

Osborne Books Tutor Zone

Advanced Bookkeeping

Chapter activities

1

The accounting system

1.1 Link the elements of the accounting system on the left with their function on the right.

FINANCIAL DOCUMENTS	Summaries of accounting information
BOOKS OF PRIME ENTRY	Records the dual aspect of business transactions
DOUBLE-ENTRY SYSTEM OF LEDGERS	Arithmetical checking of double-entry bookkeeping
TRIAL BALANCE	Measurement of profit or loss, assets, liabilities and capital
FINANCIAL STATEMENTS	Sources of accounting information

1.2 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 £30,000 comprising £10,000 in the bank and £20,000 of vehicles
- purchases office equipment for £5,000, paying from the bank
- purchases inventory for £3,000, paying from the bank
- takes out a bank loan for £15,000, which is paid into the bank
- purchases a vehicle for £12,500, paying from the bank
- purchases inventory for £4,000, on credit from a supplier

1.3 Fill in the missing figures:

Assets	Liabilities	Capital
£	£	£
75,000	0	.....
60,000	.....	35,000
75,500	27,200	.....
.....	16,350	33,950
62,940	.....	47,160
.....	37,320	76,880

- 1.4 The table below sets out account balances from the books of a business. The opening capital is £50,000 which has been paid into the business bank account.

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), (b) with (c), and so on, and state, with figures, what accounting transactions have taken place in each case. The first has been completed for you.

	(a)	(b)	(c)	(d)	(e)	(f)
	£	£	£	£	£	£
Assets						
Office equipment	–	20,000	20,000	20,000	20,000	20,000
Inventory	–	–	5,000	8,000	6,000	6,000
Trade receivables	–	–	–	–	3,000	3,000
Bank	50,000	30,000	25,000	25,000	25,000	22,000
Liabilities						
Trade payables	–	–	–	3,000	3,000	–
Capital	50,000	50,000	50,000	50,000	51,000	51,000

Answer (a) - (b): Office equipment has been bought for £20,000, paid from the bank.

2

Double-entry bookkeeping

Note: a set of photocopiable blank ledger accounts is printed in the Appendix of *Advanced Bookkeeping Tutorial*, and is also available in the Products and Resources section of www.osbornebooks.co.uk.

2.1 The sale of goods on credit is recorded in the accounts as:

	Debit	Credit	
(a)	Trade receivables account	Bank account	
(b)	Sales account	Cash account	
(c)	Sales account	Trade receivables account	
(d)	Trade receivables account	Sales account	

Note: assume that control accounts are not in use.

2.2 Goods which were sold on credit are returned by the customer as unsatisfactory. This is recorded in the accounts as:

	Debit	Credit	
(a)	Sales returns account	Trade receivables account	
(b)	Purchases returns account	Trade receivables account	
(c)	Trade payables account	Purchases returns account	
(d)	Trade receivables account	Sales returns account	

Note: assume that control accounts are not in use.

2.3 The following are the business transactions of Carol Pattison (who is not registered for VAT) for the month of May 20-2:

- 1 May Started in business with capital of £10,000 in the bank
- 6 May Purchased office equipment for £5,000, paying by bank transfer (BACS)
- 10 May Paid rent £500, by bank transfer
- 14 May Received a loan of £2,000 from a friend, Lucy Edwards, paid into the bank
- 17 May Paid wages £750, by bank transfer
- 22 May Commission received £250, by bank transfer
- 25 May Drawings £400, by bank transfer
- 27 May Purchased office equipment £2,000, paying by bank transfer
- 31 May Paid wages £800, by bank transfer

You are to:

- (a)** Write up Carol Pattison's bank account
- (b)** Complete the double-entry bookkeeping transactions

2.4 For each transaction below, complete the table to show the accounts which will be debited and credited:

- (a) Sold goods for cash, paid into the bank
- (b) Paid rent by bank transfer
- (c) Purchased goods on credit from Wyvern Warehouse
- (d) Sold goods on credit to Severn Systems
- (e) Returned unsatisfactory goods to Wyvern Warehouse
- (f) Severn Systems returns unsatisfactory goods
- (g) Drawings taken from the bank
- (h) Paid wages by bank transfer

Note:

- ignore Value Added Tax
- assume that control accounts are not in use

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

2.5 The following are the business transactions of Paxton Products for the month of August 20-9:

- 2 Aug Purchased goods, £1,000, on credit from Avon Limited
- 4 Aug Sold goods, £500, a bank transfer (BACS) received
- 5 Aug Sold goods, £300, cash received
- 7 Aug Received a bank loan of £2,000, paid into the bank
- 8 Aug Paid £1,000 to Avon Limited by bank transfer
- 9 Aug Paid wages, £200, in cash
- 12 Aug Purchased goods, £450, paying by bank transfer
- 15 Aug Paid rent, £500, by bank transfer
- 17 Aug Purchased stationery for use in the office, £225, on credit from Leam Limited
- 24 Aug Sold goods, £570, on credit to Barbourne Limited
- 26 Aug Paid the amount owing to Leam Limited by bank transfer of £220.00 A prompt payment discount of £5 was taken
- 30 Aug Received payment from Barbourne Limited of £560 by bank transfer. A prompt payment discount of £10 was deducted

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

Notes:

- Paxton Products is not registered for Value Added Tax
- day books are not required
- assume that control accounts are not in use

3

Balancing accounts and the trial balance

Note: a set of photocopiable blank ledger accounts is printed in the Appendix of *Advanced Bookkeeping Tutorial*, and is also available in the Products and Resources section of www.osbornebooks.co.uk.

