



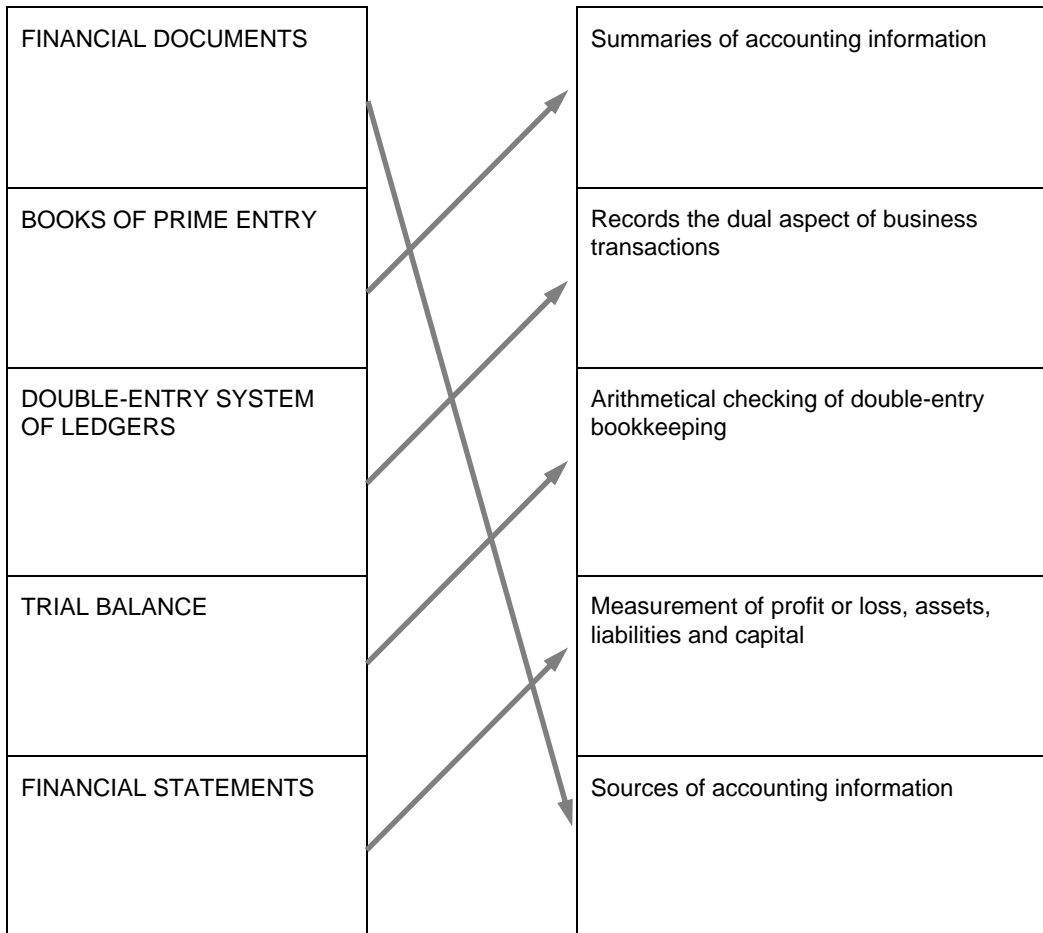
Osborne Books Tutor Zone

**Financial
Accounting:
Preparing Financial
Statements**

**Answers to chapter
activities**

1 The accounting system

1.1



- 1.2**
- asset of bank increases by £10,000
asset of vehicles increases by £20,000
capital increases by £30,000
assets £30,000 – liabilities £0 = capital £30,000
 - asset of office equipment increases by £5,000
asset of bank decreases by £5,000
assets £30,000 – liabilities £0 = capital £30,000
 - asset of inventory increases by £3,000
asset of bank decreases by £3,000
assets £30,000 – liabilities £0 = capital £30,000
 - asset of bank increases by £15,000
liability of bank loan increases by £15,000
assets £45,000 – liabilities £15,000 = capital £30,000
 - asset of vehicles increases by £12,500
asset of bank decreases by £12,500
assets £45,000 – liabilities £15,000 = capital £30,000
 - asset of inventory increases by £4,000
liability of trade payables increases by £4,000
assets £49,000 – liabilities £19,000 = capital £30,000

1.3

Assets	Liabilities	Capital
£	£	£
75,000	0	75,000
60,000	25,000	35,000
75,500	27,200	48,300
50,300	16,350	33,950
62,940	15,780	47,160
114,200	37,320	76,880

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- 1.4 (a) - (b) Office equipment has been bought for £20,000, paid from the bank
- (b) - (c) Inventory has been bought for £5,000, paid from the bank
- (c) - (d) Inventory has been bought for £3,000, on credit from a supplier
- (d) - (e) £2,000 of inventory has been sold for £3,000 on credit to a customer
- (e) - (f) £3,000 has been paid to the trade payables from the bank

2**Double-entry bookkeeping****2.1**

	Debit	Credit
(d)	Trade receivables account	Sales account

2.2

	Debit	Credit
(a)	Sales returns account	Trade receivables account

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2.3 CAROL PATTISON

(a)

Dr		Bank account		Cr		
20-2		£		20-2	£	
1 May	Capital	10,000		6 May	Office equipment	5,000
14 May	L Edwards: loan	2,000		10 May	Rent	500
22 May	Commission received	250		17 May	Wages	750
				25 May	Drawings	400
				27 May	Office equipment	2,000
				31 May	Wages	800

(b)

Dr		Capital account		Cr		
20-2		£		20-2	£	
				1 May	Bank	10,000

Dr		Office equipment account		Cr	
20-2		£		20-2	£
6 May	Bank	5,000			
27 May	Bank	2,000			

Dr		Rent account		Cr	
20-2		£		20-2	£
10 May	Bank	500			

Dr		Lucy Edwards: loan account		Cr		
20-2		£		20-2	£	
				14 May	Bank	2,000

Dr		Wages account		Cr	
20-2		£		20-2	£
17 May	Bank	750			
31 May	Bank	800			

Dr		Commission received account		Cr		
20-2		£		20-2	£	
				22 May	Bank	250

Dr		Drawing account		Cr	
20-2		£		20-2	£
25 May	Bank	400			

2.4

Transaction	Account debited	Account credited
(a)	bank	sales
(b)	rent	bank
(c)	purchases	Wyvern Warehouse
(d)	Severn Systems	sales
(e)	Wyvern Warehouse	purchases returns (returns out)
(f)	sales returns (returns in)	Severn Systems
(g)	drawings	bank
(h)	wages	bank

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2.5 PAXTON PRODUCTS

Dr		Purchases account		Cr
20-9		£	20-9	£
2 Aug	Avon Limited	1,000		
12 Aug	Bank	450		

Dr		Avon Limited		Cr
20-9		£	20-9	£
8 Aug	Bank	1,000	2 Aug	Purchases 1,000

Dr		Sales account		Cr
20-9		£	20-9	£
			4 Aug	Bank 500
			5 Aug	Cash 300
			24 Aug	Barbourne Ltd 570

