2

No.	Capital Expenditure	Revenue Expenditure
1.	£1050	
2.	£150	
3.		£210
4.		£2300
5.	£12 000	
6.	£890	

Question 3

(a)

1. Capital
2. Revenue
3. Revenue
4. Revenue
5. Capital
6. Revenue
7. Capital
8. Capital
9. Revenue
10. Revenue

(b)

- (i) Capital expenditure is the expenditure on the purchase of fixed assets, or expenditure to increase the value of an existing fixed asset.
- (ii) Revenue expenditure is the cost incurred in the day-to-day running of the business; it is not concerned with increasing the value of fixed assets.

Question 4

Unicorn Trading Company
Trading and Profit and Loss Account
for year ended 31 December 20X7

	£	£
Sales		43 600
Less : Cost of goods sold :		
Opening stock	0	
Add Purchases	<u>24 050</u>	
	24 050	
Less : Closing stock of unsold goods	<u>(3 200)</u>	<u>(20 850)</u>
Gross profit		22 750
Less : Expenses :		
Wages	6 890	
Rent	2 400	
Other expenses	280	
Depreciation	<u>750</u>	<u>(10 320)</u>
Net profit		<u>12 430</u>

Chapter 21

Errors in the Accounts and their Corrections

Answers to Activities

Activity 21.1

Error	Type of Error
(a) A purchases invoice for £452 had been entered into the books of account as £425.	Error of Original entry
(b) A sales invoice for £200 was debited to the account of S. Smith instead of S. Smyth.	Error of Commission
(c) A purchases invoice for stationery, totalling £375, had not been entered into the books of account.	Error of Omission
(d) The purchase of a computer, costing £1200, had been posted to the Stationery Account.	Error of Principle
(e) A sales receipt from Co-Com Ltd was entered in the books of account as a debit in Co-Com Ltd's Ledger Account and a credit in the Bank Account.	Reversal of entries
(f) The additions on the Sales Account were overcast by £200 and the additions on the Rent Account were overcast by £200.	Compensating error

Solutions to Target Practice Questions

Question 1

Journal		Dr	Cr
		£	£
Britsom Ltd		1 500	
Bryson Ltd			1 500
<i>Purchases incorrectly credited to Britsom Ltd</i>			
Walters Ltd		36	
Sales			36
<i>Sales invoice for £295 incorrectly entered as £259</i>			
Carriage inwards		62	
Carriage outwards			62
<i>Carriage inwards posted as carriage outwards</i>			
Slipshod Ltd		1 356	
Bank			1 356
<i>Purchase payment of £678 posted wrong way round</i>			
Petrol		38	
Bank			38
<i>Petrol payment not entered in books</i>			

Question 2

(a)

	Debit		Credit	
	Overstated	Understated	Overstated	Understated
	£	£	£	£
(1)	-	Yes	-	-
(2)	-	-	-	-
(3)	Yes	-	-	Yes
(4)	-	Yes	-	-
(5)	-	-	-	-
(6)	-	-	-	-

(b)

	£	£
Provisional net profit		4 100
(1)	90	
(2) No effect	-	-
(3)		280
(4)	54	
(5) No effect	-	-
(6) No effect	-	-
	144	4 380
Revised net profit		4 236

Question 3

(a)

J Gill Journal

	Dr £	Cr £
Purchases P Sawyer	90	90
A Rae Sales	220	220
Interest Payable Interest Receivable	65	65
Stock (Trading Account) Stock (Balance Sheet)	450	450
Drawings Purchases	60	60
Motor Vehicle – cost Bank	5 000	5 000
Depreciation Motor Vehicle – aggregate depreciation	500	500
R Chen R Chin	200	200

(b)

	£	£
Provisional net profit		4 820
	-	+
(1)	90	
(2)		220
(3) No effect	-	-
(4)	450	
(5)		60
(6)	500	
(7) No effect	-	-
	1 040	5 100
Revised net profit		4 060

Question 4

(a)

- (i) 1. Omission
2. Reversal
3. Commission
4. Compensating
5. Principle

(ii)

Henry Lim Journal

	Dr £	Cr £
General expenses	320	
Bank		320
Sales returns	660	
Kowloon Trading Co		660
Insurance	103	
Light & heat		103
Purchases	250	
Creditors		250
Bank	250	
Wages		250
Sales	1 198	
Equipment		1 198

(b)

Provisional net profit		£14 560
Item Number	+	-
(1)	£320	
(2)	£660	
(3) No effect		
(4) No effect		
(5)	<u>£1 198</u>	
		<u>£2 178</u>
		<u>£12 382</u>

Chapter 22 Control Accounts

Solutions to Target Practice Questions

Question 1

Sales Ledger Control Account

20X7	£	20X7	£
Balance b/d	37 170	Bad Debts	1 198
Sales	100 819	Discounts allowed	597
		Bank	96 371
		Balance c/d	<u>39 823</u>
	<u>137 989</u>		<u>137 989</u>