3.1 Which **one** of the following accounts normally has a debit balance?

(a) Capital	
(b) Purchases returns	
(c) Sales ledger control	
(d) Commission received	

3.2 Which **one** of the following accounts normally has a credit balance?

(a) Sales returns	
(b) Drawings	
(c) Office equipment	
(d) Purchases returns	

3.3 Prepare the trial balance of Sandra Velazquez as at 30 April 20-6.

	£
Cash	125
Bank overdraft	2,340
Vehicles	12,350
Office equipment	3,750
Purchases	18,294
Purchases returns	876
Sales	30,955
Sales returns	1,263
Purchases ledger control	3,097
Sales ledger control	5,932
Rent paid	1,450
Wages	2,860
Capital	8,756

- 3.4 The bookkeeper of Janice Cartwright has extracted the following list of balances as at 31 October 20-3:

	£
Administration expenses	11,450
Bank loan	12,400
Bank overdraft	2,390
Capital	111,295
Cash	275
Drawings	8,655
Interest paid	1,970
Office equipment	8,400
Premises	110,000
Purchases	84,350
Purchases ledger control	10,465
Sales	170,850
Sales ledger control	22,965
Sales returns	3,270
Telephone	1,865
Travel expenses	2,195
Value Added Tax (amount due to HM Revenue & Customs)	2,640
Vehicles	18,990
Wages	35,655

You are to prepare the trial balance of Janice Cartwright at 31 October 20-3.

- 3.5** The purchase of stationery for use in the office has been debited to office equipment account. This is:

(a) An error of original entry	
(b) An error of principle	
(c) An error of omission	
(d) A reversal of entries	

- 3.6** Rent paid by bank transfer of £450 has been entered in the accounts as £540. This is:

(a) A reversal of entries	
(b) An error of original entry	
(c) A compensating error	
(d) An error of omission	

- 3.7** A cash sale has been debited to sales account and credited to bank account. This is:

(a) An error of principle	
(b) An error of original entry	
(c) An error of omission	
(d) A reversal of entries	

- 3.8** The following are the business transactions of Toni Johnson, a retailer of sports equipment, for the months of May and June 20-6:

Transactions for May

20-6

- 1 May Started in business with capital of £15,000 in the bank
- 3 May Purchased shop fittings £6,000, paid by bank transfer
- 6 May Purchased sports equipment, £8,000, on credit from Hi-Ball Limited
- 12 May Sports equipment sales £1,100, paid into bank
- 15 May Purchased sports equipment, £3,000, on credit from JK Sports Limited
- 18 May Sports equipment sales £1,800 to Colwall College, a bank transfer received
- 20 May Sports equipment sales £1,400, paid into bank
- 23 May Returned £400 of sports equipment to Hi-Ball Limited
- 26 May Sold sports equipment on credit to Croome School, £1,420
- 27 May Paid wages £750, by bank transfer

Transactions for June

20-6

- 4 Jun Sports equipment sales £850, paid into bank
- 6 Jun Paid rent on premises £750, by bank transfer
- 8 Jun Purchased shop fittings £2,500, paid by bank transfer
- 12 Jun Bank transfer, £7,600, to Hi-Ball Limited
- 16 Jun Purchased sports equipment £2,150, on credit from JK Sports Limited
- 18 Jun Sports equipment sales £1,640, paid into bank
- 19 Jun Croome School returned sports equipment, £125
- 23 Jun Bank transfer, £3,000, to JK Sports Limited
- 25 Jun Paid wages £850, by bank transfer

You are to:

- (a) Record the May transactions in the books of account, and balance the accounts at 31 May 20-6.
- (b) Draw up a trial balance at 31 May 20-6.
- (c) Record the June transactions in the books of account, and balance the accounts at 30 June 20-6.
- (d) Draw up a trial balance at 30 June 20-6.

Notes:

- Toni Johnson is not registered for Value Added Tax
- Day books are not required
- Toni Johnson's accounting system does not use control accounts
- Make sure that you leave plenty of space for each account – particularly sales, purchases and bank
- Balance accounts only where there is more than one transaction

4

Financial statements – the extended trial balance

Extended trial balance format

A blank photocopyable extended trial balance is included in the Appendix of *Advanced Bookkeeping Tutorial*, and is also available in the Products and Resources section of www.osbornebooks.co.uk. It is advisable to enlarge it up to full A4 size. Alternatively you can set up a computer spreadsheet – but remember to allow for all the rows shown on the layout – they will be needed in later activities.

4.1 Which **one** of the following is shown in the statement of profit or loss?

(a) Purchases	
(b) Sales ledger control	
(c) Drawings	
(d) Cash	

4.2 Which **one** of the following is shown in the statement of financial position?

(a) Opening inventory	
(b) Sales revenue	
(c) Capital	
(d) Rent paid	

4.3 You are to fill in the missing figures for the following businesses:

	Income	Expenses	Profit or loss*	Assets	Liabilities	Capital
	£	£	£	£	£	£
Business 1	50,000	40,000	.....	100,000	60,000	.....
Business 2	90,000	.....	20,000	150,000	.....	60,000
Business 3	.....	60,000	(10,000)	.....	30,000	40,000
Business 4	80,000	.....	(20,000)	170,000	.....	90,000
Business 5	110,000	120,000	.....	.....	50,000	60,000

*Note: loss is indicated by brackets

- 4.4 Complete the table below for each item (a) to (g) indicating with a tick:
- whether the item would normally appear in the debit or credit column of the trial balance
 - in which financial statement the item would appear at the end of the accounting period and whether as a debit or credit in the extended trial balance

	TRIAL BALANCE		FINANCIAL STATEMENTS			
			STATEMENT OF PROFIT OR LOSS		STATEMENT OF FINANCIAL POSITION	
	Debit	Credit	Debit	Credit	Debit	Credit
(a) Sales						
(b) Opening inventory						
(c) Purchases ledger control						
(d) Rent paid						
(e) Discounts allowed						
(f) Office equipment						
(g) Drawings						

4.5 The following trial balance has been extracted by Sam Avalos at 31 March 20-8:

	Dr	Cr
	£	£
Opening inventory	10,475	
Purchases	83,691	
Sales revenue		157,648
Rent and rates	10,083	
Heating and lighting	3,624	
Wages and salaries	35,822	
Vehicle expenses	4,046	
Advertising	3,984	
Premises at cost	100,000	
Office equipment at cost	22,000	
Vehicles at cost	35,000	
Sales ledger control (trade receivables)	19,247	
Bank	3,240	
Cash	284	
Capital		112,500
Drawings	18,913	
Loan from bank		65,500
Purchases ledger control (trade payables)		12,286
Value Added Tax		2,475
Closing inventory – statement of profit or loss		12,655
Closing inventory – statement of financial position	12,655	
	363,064	363,064

You are to prepare the extended trial balance of Sam Avalos for the year ended 31 March 20-8.