Dr		Bank account		Cr
20-9		£	20-9	£
4 Aug	Sales	500	8 Aug	Avon Limited 1,000
7 Aug	Bank Loan	2,000	12 Aug	Purchases 450
30 Aug	Barbourne Ltd	560	15 Aug	Rent 500
			26 Aug	Learn Ltd 220

Dr		Cash account		Cr
20-9		£	20-9	£
5 Aug	Sales	300	9 Aug	Wages 200

Dr		Bank: loan account		Cr
20-9		£	20-9	£
			7 Aug	Wages 2,000

Dr		Wages account		Cr
20-9		£	20-9	£
9 Aug	Cash	200		

Dr		Rent account		Cr
20-9		£	20-9	£
15 Aug	Bank	500		

Dr		Stationery account		Cr
20-9		£	20-9	£
17 Aug	Leam Ltd	225		

Dr		Leam Limited		Cr	
20-9		£	20-9	£	
26 Aug	Bank	220	17 Aug	Stationery	225
26 Aug	Discounts received	5			

Dr		Barbourne Limited		Cr	
20-9		£	20-9	£	
24 Aug	Sales	570	30 Aug	Bank	560
			30 Aug	Discounts allowed	10

Dr		Discounts received		Cr	
20-9		£	20-9	£	
			26 Aug	Leam Ltd	5

Dr		Discounts allowed		Cr
20-9		£	20-9	£
30 Aug	Barbourne Ltd	10		

3

Balancing accounts and the trial balance

3.1 (c) Receivables ledger control

3.2 (d) Purchases returns

3.3

SANDRA VELAZQUEZ
Trial balance as at 30 April 20-6

	Dr	Cr
	£	£
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	
Payables ledger control		3,097
Receivables ledger control	5,932	
Rent paid	1,450	
Wages	2,860	
Capital		8,756
	46,024	46,024

3.4

JANICE CARTWRIGHT
Trial balance as at 31 October 20-3

	Dr	Cr
	£	
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	
Payables ledger control		10,465
Sales		170,850
Receivables ledger control	22,965	
Sales returns	3,270	
Telephone	1,865	
Travel expenses	2,195	
Value Added Tax		2,640
Vehicles	18,990	
Wages	35,655	
	310,040	310,040

3.5 (b) An error of principle

3.6 (b) An error of original entry

3.7 (d) A reversal of entries

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3.8 (a) and (c)

TONI JOHNSON

Dr		Bank account		Cr		
20-6		£		20-6	£	
1 May	Capital	15,000		3 May	Shop fittings	6,000
12 May	Sales	1,100		27 May	Wages	750
18 May	Sales	1,800		31 May	Balance c/d	12,550
20 May	Sales	1,400				
		<u>19,300</u>				<u>19,300</u>
1 Jun	Balance b/d	12,550		6 Jun	Rent	750
4 Jun	Sales	850		8 Jun	Shop fittings	2,500
18 Jun	Sales	1,640		12 Jun	Hi-Ball Ltd	7,600
				23 Jun	JK Sports Ltd	3,000
				25 Jun	Wages	850
				30 Jun	Balance c/d	340
		<u>15,040</u>				<u>15,040</u>
1 Jul	Balance b/d	340				

Dr		Capital account		Cr		
20-6		£		20-6	£	
				1 May	Bank	15,000

Dr		Shop fitting account		Cr		
20-6		£		20-6	£	
3 May	Bank	6,000		30 Jun	Balance c/d	8,500
8 Jun	Bank	2,500				
		<u>8,500</u>				<u>8,500</u>
1 Jul	Balance b/d	8,500				

Dr		Purchases account		Cr	
20-6		£		20-6	£
6 May	Hi-Ball Ltd	8,000		31 May	Balance c/d
15 May	JK Sports Ltd	3,000			
		<u>11,000</u>			<u>11,000</u>
1 June	Balance b/d	11,000		30 Jun	Balance c/d
16 Jun	JK Sports Ltd	2,150			
		<u>13,150</u>			<u>13,150</u>
1 Jul	Balance b/d	13,150			

Dr		Hi-Ball Ltd		Cr	
20-6		£		20-6	£
23 May	Purchases returns	400		6 May	Purchases
13 May	Balance c/d	7,600			
		<u>8,000</u>			<u>8,000</u>
12 Jun	Bank	7,600		1 Jun	Balance c/d
		<u>7,600</u>			<u>7,600</u>

Dr		Sales account		Cr	
20-6		£		20-6	£
31 May	Balance c/d	5,720		12 May	Bank
		<u>5,720</u>		18 May	Bank
				20 May	Bank
				26 May	Croome School
					<u>5,720</u>
30 Jun	Balance c/d	8,210		1 Jun	Balance b/d
		<u>8,210</u>		4 Jun	Bank
				18 Jun	Bank
					<u>8,210</u>
				1 Jul	Balance b/d
					8,210

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Dr		JK Sports Limited		Cr		
20-6		£		20-6	£	
23 Jun	Bank	3,000		15 May	Purchases	3,000
30 Jun	Balance c/d	2,150		16 June	Purchases	2,150
		<u>5,150</u>				<u>5,150</u>
				1 Jul	Balance b/d	2,150

Dr		Purchases returns account		Cr		
20-6		£		20-6	£	
				23 May	Hi-Ball Ltd	400

Dr		Croome School		Cr		
20-6		£		20-6	£	
26 May	Sales	1,420		19 Jun	Sales returns	125
		<u>1,420</u>		30 Jun	Balance c/d	1,295
						<u>1,420</u>
1 Jul	Balance b/d	1,295				

Dr		Wages account		Cr		
20-6		£		20-6	£	
27 May	Bank	750		30 Jun	Balance c/d	1,600
25 Jun	Bank	850				<u>1,600</u>
		<u>1,600</u>				
1 Jul	Balance b/d	1,600				

Dr		Rent account		Cr		
20-6		£		20-6	£	
6 Jun	Bank	750				

Dr		Sales returns account		Cr		
20-6		£		20-6	£	
19 Jun	Croome School	125				

(b)

Trial balance as at 31 May 20-6

	Dr	Cr
	£	£
Bank	12,550	
Capital		15,000
Shop fittings	6,000	
Purchases	11,000	
Hi-Ball Limited		7,600
Sales		5,720
JK Sports Limited		3,000
Purchases returns		400
Croome School	1,420	
Wages	750	
	31,720	31,720

(d)

Trial balance as at 30 June 20-6

	Dr	Cr
	£	£
Bank	340	
Capital		15,000
Shop fittings	8,500	
Purchases	13,150	
Sales		8,210
JK Sports Limited		2,150
Purchases returns		400
Croome School	1,295	
Wages	1,600	
Rent	750	
Sales returns	125	
	25,760	25,760

4

Financial statements – the extended trial balance

4.1 (a) Purchases

4.2 (c) Capital

4.3

	Income	Expenses	Profit or loss*	Assets	Liabilities	Capital
	£	£	£	£	£	£
Business 1	50,000	40,000	10,000	100,000	60,000	40,000
Business 2	90,000	70,000	20,000	150,000	90,000	60,000
Business 3	50,000	60,000	(10,000)	70,000	30,000	40,000
Business 4	80,000	100,000	(20,000)	170,000	80,000	90,000
Business 5	110,000	120,000	(10,000)	110,000	50,000	60,000