Purchase Ledger Control Account

20X7	£	20X7	£
Returns outwards	2 901	Balance c/d	20 372
Discounts received	1 554	Purchases	61 179
Bank	56 381		
Balance c/d	<u>20 715</u>		
	<u>81 551</u>		<u>81 551</u>

Question 2

Sales Ledger Control Account

20X5	£	20X5	£
Balance b/d	15 030	Returns inwards	1 126
Sales	93 478	Bank	89 948
		Bad debts	195
		Discounts allowed	2 610
		Balance c/d	<u>14 629</u>
	<u>108 508</u>		<u>108 508</u>

Purchase Ledger Control Account

20X5	£	20X5	£
Bank	70 264	Balance b/d	11 165
Returns outwards	518	Purchases	71 685
Discounts received	2 138		
Balance c/d	<u>9 930</u>		
	<u>82 850</u>		<u>82 850</u>

Chapter 23 Final Accounts and Year-end Adjustments

Solutions to Target Practice Questions

Question 1

**J Cleaver
Trading and Profit & Loss Account
Year ended 31 December 20X6**

	£	£	£
Sales			82 758
Less : Returns inwards			<u>188</u>
			82 390
Less : Cost of goods sold:			
Opening stock		3 930	
Add : Purchases	49 370		
Less : Returns inwards	<u>326</u>	<u>49 044</u>	
		52 974	
Less : Closing stock		<u>2 876</u>	<u>50 098</u>
Gross profit			32 292
Less : Expenses			
Loan interest		1 200	
Depreciation		3 200	
Bank interest		245	
Wages		5 593	
Rent		1 860	
Insurance		270	
Heat & light		440	
Advertising		265	
Carriage outwards		1 803	
Bad debts		<u>436</u>	<u>15 312</u>
Net Profit			<u>16 980</u>

Cleaver
Balance Sheet at 31 December 20X6

	Cost £	Aggregate Depn £	Net Book Value £
Fixed Assets	<u>32 000</u>	<u>6 400</u>	25 600
Current Assets			
Stock		2 876	
Debtors		<u>22 100</u>	
		24 976	
<i>Less : Current Liabilities:</i>			
Loan (8,000 + 1,200)	9 200		
Creditors	9 380		
Bank overdraft	<u>1 196</u>	<u>19 776</u>	
Net Current Assets			<u>5 200</u>
			<u>30 800</u>
Financed by:			
Capital			26 120
Net Profit		16 980	
Drawings		<u>12 300</u>	<u>4 680</u>
			<u>30 800</u>

Question 2

M Tiong
Trading and Profit & Loss Account
Year ended 30 April 20X5

	£	£
Sales		35 030
<i>Less : Cost of goods sold:</i>		
Opening stock	2 970	
<i>Add : Purchases (13 890 – 90)</i>	<u>13 800</u>	
	16 770	
<i>Less : Closing stock</i>	<u>3 160</u>	<u>13 610</u>
Gross profit		21 420
<i>Add : Discount received</i>		<u>390</u>
		21 810
<i>Less : Expenses</i>		
Wages and salaries (9 350 + 280)	9 630	
Depreciation – Delivery vehicle	1 200	
Furniture & equipment	500	
Rent, rates and insurance (2340 – 120)	2 220	
Discounts allowed	1 170	
Vehicle running expenses	1 840	
Sundry expenses	410	<u>16 970</u>
Net Profit		<u>4 840</u>

M Tiong
Balance Sheet at 30 April 20X5

	Cost £	Aggregate Depn £	Net Book Value £
Fixed Assets			
Furniture & equipment	6 000	500	5 500
Delivery vehicle	<u>7 400</u>	<u>3 200</u>	<u>4 200</u>
	<u>13 400</u>	<u>3 700</u>	9 700
Current Assets			
Stock		3 160	
Debtors		8 400	
Prepayment – Insurance		120	
Bank		3 240	
Cash		<u>160</u>	
		15 080	
Less : Current Liabilities			
Accrual – Wages	280		
Creditors	<u>3 650</u>	<u>3 930</u>	
Net Current Assets			<u>11 150</u>
			<u>20 850</u>
Financed by :			
Capital			20 600
Net profit		4 840	
Drawings (4,500 + 90)		<u>4 590</u>	<u>250</u>
			<u>20 850</u>

Question 3

(a)

- Net realisable value of microwave = £65 - £20 = £45
- Cost of microwave = £47

Since the net realisable value (NRV) of the microwave is lower than the cost, the microwave should be valued at NRV (£45) in the closing stock.

(b) Stock should be valued at **cost** or **net realisable value (NRV)**, which ever is lower. This is an example of using the concept of **prudence**.

Question 4

1. Yes, extending a fixed asset. It will increase the value of fixed assets. Appears under fixed assets heading in the balance sheet.
2. No, as it is an expense. Expenses are accounted for in the Profit and Loss account.
3. Yes, this is a prepayment which is shown as a current asset in the balance sheet.
4. Yes, withdrawal of capital by the proprietor. Shown as a reduction of capital.
5. Yes, stock is an asset and is shown as a current asset in the balance sheet.

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