4.6 The following trial balance has been extracted by Jenny Clark at 30 June 20-6:

	Dr	Cr
	£	£
Capital		26,000
Sales revenue		94,333
Purchases	36,147	
Opening inventory	8,175	
Salaries	25,148	
Heating and lighting	3,071	
Rent and rates	5,294	
Vehicles at cost	17,390	
Office equipment at cost	3,450	
Sundry expenses	1,086	
Vehicle expenses	3,417	
Sales ledger control (trade receivables)	16,346	
Purchases ledger control (trade payables)		9,273
Value Added Tax		1,212
Bank		5,954
Drawings	17,248	
Closing inventory – statement of profit or loss		10,032
Closing inventory – statement of financial position	10,032	
	146,804	146,804

You are to prepare the extended trial balance of Jenny Clark for the year ended 30 June 20-6.

5

Accruals and prepayments

Extended trial balance format

A blank photocopyable extended trial balance is included in the Appendix of *Advanced Bookkeeping Tutorial*, and is also available in the Products and Resources section of www.osbornebooks.co.uk. It is advisable to enlarge it up to full A4 size. Alternatively you can set up a computer spreadsheet – but remember to allow for all the rows shown on the layout – they will be needed in later activities.

5.1 A debit balance at the start of the year on a vehicle expenses account indicates a reversal of:

(a) An expense accrued	
(b) An expense prepaid	
(c) Income accrued	
(d) Income prepaid	

5.2 A prepayment of rent received is shown as:

(a) A debit balance on prepaid income account	
(b) An asset on the statement of financial position	
(c) A credit balance on prepaid income account	
(d) Income on the statement of profit or loss	

5.3 You are looking at interest receivable for the year ended 30 June, 20-7.

The cash book shows total receipts in the year of £917. Interest receivable for June of £81 is received on 10 July, 20-7.

(a) Update the Interest receivable account below. Show clearly:

- The cash book figure
- The year-end adjustment
- The transfer to the statement of profit or loss for the year

Interest receivable

	£		£
Accrued income (reversal)	90		

(b) On what date will any adjustment you have entered above be reversed?

5.4 This Activity is about accounting for accruals and prepayments and preparing a trial balance.

You are working on the accounts of a business for the year ended 31 March 20-5. In this Activity you can ignore VAT.

You have the following information:

Balances as at:	1 April 20-4 £
Accrual for advertising expenses	650
Prepayment for office expenses	200

The bank summary for the year shows payments for advertising expenses of £11,200. Included in this figure is £2,250 for the quarter ended 31 May 20-5.

(a) **You are to** prepare the advertising expenses account for the year ended 31 March 20-5 and close it off by showing the transfer to the statement of profit or loss. Dates are not required.

Advertising expenses

	£		£

The bank summary for the year shows payments for office expenses of £4,600. In April 20-5, £140 was paid for office expenses incurred in March 20-5.

- (b) **You are to** prepare the office expenses account for the year ended 31 March 20-5 and close it off by showing the transfer to the statement of profit or loss. Include dates.

Office expenses

		£			£

You have the following extract of balances from the general ledger.

- (c) **Using your answers** to (a) and (b), and the figures given below, enter amounts in the appropriate debit or credit column for the accounts shown. Do not enter zeros in unused column cells.

Extract from the trial balance as at 31 March 20-5

Account	£	Dr £	Cr £
Accrued expenses			
Capital	30,000		
Discount received	530		
Drawings	9,500		
Interest received	120		
Machinery at cost	18,000		
Prepaid expenses			
Sales returns	860		

5.5 The following trial balance has been extracted by the bookkeeper of Cheryl Collins, at 31 December 20-1:

	Dr £	Cr £
Capital		40,000
Drawings	10,860	
Purchases	110,355	
Sales revenue		195,463
Vehicles at cost	27,500	
Vehicle expenses	6,244	
Loan from bank		22,500
Bank	3,147	
Office equipment at cost	9,750	
Wages	45,233	
Discounts allowed	247	
Discounts received		396
Rent and rates	7,238	
Sales ledger control	40,296	
Purchases ledger control		19,421
Administration expenses	11,334	
Sales returns	1,076	
Purchases returns		2,212
Opening inventory	10,341	
Value Added Tax		3,629
Closing inventory – statement of profit or loss		10,854
Closing inventory – statement of financial position	10,854	
	294,475	294,475

Notes at 31 December 20-1:

- Rent prepaid £450
- Administration expenses prepaid £125
- Vehicle expenses accrued £90
- Goods costing £500 were taken by Cheryl Collins for her own use

You are to prepare the extended trial balance of Cheryl Collins for the year ended 31 December 20-1.

6

Depreciation of non-current assets

Extended trial balance format

A blank photocopiable extended trial balance is included in the Appendix of *Advanced Bookkeeping Tutorial*, and is also available in the Products and Resources section of www.osbornebooks.co.uk. It is advisable to enlarge it up to full A4 size. Alternatively you can set up a computer spreadsheet – but remember to allow for all the rows shown on the layout – they will be needed in later activities.