*Note: loss is indicated by brackets

4.4

	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) Payables ledger control		✓				✓
(d) Rent paid	✓		✓			
(e) Discounts allowed	✓		✓			
(f) Office equipment	✓				✓	
(g) Drawings	✓				✓	

5

Accruals and prepayments

5.1 (b) An expense prepaid

5.2 (c) A credit balance on prepaid income account

5.3 (a)

Interest receivable

	£		£
Accrued income (reversal)	90	Bank	917
Statement of profit or loss	908	Accrued income	81
	998		998

(b) 1 July 20-7

5.4 (a) Advertising expenses

	£		£
Bank	11,200	Accrued expenses (reversal)	650
		Statement of profit or loss	9,050
		Prepaid expenses	1,500
	11,200		11,200

(b) Office expenses

		£		£	
20-4 1 Apr	Prepaid expenses (reversal)	200	20-5 31 Mar	Statement of profit or loss	4,940
20-5 31 Mar	Bank	4,600			
20-5 31 Mar	Accrued expenses	140			
		4,940			4,940

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

Account	£	Dr £	Cr £
Accrued expenses			140
Capital	30,000		30,000
Discounts received	530		530
Drawings	9,500	9,500	
Interest received	120		120
Machinery at cost	18,000	18,000	
Prepaid expenses		1,500	
Sales returns	860	860	

6

Depreciation of non-current assets

6.1 (a) £1,875

6.2 (c) £2,875

6.3 (b) Gain on disposal of £250

6.4

	Debit	Credit
(b)	Bank account	Disposals account

6.5

	Debit	Credit
(c)	Statement of profit or loss	Disposals account

6.6 (a)

Year 1	£2,000
Year 2	£1,600
Total	£3,600

(b) **Van at cost**

Balance b/d	£10,000	Disposals	£10,000
	£10,000		£10,000

Van: disposals

Van at cost	£10,000	Van: accumulated depreciation	£3,600
Statement of profit or loss	£200	Bank	£6,600
	£10,200		£10,200

Bank

Van disposals	*£7,920	Balance c/d	£7,920
	£7,920		£7,920

*£6,600 + £1,320 (VAT)

(c) **Gain**

6.7 EXTENDED TRIAL BALANCE		CINDY SMITH						30 JUNE 20-4	
Account name	Ledger balances		Adjustments		Statement of profit or loss		Statement of financial position		
	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £	
Capital		38,825						38,825	
Opening inventory	18,050				18,050				
Purchases	74,280				74,280				
Sales revenue		149,410				149,410			
Discounts allowed and received	3,210	1,140			3,210	1,140			
Rent and rates	7,280			95	7,185				
Sales and purchases returns	1,645	875			1,645	875			
Bank		13,300						13,300	
Receivables ledger control	14,375						14,375		
Payables ledger control		8,065						8,065	
Wages and salaries	43,895				43,895				
General expenses	2,515		175		2,690				
Vehicles at cost	30,000						30,000		
Vehicles: accumulated depreciation		7,500		5,625				13,125	
Machinery at cost	10,000						10,000		
Machinery: accumulated depreciation		3,000		1,000				4,000	
Vehicle expenses	6,725				6,725				
Disposal of non-current asset	820				820				
Drawings	12,500						12,500		
Value Added Tax		3,180						3,180	
Closing inventory: statement of profit or loss									
Closing inventory: statement of financial position	20,145	20,145				20,145	20,145		
Accruals				175				175	
Prepayments			95				95		
Depreciation charges			6,625		6,625				
Profit/loss for the year	245,440	245,440	6,895	6,895	171,570	171,570	87,115	87,115	
					6,445			6,445	

7

Irrecoverable debts and allowance for doubtful receivables

7.1

Debit

Credit

- (a) Irrecoverable debts account Egan Ltd's account

Note: where control accounts – see Chapter 10 of the Tutorial – are in use, the credit entry will be to receivables ledger control account.

7.2 (d) Increase profit for the year

7.3 (b) £4,010

7.4

Year	Statement of profit or loss			Statement of financial position	
	Dr Irrecoverable debts £	Dr Allowance for doubtful receivables: adjustment £	Cr Allowance for doubtful receivables: adjustment £	Dr Receivables ledger control £	Cr Allowance for doubtful receivables £
20-1	700	3,368	–	84,200	3,368
20-2	500	336	–	92,600	3,704
20-3	600	–	48	91,400	3,656

7.5 (a) Irrecoverable debts

	£		£
Receivables ledger control (Fennel & Co)	90	Statement of profit or loss	295
Receivables ledger control (A Sheldon)	160		
Receivables ledger control (Palgrave Stores)	45		
	295		295

(b) Allowance for doubtful receivables

		£			£
20-3 31 Mar	Balance c/d	806	20-2 01 Apr	Balance c/d	600
			20-3 31 Mar	Allowance for doubtful receivables: adjustments	206
		806			806

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

Account	Ledger balances		Adjustments	
	Dr £	Cr £	Dr £	Cr £
Allowance for doubtful receivables		600		206
Allowance for doubtful receivables: adjustment			206	
Irrecoverable debts			295	
Payables ledger control		12,345		
Receivables ledger control	20,445			295
Machinery at cost	15,000			
Machinery: accumulated depreciation		8,750		
Wages and salaries	33,140			

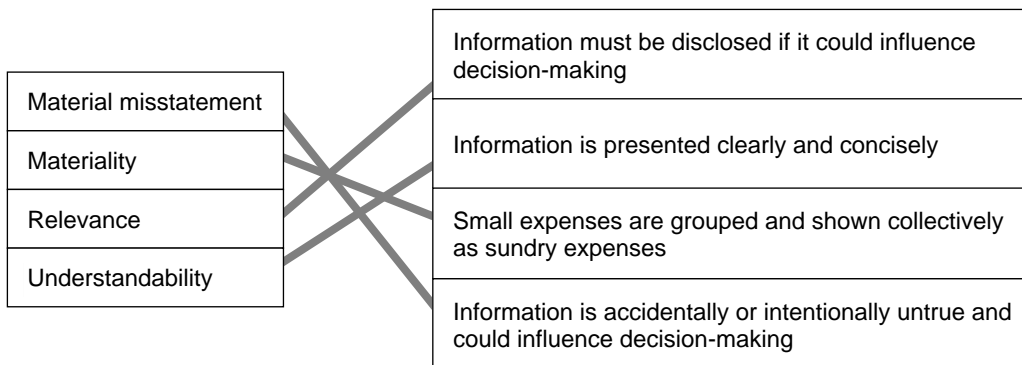
8

Framework of accounting

8.1

User	Use of information
Supplier	To decide whether to supply a business, especially to assess whether it is likely to be able to pay its suppliers.
Customer	To assess whether the business is likely to continue to be able to supply goods or services, including honouring warranty liabilities.
HM Revenue & Customs	To assess any income tax, corporation tax or VAT that is due.

8.2



8.3 'Going concern' presumes that a business will continue to trade in the foreseeable future.

If a business is not a going concern then the value of its assets may be very different. This would be reflected in the statement of financial position. Non-current assets, such as machinery, may have little value if the business is liquidated. Inventories that have to be sold off may be worth less.

8.4 (b) Professional competence and due care; (d) Objectivity; (g) Integrity; (h) Professional behaviour; (i) Confidentiality

8.5 (a) Verifiability

(b) Timeliness

(c) Comparability

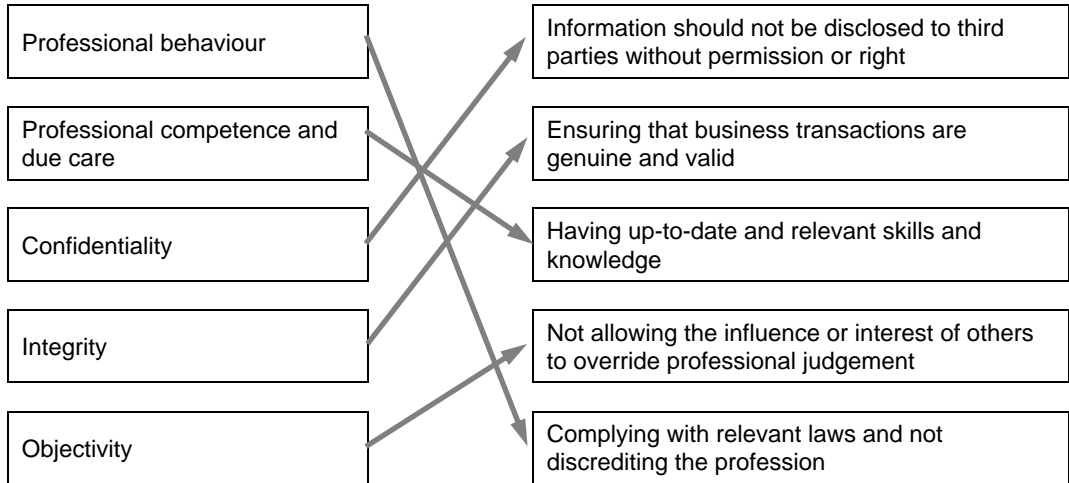
(d) Understandability

8.6 (b) Accounting transactions are recorded in the period in which they are incurred

8.7 (b) Materiality

8.8 (b) Prudence

8.9



8.10	(a)	Sales revenue for the half year	£
		• product A (60 at £20 + 120 at £22)	3,840.00
		• product B (350 at £8.50 + 300 at £6)	4,775.00
			8,615.00
		• total sales	8,615.00
	(b)	FIFO Product A	£
		60 units at £13.00 per unit	780.00
		70 units at £13.50 per unit	945.00
		130 units	1,725.00
	(c)	FIFO Product B	£
		100 units at £6.00 per unit	600.00
		150 units at £5.50 per unit	825.00
		250 units	1,425.00
	(d)	Total inventory valuation	£
		• product A	1,725.00 (cost price)
		• product B	1,300.00 (net realisable value)
			3,025.00
			3,025.00
	(e)	Cost of sales	£
		Purchases	
		• product A	*3,725.00
		• product B	**4,925.00
			8,650.00
		Less closing inventory	3,025.00
		Cost of sales	5,625.00

*£800 + £1,200 + £780 + £945

**£1,500 + £1,100 + £1,500 + £825

8.11 (a) According to IAS 2, *Inventories*, the basis of inventory valuation is 'at the lower of cost and net realisable value'.

(b) (b) £275 (100 at £2 per box + 50 at £1.50 per box)

(c) (c) £15 decrease

(d) (b) Decrease

8.12 (a) £252,000

Working: $£360,000 \times (100 - 30)/100$

(b) £125,000

Working: $£150,000 \times 100/(100 + 20)$

9

Accounting for capital transactions

9.1 (a), (e), (g) and (i) are capital expenditure; (b), (c), (d), (f) and (h) are revenue expenditure

9.2 (d) Land

9.3 (b) Terry Taylor, the owner of Terry's Transport

9.4 Depreciation calculations:

	20-4	20-5	20-6	TOTAL
	£	£	£	£
Lorry 1	8,000	6,400	–	14,400
Lorry 2	8,000	6,400	5,120	19,520
Lorry 3	–	–	12,000	12,000
Lorry 4	–	–	12,000	12,000
TOTAL	16,000	12,800	29,120	57,920

Vehicles at cost account					
Dr		£	Cr		
20-4		£	20-4	£	
01 Jan	Bank	40,000	31 Dec	Balance c/d	80,000
01 Jan	Bank	40,000			
		<u>80,000</u>			<u>80,000</u>
20-5			20-5		
01 Jan	Balance b/d	80,000	31 Dec	Balance c/d	80,000
		<u>80,000</u>			<u>80,000</u>
20-6			20-6		
01 Jan	Balance b/d	80,000	11 Aug	Disposals	40,000
01 Jan	Bank	60,000	31 Dec	Balance c/d	160,000
01 Jan	Bank	60,000			
		<u>200,000</u>			<u>200,000</u>
20-7			20-7		
01 Jan	Balance b/d	160,000			

Depreciation charge account					
Dr		£	Cr		
20-4		£	20-4	£	
31 Dec	Vehicles: accumulated depreciation	16,000	31 Dec	Statement of profit or loss	16,000
		<u>16,000</u>			<u>16,000</u>
20-5			20-5		
31 Dec	Vehicles: accumulated depreciation	12,800	31 Dec	Statement of profit or loss	12,800
		<u>12,800</u>			<u>12,800</u>
20-6			20-6		
31 Dec	Vehicles: accumulated depreciation	29,120	31 Dec	Statement of profit or loss	29,120
		<u>29,120</u>			<u>29,120</u>

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Dr		Vehicles: accumulated depreciation account		Cr		
20-4		£		20-4	£	
31 Dec	Balance c/d	16,000		31 Dec	Depreciation charge	16,000
		<u>16,000</u>				<u>16,000</u>
20-5				20-5		
31 Dec	Balance c/d	28,800		01 Jan	Balance b/d	16,000
		<u>28,800</u>		31 Dec	Depreciation charge	12,800
						<u>28,800</u>
20-6				20-6		
11 Aug	Disposals	14,400		01 Jan	Balance b/d	28,800
31 Dec	Balance c/d	43,520		31 Dec	Depreciation charge	29,120
		<u>43,520</u>				<u>57,920</u>
						<u>57,920</u>
20-7				20-7		
				01 Jan	Balance b/d	43,520

Dr		Vehicles disposals account		Cr		
20-6		£		20-6	£	
11 Aug	Vehicles	40,000		11 Aug	Vehicles: accumulated depreciation	14,400
11 Aug	Statement of profit or loss (gain on disposal)	1,900		11 Aug	Bank	27,500
		<u>1,900</u>				<u>27,500</u>
						<u>41,900</u>
		<u>41,900</u>				<u>41,900</u>

9.5 (a) to (c)

NON-CURRENT ASSET REGISTER

Description/serial number	Acquisition date	Cost £	Depreciation charges £	Carrying amount £	Funding method	Disposal proceeds £	Disposal dates
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			400.00	800.00			
HQL computer	15/04/-6	1,200.00			Cash		
Year ended 31/03/-7			240.00	960.00			
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			–	–		6,000.00	20/01/X7
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			3,150.00	9,450.00			

Notes:

- Installation of the computer in the office is capitalised
- The computer software is revenue expenditure

9.6 (d) Hire purchase

(e) Finance lease

9.7

Item	Understated	Overstated	No effect
Net profit		✓	
Current assets			✓
Current liabilities			✓
Non-current assets		✓	

10 Control accounts

10.1 (a) and (c) would cause a difference; (b) and (d) would cause no difference

10.2 (a) **PAYABLES LEDGER**

Dr		Bedford Ltd		Cr	
20-6		£		20-6	£
11 Jan	Purchases returns	59.68		1 Jan	Balance b/d
31 Jan	Balance c/d	884.92		7 Jan	Credit purchases
		<u>944.60</u>			<u>944.60</u>
				1 Feb	Balance b/d
					884.92

Dr		Chester & Co		Cr	
20-6		£		20-6	£
11 Jan	Purchases returns	12.34		1 Jan	Balance b/d
31 Jan	Balance c/d	717.24		5 Jan	Credit purchases
		<u>729.58</u>			<u>729.58</u>
				1 Feb	Balance b/d
					717.24

Dr		Dennis Trading		Cr	
20-6		£		20-6	£
15 Jan	Bank	250.00		1 Jan	Balance b/d
31 Jan	Balance c/d	400.33		7 Jan	Credit purchases
		<u>650.33</u>			<u>650.33</u>
				1 Feb	Balance b/d
					400.33

Dr		Farnham Ltd		Cr	
20-6		£		20-6	£
21 Jan	Bank	746.32		1 Jan	Balance b/d
21 Jan	Discounts received	39.28		5 Jan	Credit purchases
		<u>785.60</u>			<u>785.60</u>

(b)

Dr		Payables ledger control account		Cr	
20-6		£	20-6		£
31 Jan	Purchases returns	72.02	1 Jan	Balance c/d	1,913.87
31 Jan	Payments to trade payables	996.32	31 Jan	Credit purchases	1,196.24
31 Jan	Discounts received	39.28			
31 Jan	Balance c/d	2,002.49			
		<u>3,110.11</u>			<u>3,110.11</u>
			1 Feb	Balance b/d	2,002.49

(c)

Reconciliation of payables ledger control account		
	1 January 20-6	31 January 20-6
	£	£
Bedford Ltd	596.41	884.92
Chester & Co	602.03	717.24
Dennis Trading	228.14	400.33
Farnham Ltd	487.29	nil
Payables ledger control account	<u>1,913.87</u>	<u>2,002.49</u>

10.3

Dr		Payables ledger control account		Cr		
20-4		£		20-4	£	
31 Jan	Purchases returns	1,843		1 Jan	Balance b/d	24,080
31 Jan	Discounts received	494		31 Jan	Credit purchases	137,825
31 Jan	Payments to trade payables	135,048				
31 Jan	Set-off: receivables ledger	812				
31 Jan	Balance c/d	23,708				
		<u>161,905</u>				<u>161,905</u>
				1 Feb	Balance b/d	23,708

Dr		Receivables ledger control account		Cr		
20-4		£		20-4	£	
1 Jan	Balance b/d	35,563		31 Jan	Sales returns	3,081
31 Jan	Credit sales	205,610		31 Jan	Discounts allowed	548
31 Jan	Returned cheques	856		31 Jan	Payments from trade receivables	197,045
				31 Jan	Set-off: payables ledger	812
				31 Jan	Irrecoverable debts	110
				31 Jan	Balances c/d	40,433
		<u>242,029</u>				<u>242,029</u>
1 Feb	Balances b/d	40,433				

Note: the increase in allowance for doubtful receivables is not recorded in the receivables ledger control account.

- 10.4 (a) (a) Credit; all remaining options Debit
 (b) (c) Zero

10.5

Adjustment number	Amount £	Debit	Credit
2	18		✓
3	100	✓	
4	195		✓

10.6

Adjustment number	Amount £	Debit	Credit
1	10	✓	
2	90		✓
4	210	✓	

10.7

Adjustment number	Amount £	Debit	Credit
1	180		✓
3	55		✓
4	390	✓	

10.8 (a) Debit £13,269

(b)

Bank reconciliation statement as at 31 August 20-7	£
Closing bank statement balance	11,269
Less	
Evans Ltd	1,500
Add	
Vipond plc	3,500
Closing cash book balance	13,269

11

The journal and correction of errors

11.1 (a) Opening transaction of a new business

11.2

	Debit		Credit	
(b)	Stationery	£75	Suspense	£75

11.3

	Debit		Credit	
(d)	Bank	£84	Suspense	£84
	Suspense	£48	Bank	£48

11.4 (a) Extract from extended trial balance

	Ledger balances		Adjustments	
	Dr £	Cr £	Dr £	Cr £
Allowance for doubtful receivables		500		150
Allowance for doubtful receivables: adjustment			150	
Closing inventory – statement of financial position			*20,190	
Closing inventory – statement of profit or loss				*20,190
Depreciation charge	1,500			
Office equipment – accumulated depreciation		5,500		
Office expenses	6,350			
Rent and rates	4,980		750	
Purchases	45,300			
Payables ledger control		6,850		640
Suspense	110		640	750
VAT		1,720		
Wages	14,850			

*lower of cost and net realisable value: £20,360 – £970 + £800

(b)

Amount	Dr	Cr
Statement of profit or loss	✓	
Wages		✓

11.5 (a) Journal

	Dr £	Cr £
Irrecoverable debts	150	
Receivables ledger control		150

(b) Journal

	Dr £	Cr £
Office expenses	1,200	
Suspense		1,200

(c) Journal

	Dr £	Cr £
Closing inventory – Statement of financial position	*15,060	
Closing inventory – Statement of profit or loss		*15,060

*lower of cost and net realisable value: £15,240 – £680 + £500

(d) Journal

	Dr £	Cr £
Suspense	6,800	
Receivables ledger control		6,800
Receivables ledger control	8,160	
Suspense		8,160

11.6 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 receivables		800		200				1,000
Allowance for doubtful receivables: adjustment			200		200			
Bank		5,200						5,200
Capital		35,000						35,000
Closing inventory			11,690	11,690		11,690	11,690	
Depreciation charge			3,600		3,600			
Machinery at cost	45,000						45,000	
Machinery: accumulated depreciation		12,200		3,600				15,800
Office expenses	13,200			300	12,900			
Opening inventory	12,740				12,740			
Payroll expenses	45,600		400		46,000			
Purchases	76,400			800	75,600			
Payables ledger control		17,320						17,320
Rent and rates	6,850		290		7,140			
Sales		159,520				159,520		
Receivables ledger control	33,450						33,450	
Suspense		410	1,100	690				
VAT		2,790						2,790
Profit/loss for the year					13,030			13,030
	233,240	233,240	17,280	17,280	171,210	171,210	90,140	90,140

Note: the credit balance on suspense account is cleared by the debit adjustment of £1,100 (£300 and £800), and the credit adjustment of £690 (£400 and £290).