- 6.1 A car which cost £10,000 is being depreciated at 25 per cent per year using the diminishing balance method. What will be the amount of the depreciation charge in the second year?

(a) £1,875	
(b) £2,500	
(c) £4,375	
(d) £5,000	

- 6.2 A machine costs £12,000 net of VAT and is expected to last for four years. At the end of this time, it is estimated that it will have a residual (scrap) value of £500 net of VAT. What will be the annual depreciation charge for a VAT-registered business which uses straight-line depreciation?

(a) £3,000	
(b) £3,125	
(c) £2,875	
(d) £5,750	

- 6.3 Production machinery cost £104,000 and is expected to have a useful life of 20,000 hours of production and a scrap value of £5,000. In its third year 4,800 hours of usage are recorded. What is the depreciation charge for year three?

(a) £20,800	
(b) £19,800	
(c) £24,960	
(d) £23,760	

- 6.4 A van which originally cost £12,000 is sold for £2,500 (both amounts net of VAT). The vehicles: accumulated depreciation account shows a balance of £9,750. This means that there is a:

(a) Loss on disposal of £250	
(b) Gain on disposal of £250	
(c) Loss on disposal of £2,250	
(d) Gain on disposal of £2,250	

- 6.5 The bookkeeping entries to record a loss on disposal of a non-current asset are:

	Debit	Credit	
(a)	Non-current asset account	Statement of profit or loss	
(b)	Disposals account	Statement of profit or loss	
(c)	Statement of profit or loss	Disposals account	
(d)	Bank account	Statement of profit or loss	

6.6 This Activity is about recording non-current asset information in the general ledger.

- You are working on the accounts of a business that is registered for VAT.
- During the year an old van was disposed of.
- The van had been bought for £10,000 plus VAT (the VAT was reclaimed).
- Two years' depreciation has been applied.
- Depreciation is provided at 20 per cent per year on a diminishing balance basis.
- The van was sold for £6,600 plus VAT (at 20%), with payment being received into the bank.

You are to:

(a) Calculate the accumulated depreciation on the van now sold:

Year 1	£
Year 2	£
Total	£

(b) Make entries in the accounts which follow to record the disposal of the van, showing clearly any balance carried down or transferred to the statement of profit or loss.

Van at cost

Balance b/d	£10,000		

Van: disposals

Bank

- (c) Tick the relevant box to show whether there is a gain or loss on disposal of the van.

Gain	
Loss	

6.7 The following trial balance has been extracted by the bookkeeper of Cindy Smith at 30 June 20-4:

	Dr	Cr
	£	£
Capital		38,825
Opening inventory	18,050	
Purchases	74,280	
Sales revenue		149,410
Discounts allowed and received	3,210	1,140
Rent and rates	7,280	
Sales and purchases returns	1,645	875
Bank		13,300
Sales ledger control	14,375	
Purchases ledger control		8,065
Wages and salaries	43,895	
General expenses	2,515	
Vehicles at cost	30,000	
Vehicles: accumulated depreciation		7,500
Machinery at cost	10,000	
Machinery: accumulated depreciation		3,000
Vehicle expenses	6,725	
Disposal of non-current asset	820	
Drawings	12,500	
Value Added Tax		3,180
Closing inventory – statement of profit or loss		20,145
Closing inventory – statement of financial position	20,145	
	245,440	245,440

Notes at 30 June 20-4:

- General expenses accrued £175
- Rates prepaid £95
- Depreciate vehicles at 25 per cent, using the diminishing balance method
- Depreciate machinery at 10 per cent, using the straight-line method

You are to prepare the extended trial balance of Cindy Smith for the year ended 30 June 20-4.

7

Irrecoverable debts and allowance for doubtful debts

Extended trial balance format

A blank photocopyable extended trial balance is included in the Appendix of *Advanced Bookkeeping Tutorial*, and is also available in the Products and Resources section of www.osbornebooks.co.uk. It is advisable to enlarge it up to full A4 size. Alternatively you can set up a computer spreadsheet – but remember to allow for all the rows shown on the layout – they will be needed in later activities.

- 7.1 The Accounts Supervisor of the firm where you work has instructed you to write off the trade receivable account of Egan Ltd as irrecoverable. Which **one** of the following entries will you make in the double-entry accounts (assume that the business does not use control accounts)?

	Debit	Credit	
(a)	Irrecoverable debts account	Egan Ltd's account	
(b)	Egan Ltd's account	Allowance for doubtful debts account	
(c)	Egan Ltd's account	Bank account	
(d)	Egan Ltd's account	Irrecoverable debts account	

Note: ignore VAT

- 7.2 A decrease in the allowance for doubtful debts will:

(a)	Decrease profit for the year	
(b)	Be recorded in the trade receivables accounts in sales ledger	
(c)	Decrease the bank balance	
(d)	Increase profit for the year	

- 7.3** The statement of profit or loss of a business has been prepared showing a profit for the year of £4,450. An increase of £350 in the allowance for doubtful debts should have been made, and irrecoverable debts of £90 should have been written off. Profit for the year will now be:

(a) £4,990	
(b) £4,010	
(c) £4,290	
(d) £4,810	

Note: ignore VAT

7.4 You are the bookkeeper at Buckland Limited. The following information is available for the financial years ending 31 December 20-1, 20-2, 20-3:

	£
• Trade receivables balances at 31 December 20-1, before writing off irrecoverable debts	84,900
• Irrecoverable debts written off on 31 December 20-1	700
• 4% allowance for doubtful debts created at 31 December 20-1	
• Trade receivables balances at 31 December 20-2, before writing off irrecoverable debts	93,100
• Irrecoverable debts written off on 31 December 20-2	500
• 4% allowance for doubtful debts adjusted in line with the change in the level of trade receivables at 31 December 20-2	
• Trade receivables balances at 31 December 20-3, before writing off irrecoverable debts	92,000
• Irrecoverable debts written off on 31 December 20-3	600
• 4% allowance for doubtful debts adjusted in line with the change in the level of trade receivables at 31 December 20-3	

Note: ignore VAT

You are to show the effect of the above transactions on the financial statements in the following table:

Year	Statement of profit or loss			Statement of financial position	
	Dr Irrecoverable debts £	Dr Allowance for doubtful debts: adjustment £	Cr Allowance for doubtful debts: adjustment £	Dr Sales ledger control £	Cr Allowance for doubtful debts £
20-1					
20-2					
20-3					

- 7.5** This Activity is about accounting for irrecoverable debts and allowance for doubtful debts and preparing a trial balance.