11.7

Journal number: 568		
	Debit £	Credit £
Closing inventory: SPL	5,698	
Closing inventory: SFP		5,698
Rent paid	2,500	
Bank		2,500
Trade payables control account	1,800	
Suspense		1,800
VAT	795	
Suspense		795

12

Preparing financial statements

12.1 (b) Gross profit – expenses

12.2 (d) Non-current assets + current assets – current liabilities – non-current liabilities

12.3 Business A: gross profit £26,000, profit for year £10,000

Business B: sales £89,000, expenses £7,000

Business C: closing inventory £11,000, loss for year –£2,000

Business D: purchases £19,400, expenses £12,450

Business E: opening inventory £8,700, profit for year £5,300

Business F: closing inventory £10,500, expenses £32,000

12.4 (a) £69,460

(b)

	Debit	Credit	No change
Non-current assets	✓		
Trade receivables			✓
Trade payables		✓	
Bank			✓
Capital			✓

(c) (d) Trade receivables

12.5

SAM AVALOS		
STATEMENT OF PROFIT OR LOSS		
for the year ended 31 March 20-8		
	£	£
Sales revenue		157,648
Opening inventory	10,475	
Purchases	83,691	
	94,166	
Less closing inventory	12,655	
Cost of sales		81,511
Gross profit		76,137
Less expenses:		
Rent and rates	10,083	
Heating and lighting	3,624	
Payroll expenses	35,822	
Vehicle expenses	4,046	
Advertising	3,984	
		57,559
Profit for the year		18,578

SAM AVALOS		
STATEMENT OF FINANCIAL POSITION as at 31 March 20-8		
	£	£
Non-current assets		
Premises at cost		100,000
Office equipment at cost		22,000
Vehicles at cost		35,000
		<u>157,000</u>
Current assets		
Inventory (closing)	12,655	
Trade receivables	19,247	
Bank	3,240	
Cash	284	
		<u>35,426</u>
Less Current liabilities		
Trade payables	12,286	
Value Added Tax	2,475	
		<u>14,761</u>
Net current assets		<u>20,665</u>
		<u>177,665</u>
Less Non-current liabilities		
Loan from bank		65,500
NET ASSETS		<u>112,165</u>
FINANCED BY		
Capital		
Opening capital		112,500
Add Profit for the year		18,578
		<u>131,078</u>
Less Drawings		18,913
		<u>112,165</u>
Closing capital		<u>112,165</u>

12.6

JENNY CLARK		
STATEMENT OF PROFIT OR LOSS		
for the year ended 30 June 20-6		
	£	£
Sales revenue		94,333
Opening inventory	8,175	
Purchases	36,147	
	—————	
	44,322	
Less closing inventory	10,032	
	—————	
Cost of sales		34,290
		—————
Gross profit		60,043
Less expenses:		
Payroll expenses	25,148	
Heating and lighting	3,071	
Rent and rates	5,294	
Sundry expenses	1,086	
Vehicle expenses	3,417	
	—————	
		38,016
		—————
Profit for the year		22,027
		—————

JENNY CLARK			
STATEMENT OF FINANCIAL POSITION as at 30 June 20-6			
	£	£	£
Non-current assets			
Vehicles at cost			17,390
Office equipment at cost			3,450
			<u>20,840</u>
Current assets			
Inventory (closing)		10,032	
Trade receivables		16,346	
		<u>26,378</u>	
Less Current liabilities			
Trade payables	9,273		
Value Added Tax	1,212		
Bank	5,954		
	<u>16,439</u>		
Net current assets			<u>9,939</u>
NET ASSETS			<u>30,779</u>
FINANCED BY			
Capital			
Opening capital			26,000
Add Profit for the year			22,027
			<u>48,027</u>
Less Drawings			17,248
			<u>30,779</u>
Closing capital			<u><u>30,779</u></u>

12.7

CHERYL CROFT			
STATEMENT OF PROFIT OR LOSS			
for the year ended 31 March 20-5			
	£	£	£
Sales revenue			95,450
Less Sales returns			1,840
			<u> </u>
Net sales revenue			93,610
Opening inventory		11,090	
Purchases	60,320		
Add Carriage in	450		
	<u> </u>		
	60,770		
Less Purchases returns	960		
	<u> </u>		
Net purchases		59,810	
		<u> </u>	
		70,900	
Less Closing inventory		12,270	
		<u> </u>	
Cost of sales			58,630
			<u> </u>
Gross profit			34,980
Add income: Discounts received			120
			<u> </u>
			35,100
Less expenses:			
Carriage out		1,120	
Discounts allowed		170	
Other expenses		26,490	
		<u> </u>	
			27,780
			<u> </u>
Profit for the year			<u>7,320</u>

12.8

Transaction	Increase	Decrease	No effect
Owner takes drawings from the business bank account		✓	
Owner transferred ownership of a vehicle to the business	✓		
Business pays for road fund licence for the new vehicle			✓
The business makes a loss for the year		✓	
Owner takes goods from the business for personal use		✓	

12.9

Statement	True	False
The owners' capital account will always have a credit balance	✓	
Net current assets is all assets minus all liabilities		✓
Gross profit is calculated by deducting expenses from net profit		✓
Trade receivables is a current asset	✓	
Cost of sales is calculated by deducting opening inventory from closing inventory		✓

13

Sole trader financial statements

13.1 (c) £6,100

13.2

Item	Income	Expense
Loss on disposal of non-current asset		✓
Increase in allowance for doubtful receivables		✓
Irrecoverable debts		✓
Discounts received	✓	
Depreciation charges		✓
Carriage out		✓

13.3 (a) £15,640

13.4 (a)

Computer Traders		
Statement of profit or loss for the year ended 31 March 20-4		
	£	£
Sales revenue		214,830
Opening inventory	15,680	
Purchases	95,210	
Less Closing inventory	17,320	
Cost of sales		93,570
Gross profit		121,260
Less expenses:		
Depreciation charges	3,000	
Discounts allowed	740	
General expenses	30,850	
Payroll expenses	45,960	
Rent and rates	12,590	
Total expenses		93,140
Profit for the year		28,120

(b) (b) As a current asset

(c) (b) The business has made a loss on disposal

13.5

JULIE MCCABE		
STATEMENT OF PROFIT OR LOSS		
for the year ended 31 March 20-3		
	£	£
Sales revenue		164,275
Opening inventory	22,650	
Purchases	75,490	
	—————	
	98,140	
Less Closing inventory	25,980	
	—————	
Cost of sales		72,160
		—————
Gross profit		92,115
Add income:		
Allowance for doubtful receivables: adjustment		75
		—————
		92,190
Less expenses:		
Shop wages	43,120	
Heat and light	3,420	
Rent	12,680	
Depreciation charges: shop fittings	5,250	
Disposal of non-current asset	200	
Irrecoverable debts	120	
	—————	
		64,790
		—————
Profit for the year		27,400
		—————

JULIE MCCABE			
STATEMENT OF FINANCIAL POSITION			
as at 31 March 20-3			
	£	£	£
Non-current assets	Cost	Accumulated depreciation	Carrying amount
Shop fittings	22,000	10,500	11,500
Current assets			
Inventory		25,980	
Trade receivables		*850	
Prepayment of expenses		750	
Bank		4,870	
		<u>32,450</u>	
Less Current liabilities			
Trade payables	12,380		
Value Added Tax	1,490		
Accrual of expenses	420		
	<u>14,290</u>		
Net current assets			18,160
NET ASSETS			<u>29,660</u>
FINANCED BY			
Capital			
Opening capital			30,000
Add Profit for the year			27,400
			<u>57,400</u>
Less Drawings			27,740
Closing capital			<u>29,660</u>