You are working on the financial statements of a business for the year ended 31 March 20-3. In this task you can ignore VAT.

You have the following information:

Irrecoverable debts to be written off:	£
Fennell & Co	90
A Sheldon	160
Palgrave Stores	45
Allowance for doubtful debts at 1 April 20-2	600
The balance of trade receivables (sales ledger control account) before irrecoverable debts are written off is £20,445. The allowance for doubtful debts is to be 4% of trade receivables after irrecoverable debts.	

- (a) **You are to** prepare the irrecoverable debts account for the year ended 31 March 20-3 and close it off by showing the transfer to the statement of profit or loss. Dates are not required.

Irrecoverable debts

	£		£

- (b) **You are to** prepare the allowance for doubtful debts account for the year ended 31 March 20-3 and to show clearly the balance carried down. Include dates.

Allowance for doubtful debts

		£			£

You have the following extract of balances from the general ledger.

- (c) **Using your answers** from (a) and (b), record the adjustments on the extract from the extended trial balance. Do not enter zeros in unused column cells.

Extract from the trial balance as at 31 March 20-3

Account	Ledger balances		Adjustments	
	Dr £	Cr £	Dr £	Cr £
Allowance for doubtful debts		600		
Allowance for doubtful debts: adjustment				
Irrecoverable debts				
Purchases ledger control		12,345		
Sales ledger control	20,445			
Machinery at cost	15,000			
Machinery: accumulated depreciation		8,750		
Wages and salaries	33,140			

7.6 The following trial balance has been extracted by the bookkeeper of Andrew Brown as at 31 December 20-5:

	Dr	Cr
	£	£
Purchases	31,480	
Sales revenue		95,660
Opening inventory	7,580	
Sales and purchases returns	240	620
Discounts allowed and received	380	1,080
Drawings	34,720	
Premises at cost	100,000	
Premises: accumulated depreciation		10,000
Machinery at cost	24,000	
Machinery: accumulated depreciation		3,000
Wages and salaries	18,620	
Advertising	2,260	
Rent and rates	15,630	
Bank	4,140	
Sales ledger control	5,000	
Purchases ledger control		3,740
Value Added Tax		3,240
Capital		81,290
Bank loan		45,000
Closing inventory – statement of profit or loss		6,060
Closing inventory – statement of financial position	6,060	
Irrecoverable debts	100	
Allowance for doubtful debts		520
	250,210	250,210

Notes at 31 December 20-5:

- Depreciate premises at 2 per cent using the straight-line method
- Depreciate machinery at 12.5 per cent per annum using the straight-line method
- Allowance for doubtful debts is to be 5% of receivables
- Wages accrued are £500, and advertising prepaid is £350

You are to prepare the extended trial balance of Andrew Brown for the year ended 31 December 20-5.

8

The rules of accounting

- 8.1 “A business should match income and expenses so that they relate to the same goods or services and the same accounting period.” Which accounting principle (concept) supports this statement?

(a) Business entity	
(b) Materiality	
(c) Going concern	
(d) Accruals	

- 8.2 A business decides to record the cost of new software for the office computers as a debit to administration expenses account. The new software cost £210. Which accounting principle (concept) has the business applied?

(a) Business entity	
(b) Materiality	
(c) Going concern	
(d) Accruals	

- 8.3** Link each of the ethical accounting principles in the boxes on the left with the correct explanation in the boxes on the right.

Professional behaviour	Information should not be disclosed to third parties without permission or right
Professional competence and due care	Ensuring that business transactions are genuine and valid
Confidentiality	Having up-to-date and relevant skills and knowledge
Integrity	Not allowing the influence or interest of others to override professional judgement
Objectivity	Complying with relevant laws and regulations and not discrediting the profession

- 8.4** You are the bookkeeper for a business whose year end accounts you are preparing. The owner suggests you reduce the closing inventory valuation in order to show a lower profit.

Which **two** of the following ethical principles are involved here?

(a) Integrity	
(b) Objectivity	
(c) Professional competence and due care	
(d) Confidentiality	
(e) Professional behaviour	

- 8.5 AB Limited is formed on 1 January 20-2 and trades in two products, A and B. At the end of its first half year the inventory movements of the two products are as follows:

20-2	PRODUCT A		PRODUCT B	
	Bought (units)	Sold (units)	Bought (units)	Sold (units)
January	80 at £10.00		300 at £5.00	
February		60 at £20.00	200 at £5.50	
March	100 at £12.00			350 at £8.50
April	60 at £13.00		250 at £6.00	
May		120 at £22.00	150 at £5.50	
June	70 at £13.50			300 at £6.00

The company values inventory on the FIFO (first in, first out) method.

At 30 June 20-2, the net realisable value of each type of inventory is:

product A	£2,650.00
product B	£1,300.00
	£3,950.00

You are to calculate the values and complete the following table:

(a) Sales revenue for the half year	£
(b) Inventory value at 30 June for product A using the FIFO basis	£
(c) Inventory value at 30 June for product B using the FIFO basis	£
(d) Total inventory valuation at 30 June to comply with IAS 2 <i>Inventories</i>	£
(e) Cost of sales for the half year to 30 June to comply with IAS 2 <i>Inventories</i>	£

- 8.6 (a) Describe the basis of inventory valuation according to IAS 2 *Inventories*.

- (b) You are an Accounts Assistant at Mary's Cakes, a business that specialises in baking cupcakes, which are sold in boxes of four. The financial year end is 30 June.

The policy of the business is that if cakes are unsold after two days from baking they are reduced to half of the normal selling price.

You are helping with the inventory-take at 30 June 20-2 and have the following information:

	number of boxes of cakes	150
of which	up to 2 days old	100
	over 2 days old	50
	normal selling price	£3 per box
	cost price	£2 per box

What is the inventory valuation for the 150 boxes of cupcakes held at 30 June 20-2?

(a) £225	
(b) £275	
(c) £300	
(d) £450	

- (c) An error in the date stamping of boxes has been found and this means that, of the 150 boxes of cakes, 80 boxes are now found to be over two days old. By how much will the inventory valuation change?

(a) £90 decrease	
(b) £60 decrease	
(c) £15 decrease	
(d) £15 increase	

- (d) Will the change in inventory valuation from (c) cause the profit for the year to 30 June 20-2 to increase, decrease or stay the same?

(a) Increase	
(b) Decrease	
(c) Stay the same	

8.7 You are to calculate the cost price of inventory from the information given.

- (a) • Inventory at selling price is £360,000
• The sales margin is 30%

The cost price of inventory is £

- (b) • Inventory, including VAT, is £150,000
• VAT is 20%

The cost of inventory, excluding VAT, is £

8.8 Classify the following costs:

	Capital expenditure	Revenue expenditure
(a) Purchase of a computer for the office		
(b) Depreciation of office equipment		
(c) Quarterly electricity bill		
(d) Insurance of vehicles		
(e) Legal costs for the purchase of property		
(f) Repairs to vehicles		
(g) Cost of building an extension to the warehouse		
(h) Wages of own employees used to redecorate the office		
(i) Installation costs of a new machine		

9**Accounting for capital transactions**

9.1 Which **one** of the following is a tangible non-current asset?

(a) Bank overdraft	
(b) Trade receivables	
(c) Goodwill	
(d) Land	

9.2 Terry's Transport is considering the purchase of a new lorry for use in the business. Which **one** of the following is most suitable to authorise such a purchase?

(a) The Accounts Supervisor at Terry's Transport	
(b) Terry Taylor, the owner of Terry's Transport	
(c) The Bank Manager of Terry's Transport	
(d) The driver who will drive the lorry	

- 9.3** Terry Taylor runs a delivery company called 'Terry's Transport'. He started in business on 1 January 20-4 with two lorries which cost £40,000 each (paid from the bank). On 1 January 20-6, a further two lorries were bought at a cost of £60,000 each (paid from the bank) and, on 11 August 20-6, one of the original lorries was sold for £27,500 (paid into the bank).

Depreciation is charged at 20 per cent each year, using the diminishing balance method; depreciation is charged in the year of purchase, but not in the year of disposal.

The financial year-end of Terry's Transport is 31 December.

You are to show the accounting entries (journal and cash book not required) to record the acquisition, depreciation and disposal of lorries for the years 20-4, 20-5 and 20-6.

Notes:

- VAT is to be ignored
- Use one non-current asset vehicles account for all lorries, one depreciation charge account and one vehicles: accumulated depreciation account

- 9.4 This Activity is about recording information for non-current assets for a business known as Tysoe Trading. Tysoe Trading is registered for VAT.

The following is an extract from a purchase invoice received by Tysoe Trading:

To: Tysoe Trading Unit 14, Hartland Road Blenheim BL2 4CH	Invoice 1945 Office Supplies Ltd Albany Road Borton BT1 5KJ		Date: 15 April 20-6
HQL computer	Reference X17634	1	1,100.00
Installation of computer in office		1	100.00
MicroTrader software		1	120.00
VAT @ 20%			264.00
Total			1,584.00
Settlement terms: strictly 30 days net			

The following information relates to the sale of a van:

Registration number	VK54 JEC
Date of sale	20 January 20-7
Selling price	£6,000.00

- Tysoe Trading has a policy of capitalising expenditure over £500.
- Vehicles are depreciated at 25% on a diminishing balance basis.
- Office equipment is depreciated at 20% on a straight-line basis assuming no residual value.
- Non-current assets are depreciated in the year of acquisition but not in the year of disposal.

Record the following information in the non-current asset register on the next page.

- Any acquisitions of non-current assets during the year ended 31 March 20-7.
- Any disposals of non-current assets during the year ended 31 March 20-7.
- Depreciation for the year ended 31 March 20-7.

NON-CURRENT ASSET REGISTER

Description/ serial number	Acquisition date	Cost £	Depreciation charges £	Carrying amount £	Funding method	Disposal proceeds £	Disposal date
Office equipment							
Conan laser printer	10/02/-5	2,000.00			Cash		
Year ended 31/03/-5			400.00	1,600.00			
Year ended 31/03/-6			400.00	1,200.00			
Year ended 31/03/-7							
Year ended 31/03/-7							
Vehicles							
VK54 JEC	15/09/-4	12,400.00			Cash		
Year ended 31/03/-5			3,100.00	9,300.00			
Year ended 31/03/-6			2,325.00	6,975.00			
Year ended 31/03/-7							
VO55 DBC	10/02/-6	16,800.00			Part-exchange		
Year ended 31/03/-6			4,200.00	12,600.00			
Year ended 31/03/-7							

9.5 Wyvern Manufacturing needs to replace an old machine which is worn out. The cost of the new machine is £7,500 and it is expected to have a useful life of five years.