*receivables ledger control account £1,050 minus allowance for doubtful receivables £200

13.6

Capital			
Account name	£	Account name	£
Drawings	12,750	Balance b/d	24,500
Drawings	1,590	Bank	3,500
Balance c/d	35,920	Fixtures and fittings	2,500
		Statement of profit or loss	19,760
	50,260		50,260

14

Partnership financial statements

14.1 (c) £5,200

14.2 Current accounts

	Joe £	Kit £	Liz £		Joe £	Kit £	Liz £
Balance b/d	200	0	0	Balance b/d	0	600	1,000
Drawings	16,350	26,490	12,600	Salaries	12,600	20,900	5,350
Interest on drawings	120	310	90	Interest on capital	1,200	900	600
Balance c/d	5,930	3,300	0	Profit share	8,800	7,700	5,500
				Balance c/d	0	0	240
	22,600	30,100	12,690		22,600	30,100	12,690

14.3 (a)

Current account: Jon £5,750	CREDIT
Current account: Kim £6,900	CREDIT

(b) JK Partnership

Statement of financial position as at 31 March 20-5

	Cost	Accumulated depreciation	Carrying amount
	£	£	£
Non-current assets			
Machinery	40,000	12,500	27,500
Current assets			
Inventory		12,630	
Trade receivables		*35,470	
Cash and cash equivalents		5,250	
		53,350	
Current liabilities			
Trade payables	14,750		
Value Added Tax	2,860		
Accruals	590		
		18,200	
Net current assets			35,150
Net assets			62,650
Financed by:	Jon	Kim	Total
Capital accounts	30,000	20,000	50,000
Current accounts	5,750	6,900	12,650
	35,750	26,900	62,650

*receivables ledger control £36,230 minus allowance for doubtful receivables £760

Note: bank £4,680 + cash £570 = cash and cash equivalents £5,250

14.4 Task 1

Dr		Partners' capital accounts				Cr	
		Clark	Pearce			Clark	Pearce
		£	£			£	£
20-4				20-3			
30 Jun	Balances c/d	60,000	30,000	1 Jul	Balances b/d	60,000	30,000
20-4				20-4			
				1 Jul	Balances b/d	60,000	30,000

Dr		Partners' current accounts				Cr	
		Clark	Pearce			Clark	Pearce
		£	£			£	£
20-4				20-3			
30 Jun	Drawings	20,600	15,700	1 Jul	Balances b/d	430	300
30 Jun	Balance c/d	0	4,840	20-4			
				30 Jun	Salary	0	12,000
				30 Jun	Interest on capital	3,000	1,500
				30 Jun	Profit share	13,480	6,740
				30 Jun	Balance c/d	3,690	0
		20,600	20,540			20,600	20,540
20-4				20-4			
1 Jul	Balance b/d	3,690	0	1 Jul	Balance b/d	0	4,840

Task 2

CLARK AND PEARCE IN PARTNERSHIP, STATEMENT OF PROFIT OR LOSS for the year ended 30 June 20-4		
	£	£
Sales revenue		225,000
Less cost of sales		120,000
		<hr/>
Gross profit		105,000
Less expenses:		
Payroll expenses	30,400	
Electricity	2,420	
Telephone	3,110	
Rent and rates	10,000	
Discount allowed	140	
Office expenses	10,610	
Irrecoverable debts	1,200	
Depreciation charges: office equipment	10,400	
		<hr/>
		68,280
		<hr/>
Profit for the year		36,720
Less appropriation of profit:		
Salary: Pearce		12,000
Interest allowed on partners' capitals		
Clark £60,000 x 5%	3,000	
Pearce £30,000 x 5%	1,500	
		<hr/>
		4,500
		<hr/>
Profit available for distribution		20,220
		<hr/>
Profit share:		
Clark (two-thirds)		13,480
Pearce (one-third)		6,740
		<hr/>
Total profit distributed		20,220
		<hr/>

CLARK AND PEARCE IN PARTNERSHIP
STATEMENT OF FINANCIAL POSITION as at 30 June 20-4

	£	£	£
	Cost	Accumulated depreciation	Carrying amount
Non-current assets			
Office equipment	52,000	31,200	20,800
Current assets			
Inventory (closing)		41,570	
Trade receivables		*19,220	
Bank		21,750	
		—————	
		82,540	
Less Current liabilities			
Trade payables	6,950		
Value Added Tax	5,240		
		12,190	
Net current assets			70,350
			—————
NET ASSETS			91,150
			—————
FINANCED BY			
	Clark	Pearce	Total
Capital accounts	60,000	30,000	90,000
Current accounts	(3,690)	4,840	1,150
	56,310	34,840	91,150

*receivables ledger control £20,000, minus allowance for doubtful receivables £780

Tutorial note: only the balances of the partners' capital and current accounts have been shown in the statement of financial position.

14.5

(a)

	Total £	Paddy £	Michael £
Profit/(loss) for the year	75,600		
Add			
Interest charged on drawings	1,200	480	720
Less appropriation of profits			
Interest on capital	2,520	1,440	1,080
Partners' salaries	24,000	24,000	
Profit available for distribution	50,280		
Profit share			
Paddy	12,570		
Michael	37,710		
Total profit distributed	50,280		

(b)

Current account: 31 March 20-5	£	Debit	Credit
Paddy	16,230		✓
Michael	3,510	✓	

15 Using profitability ratios

15.1

Equation	Gross profit mark-up	Gross profit margin	Neither
$\frac{\text{Cost of sales}}{\text{Gross profit}} \times 100/1$			✓
$\frac{\text{Gross profit}}{\text{Cost of sales}} \times 100/1$	✓		
$\frac{\text{Gross profit}}{\text{Sales revenue}} \times 100/1$		✓	
$\frac{\text{Sales revenue}}{\text{Gross profit}} \times 100/1$			✓

15.2 $\frac{\text{Profit for the year}}{\text{Capital employed}} \times 100/1$

15.3 (a) (c) 40%

(b) (d) 67%

(c) (a) 25%

15.4

		Lewis
Gross profit margin	$\text{£}38,250/225,000 \times 100/1$	17.00%
Gross profit mark-up	$\text{£}38,250/186,750 \times 100/1$	20.48%
Cost of sales/sales revenue percentage	$\text{£}186,750/\text{£}225,000 \times 100/1$	83.00%
Expenses/revenue percentage	$\text{£}24,750/\text{£}225,000 \times 100/1$	11.00%
Net profit margin	$\text{£}13,500/\text{£}225,000 \times 100/1$	6.00%
Return on capital employed	$\text{£}13,500/\text{£}122,126 \times 100/1$	11.05%

		Mayall
Gross profit margin	$\text{£}58,500/\text{£}292,500 \times 100/1$	20%
Gross profit mark-up	$\text{£}58,500/\text{£}234,000 \times 100/1$	25%
Cost of sales/sales revenue percentage	$\text{£}234,000/\text{£}292,500 \times 100/1$	80%
Expenses/revenue percentage	$\text{£}36,450/\text{£}292,500 \times 100/1$	12.46%
Net profit margin	$\text{£}22,050/\text{£}292,500 \times 100/1$	7.54%
Return on capital employed	$\text{£}22,050/\text{£}146,857 \times 100/1$	15.01%