Wyvern Manufacturing is a profitable business, but day-to-day cash is tight and the owners do not wish to use current monies to fund the new machine.

Which **two** of the following methods would you suggest to fund the new machine?

(a) Cash purchase	
(b) Purchase on 30 days' credit terms	
(c) Bank overdraft	
(d) Hire purchase	
(e) Finance lease	

10

Control accounts

10.1 Indicate whether the following errors would cause a difference between the balance of the purchases ledger control account and the total of the balances in the purchases ledger.

Error	Difference	No difference
(a) Purchases day book was overcast by £1,000		
(b) A purchase invoice for £360 was credited to the account of S Hilton instead of Shilton Trading – both are purchases ledger accounts		
(c) Prompt payment discount of £25 has not been recorded in the purchases ledger account of T Monks		
(d) A set-off entry for £50 has been debited to the purchases ledger account of Thomas Ltd instead of Thompson Ltd		

10.2 Note: this Activity has money amounts in pounds and pence.

The following accounts, together with their balances at 1 January 20-6, form the purchases ledger of Austin Limited:

Bedford Ltd	£596.41
Chester & Co	£602.03
Dennis Trading	£228.14
Farnham Ltd	£487.29

During January 20-6 the following transactions took place:

- 5 Jan Bought goods on credit from Chester & Co £127.55 and from Farnham Ltd £298.31
- 7 Jan Bought goods on credit from Bedford Ltd £348.19 and from Dennis Trading £422.19
- 11 Jan Returned goods to Chester & Co £12.34 and to Bedford Ltd £59.68
- 15 Jan Paid Dennis Trading £250.00, by bank transfer
- 21 Jan Paid Farnham Ltd by bank transfer the balance owing on the account after deducting a 5% prompt payment discount

You are to:

- (a) Write up the accounts in the purchases ledger of Austin Limited for January 20-6, balancing them at the end of the month.
- (b) Prepare the purchases ledger control account for January 20-6, balancing it at the end of the month.
- (c) Reconcile the purchases ledger control account balance with the purchases ledger accounts at 1 January and 31 January 20-6.

Note: VAT is to be ignored on all transactions and day books are not required.

- 10.3** Prepare purchases ledger control and sales ledger control accounts for the month ended 31 January 20-4 from the following information:

Balances at 1 January 20-4

- sales ledger control account, £35,563 debit
- purchases ledger control account, £24,080 credit

Totals for the month from the day books

- sales day book £205,610
- purchases day book £137,825
- sales returns day book £3,081
- purchases returns day book £1,843
- discounts allowed £548
- discounts received £494

Totals for the month from the cash book

- payments from trade receivables £197,045
- payments to trade payables £135,048
- trade receivables' cheques returned unpaid £856

Other transactions

- set-off entries between sales ledger and purchases ledger £812
- irrecoverable debts £110
- increase in allowance for doubtful debts £250

Note: VAT is to be ignored

- 10.4 (a) Show whether the following values are entered as debits or credits in the payroll control account.

	Debit	Credit
(a) Gross pay		
(b) Pension fund employee contribution		
(c) Employee voluntary deductions		
(d) Income tax		
(e) Employee National Insurance contribution		
(f) Net pay		

- (b) Once the payroll has been run and the accounting entries made, which **one** of the following will show as the balance on the payroll control account?

(a) Total wages expense	
(b) Amount owing to HM Revenue & Customs	
(c) Zero	
(d) Net pay	

- 10.5 This Activity is about preparing reconciliations.

The sales ledger has been compared with sales ledger control account and the following differences identified:

- 1 A credit sale for £250 has been debited to the account of Denis Ltd instead of the account of Denison Ltd – both are sales ledger accounts.
- 2 The account of Arnold & Co, £75, has been written off as irrecoverable in the sales ledger, but has been recorded as £57 in the sales ledger control account.
- 3 In the discounts allowed day book, the total column for discount allowed has been overcast by £100.
- 4 A sales return of £195 from Hignett Ltd has been omitted from the sales returns day book.

The total of the account balances in the sales ledger is £30,737 debit and the balance of the sales ledger control account is £30,850 debit.

Use the following table to show the three adjustments you need to make to the sales ledger control account.

Adjustment number	Amount £	Debit	Credit

10.6 This Activity is about preparing reconciliations.

The purchases ledger has been compared with the purchases ledger control account and the following differences identified:

- 1 In the discounts received day book, the total column for discount received has been undercast by £10.
- 2 A purchases invoice for £540 from Murray Ltd has been correctly entered into the purchases ledger but was recorded as £450 in the purchases day book.
- 3 A bank payment for £380 to Johnson & Co has been debited to the account of Johnston Ltd – both are purchases ledger accounts.
- 4 A set-off entry for £210 has been omitted from the purchases ledger control account.

The total of the account balances in the purchases ledger is £24,555 credit and the balance of the purchases ledger control account is £24,685 credit.

Use the following table to show the three adjustments you need to make to the purchases ledger control account.

Adjustment number	Amount £	Debit	Credit

10.7 This Activity is about preparing reconciliations.

The bank statement has been compared with the bank columns of the cash book and the following differences identified:

- 1 A direct debit payment made by the bank for £640 has been incorrectly entered in the cash book as £460.
- 2 A bank lodgement for £850 made yesterday is not showing on the bank statement.
- 3 Bank charges of £55 have not been entered in the cash book.
- 4 A BACS receipt from a customer for £390 has not been entered in the cash book.

The balance showing on the bank statement is £3,005 debit and the balance in the cash book is £2,310 credit.

Use the following table to show the three adjustments you need to make to the cash book.