15.5

- (a)** gross profit / cost of sales x 100/1
- (b)** 66.67%
- (c)** gross profit / sales revenue x 100/1
- (d)** 40%
- (e)** cost of sales / sales revenue x 100/1
- (f)** 60%

15.6 (a)

	Year ended 31 March 20-4	Year ended 31 March 20-5	Better/worse
Gross profit margin	35.00%	25.00%	worse
Gross profit mark-up	53.85%	33.33%	worse
Expenses/sales revenue percentage	20.00%	13.00%	better
Net profit margin	15.00%	12.00%	worse
Return on capital employed	12.00%	11.40%	worse

(b) Sales revenue and gross profit

- Sales revenue has improved. From £400,000 to £475,000, a change of 18.75%
- Gross profit has deteriorated. From £140,000 to £118,750, a change of 15.18%

Gross profit margin and mark-up

- Both ratios have deteriorated
- This could be because:
 - selling prices have been reduced to increase sales, and/or
 - the cost of goods bought for resale has increased

Expenses/sales revenue percentage

- Expenses/sales revenue percentage has improved
- This could be because:
 - the income from sales revenue has increased, and/or
 - there has been improved control of overhead expenditure

Net profit margin

- Net profit margin has deteriorated
- Some of this will be because of a drill down from the gross profit ratios. However, the savings made in controlling expenses have lessened the impact on the net profit ratio

Return on capital employed

- Return on capital employed has deteriorated slightly
- Capital employed has not changed so the change in the ratio is solely caused by the changes in the profitability ratios identified above

15.7

<p>Naomi knows that closing inventory should be valued at the lower of cost of net realisable value so when she is preparing financial statements she will ask the client if there is any inventory that has deteriorated or is obsolete and is being sold for less than the cost price. She then makes the correct adjustment to the closing inventory valuation to account for this.</p>	
<p>Naomi has analysed the profitability ratios from the financial statement of a client and notices that the gross profit ratio has increased from the previous accounting period. She knows that this means that the ratio has improved but decides to spend time investigating it anyway to find out what may have caused the gross profit ratio to change.</p>	✓
<p>Naomi is preparing the accounts for a sole trader. Naomi has heard from the national news that a large customer of the sole trader has gone out of business. However, the sole trader has not mentioned this to Naomi in their meetings. Naomi decides to make a telephone call to the client for clarification as she knows that it would affect the profitability of the sole trader's business.</p>	✓
<p>Naomi always asks clients to provide information regarding any outstanding bills or payments made in advance so that she can make the necessary adjustments for accruals and prepayments.</p>	
<p>Naomi's manager tells her that she needs the depreciation charges for all the non-current assets finalised before the end of today for a specific client, using the agreed depreciation policy of straight-line basis for all plant and machinery, and diminishing balance for all vehicles. If it is not possible to do that in time, then "just use straight-line method for all the assets". Naomi is concerned that this could lead to a possible misstatement in the accounts.</p>	✓

16 Incomplete records accounting

16.1 (d) £336,000

Workings: £240,000 + £96,000 profit

16.2 (c) £130,000

Workings: cost of sales = £125,000 + closing inventory £30,000 = £155,000 – opening inventory £25,000

16.3 (c) £23,000

Workings: £20,400 + £90,300 – £85,600 – £1,400 – £700

16.4

		£
(a)	• opening inventory	20,000
	• add purchases for the year	260,000
		<hr/>
		280,000
	• less closing inventory	40,000
		<hr/>
	• cost of sales for the year	240,000
		<hr/>
(b)	• sales for the year	300,000
	• less cost of sales for the year	240,000
		<hr/>
	• gross profit for the year	60,000
		<hr/>

(c) Gross profit mark-up:

$$\frac{\text{gross profit}}{\text{cost price}} = \frac{£60,000}{£300,000} \times \frac{100}{1} = \underline{25\%}$$

(d) Gross profit margin

$$\frac{\text{gross profit}}{\text{sales}} = \frac{£60,000}{£300,000} \times \frac{100}{1} = \underline{20\%}$$

16.5

		£
(a)	• receipts from sales	127,800
	• less trade receivables at beginning of year	29,200
	• add trade receivables at year-end	20,400
	• sales for year	119,000
(b)	• payments to suppliers	82,600
	• less trade payables at beginning of year	20,800
	• add trade payables at year-end	16,000
	• purchases for year	77,800
(c)	• payments for general expenses	20,600
	• add general expenses accrued at 31 Dec 20-5	500
	• general expenses for year	21,100

(d)

**JAMES HENDRY
STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 20-5**

	£	£
Sales revenue		119,000
Opening inventory	25,600	
Purchases	77,800	
	103,400	
Less Closing inventory	29,800	
Cost of sales		73,600
Gross profit		45,400
Less expenses:		
General expenses	21,100	
Depreciation: shop fittings	1,000	
		22,100
Profit for the year		23,300

(e)

JAMES HENDRY
STATEMENT OF FINANCIAL POSITION
as at 31 December 20-5

	£	£	£
Non-current assets	Cost	Accumulated depreciation	Carrying amount
Shop fittings	10,000	3,000	7,000
Current assets			
Inventory		29,800	
Trade receivables		20,400	
Bank		8,000	
Cash		1,600	
		59,800	
Less Current liabilities			
Trade payables	16,000		
Accrual of general expenses	500		
	16,500		
		16,500	
Net current assets			43,300
NET ASSETS			50,300
FINANCED BY			
Capital			
Opening capital*			47,000
Add Profit for the year			<u>23,300</u>
			70,300
Less Drawings			20,000
			50,300
Closing capital			50,300
*Opening capital:			
	£		
• assets at 1 January 20-5	67,800		
• less liabilities at 1 January 20-5	20,800		
	47,000		
• capital at 1 January 20-5	47,000		

16.6 (a) **Receivables ledger control account**

Balance b/d	28,360	Sales returns day book	1,440
Sales day book	170,000	Bank	165,320
		Discounts allowed	210
		Balance c/d	31,790
	198,760		198,760

(b) **Payables ledger control account**

Purchases returns day book	816	Balance b/d	13,520
Bank	103,410	Purchases day book	105,600
Balance c/d	14,894		
	119,120		119,120

(c) **VAT control account**

Purchases day book	17,600	Balance b/d	3,460
Sales returns day book	240	Sales day book	28,400
Discounts allowed	35	Purchases returns day book	136
Administration expenses	2,960		
Bank	8,360		
Balance c/d	2,801		
	31,996		31,996

16.7

(a)

Receivables ledger control			
Account name	£	Account name	£
Balance b/d	19,230	Bank	210,362
Sales	216,330	Irrecoverable debts	2,886
		Balance c/d	22,312
Total	235,560	Total	235,560

(b)

Payables ledger control			
Account name	£	Account name	£
Bank	112,735	Balance b/d	11,184
Discounts received	14,563	Purchases	129,114
Balance c/d	13,000		
Total	140,298	Total	140,298