Adjustment number	Amount £	Debit	Credit

10.8 You have the following information:

• VAT owing to HM Revenue & Customs at the start of the month	£3,150
• VAT on sales during the month	£2,800
• VAT on purchases during the month	£1,770
• VAT on sales returns during the month	£80
• VAT on purchases returns during the month	£50
• VAT on discounts allowed	£20
• VAT on discounts received	£10

What is the balance of VAT control account at the end of the month?

(a) £2,160 debit	
(b) £2,160 credit	
(c) £4,140 debit	
(d) £4,140 credit	

11

The journal and correction of errors

11.1 Which **one** of the following will be recorded in a journal?

(a) Opening transaction of a new business	
(b) Bank receipt from a trade receivable	
(c) Petty cash payment for office window cleaning	
(d) Credit purchase of goods from a supplier	

11.2 A payment of £75 for stationery has been made from the bank account, but no entry has been made in the stationery account. The difference has been placed in the suspense account. Which **one** of the following journal entries will correct the error?

	Debit		Credit		
(a)	Stationery	£75	Bank	£75	
(b)	Stationery	£75	Suspense	£75	
(c)	Suspense	£75	Bank	£75	
(d)	Suspense	£75	Stationery	£75	

Note: ignore VAT

- 11.3** A trial balance fails to agree by £36 and the difference is placed to a suspense account. Later it is found that a payment for office expenses of £48 has been entered in bank account as £84. Which **one** of the following journal entries will correct the error?

	Debit		Credit		
(a)	Suspense	£84	Bank	£84	
	Bank	£48	Suspense	£48	
(b)	Suspense	£36	Bank	£36	
(c)	Office expenses	£36	Bank	£36	
(d)	Bank	£84	Suspense	£84	
	Suspense	£48	Bank	£48	

Note: ignore VAT

11.4 This Activity is about recording adjustments in the extended trial balance and closing off accounts.

You are working on the financial statements of a business with a year-end of 31 March. A trial balance has been drawn up and a suspense account opened with a debit balance of £110. You now need to make some corrections and adjustments for the year ended 31 March 20-7.

(a) Record the adjustments needed on the extract from the extended trial balance to deal with the items below.

You will not need to enter adjustments on every line. Do **not** enter zeros into unused cells.

- (1) Entries need to be made to increase the allowance for doubtful debts by £150.
- (2) A payment of £750 for rent has been made from the bank account. The correct entry was made in bank account, but no other entries were made.
- (3) No entries have been made for closing inventory for the year end 31 March 20-7. Closing inventory has been valued at cost at £20,360. Included in this figure are some items costing £970 that will be sold for £800.
- (4) The figures from the columns of the purchases day book for 31 March have been totalled correctly as follows:

Purchases column	£3,200
VAT column	£640
Total column	£3,840

The amounts have been posted as follows:

Dr Purchases	£3,200
Dr VAT	£640
Cr Purchases ledger control	£3,200

Extract from extended trial balance

	Ledger balances		Adjustments	
	Dr £	Cr £	Dr £	Cr £
Allowance for doubtful debts		500		
Allowance for doubtful debts adjustment				
Closing inventory – statement of financial position				
Closing inventory – statement of profit or loss				
Depreciation charge	1,500			
Office equipment – accumulated depreciation		5,500		
Office expenses	6,350			
Rent and rates	4,980			
Purchases	45,300			
Purchases ledger control		6,850		
Suspense	110			
VAT		1,720		
Wages	14,850			

- (b) The ledgers are ready to be closed off for the year ended 31 March 20-7. Fill in the account names and tick to show the entries to close off the wages account.

Account	Dr	Cr

11.5 This Activity is about recording journal entries.

You are working on the financial statements of a business with a year-end of 31 March. A trial balance has been drawn up and a suspense account opened with a debit balance of £2,560. You now need to make some corrections and adjustments for the year ended 31 March 20-4.

Record the journal entries needed in the general ledger to deal with the items below. You should:

- remove any incorrect entries, where appropriate
- post the correct entries

You do not need to give narratives.

Do **not** enter zeros into unused column cells.

Ignore VAT.

- (a) Entries need to be made for an irrecoverable debt of £150. Ignore VAT.

Journal

	Dr £	Cr £

- (b) A payment of £1,200 for office expenses has been made from the bank. The correct entry was made to the bank account, but no other entries were made. Ignore VAT.

Journal

	Dr £	Cr £

- (c) No entries have been made for closing inventory for the year-end 31 March 20-4. Closing inventory has been valued at cost at £15,240. Included in this figure are some items costing £680 that will be sold for £500.

Journal

	Dr £	Cr £

- (d) The figures from the columns of the sales day book for 31 March have been totalled correctly as follows:

Sales column	£6,800
VAT column	£1,360
Total column	£8,160

The amounts have been posted as follows:

Cr Sales	£6,800
Cr VAT	£1,360
Dr Sales ledger control	£6,800

Journal

	Dr £	Cr £

11.6 This Activity is about completing an extended balance.

You have the following extended trial balance. The adjustments have already been correctly entered.

Extend the figures into the statement of profit or loss and statement of financial position.

Do **not** enter zeros into unused column cells.

Make the columns balance by entering figures in the correct places.

Extended trial balance

Ledger account	Ledger balances		Adjustments		Statement of profit or loss		Statement of financial position	
	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Allowance for doubtful debts		800		200				
Allowance for doubtful debts: adjustment			200					
Bank		5,200						
Capital		35,000						
Closing inventory			11,690	11,690				
Depreciation charge			3,600					
Machinery at cost	45,000							
Machinery: accumulated depreciation		12,200		3,600				
Office expenses	13,200			300				
Opening inventory	12,740							
Payroll expenses	45,600		400					
Purchases	76,400			800				
Purchases ledger control		17,320						
Rent and rates	6,850		290					
Sales		159,520						
Sales ledger control	33,450							
Suspense		410	1,100	690				
VAT		2,790						
Profit/loss for the year								
	233,240	233,240	17,280	17,280				