

Question one:

L. Neeson

Statement of Profit or Loss
for the Year ended 31 Aug 2020

	sh	ch
Sales		7101000
less Return inwards		(4900)
Net sales		705100
less cost of sales		
Opening stock	18900	
Add: Purchases	227500	
Carriage Inwards	11800	
Less: return outwards	(2100)	
Net purchases	256100	
less: closing stock	(23200)	
cost of sales		232900
Gross profit		472200
Add: Incomes received		7610
Discount received		7610
less VAT		17800
Less: Expenses		
Loan interest	2280	
Advertising expense	17100	
Discount allowed	2100	
Insurance	23200	
Wages and salaries	132900	
Repairs	13100	
Telephone	3600	
Provision for bad debt	2725	
Depreciation: Buildings	10000	
Machinery	8000	
Cars	6515	
Carriage outwards	35600	(257080)
Net profit		<u>240530</u>

L. Neeson
Statement of financial Position
As at 31st Aug 2020.

Non current assets	ch.	ch.
Buildings at cost	500,000	
Accumulated depreciation	(150,000)	350,000
Machinery at cost	80,000	
Accumulated depreciation	(52,000)	28,000
Cars at cost	10,000	
Accumulated depreciation	(50,275)	19,125
Current asset:		
Stock	23,200	
Receivables	54,500	
less: Provision for doubtful debt	(4,625)	
Prepayments	1,610	
Bank	43,600	118,345
Total c.A.		118,345
Total Assets		<u>516,070.</u>
Non-current Liabilities		
Capital	252,870	
less: Drawings	23,700	
Net capital		229,170.
Net profit		240,530.
Current liabilities:		
Outstanding advertising expense	5,320	
Payables	23,200	
Loan repayable	21,500	50,020.
		<u>519,720.</u>

Question 2.

a)	Assets	Liabilities	Capital
a)	645,200	491,312	153,888.
b)	164,800	119,040	45,760
c)	94,376	71,962	22,414.
d)	341,400	249,305	92,095.
e)	432,515	282,700	149,815.

b)	Transaction.	Debit Account	Credit account
	Credit sales to F. Healdip.	Debtors (F. Healdip)	Sales.
	Paid supplier J. Brooks by cheque	Creditors (Supplier)	Bank.
	Insurance paid by cash	Expenses (Insurance)	Cash.
	G. Sheppard returned goods to the business	Sales.	
	Repaid business loan	-	-

c) Error of commission →

This type of error occurs when the correct amount is entered ~~by~~ but in the wrong personal account though the account is in the same class of accounts.

For example, sales of £2,000 to G. Sheppard but posted to J. Brooks.

Complete reversal

This is an error that occurs when the correct amount is posted in the correct account but in the wrong side of the account.

For example sales of £2,000 to G. Sheppard on credit posted as

Dr. Sales £2,000
 Cr. G. Sheppard £2,000

e) Capital expenditure → This is a transaction made when a company purchases a fixed asset or add value to an existing one.

Revenue expenditure → Incurred when money is spent on day to day running of the business.

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|---|----------------------|
| i) Buying van | Capital expenditure. |
| ii) Insurance for a new van. | Revenue expenditure. |
| iii) Extension to existing warehouse | Capital expenditure. |
| iv) Repairs to roof of existing warehouse | Capital expenditure. |
| v) Painting the new warehouse extension | Capital expenditure. |

QUESTION 4

Dr		Receivables control A/c		Cr
Balance b/f	26,400	Cash received from debtors	140,300	
Credit sales	197,500	Return inwards	2,400	
Dishonoured cheques	1100	Discount allowed	5,150	
		Bad debt written off	2000	
		Payables ledger contra	6,000	
		Balance c/d	69,100	
	<u>225,000</u>		<u>225,000</u>	

		Payables control A/c	
Discount received	3,180	Balance b/f	15,500
Cash paid to creditors	124,000 111,300	Purchases on credit	160,300
Return outwards	7000		
Interest Balance c/d	54,320		
	<u>175,800</u>		<u>175,800</u>

- b) They ensure arithmetic check on the accounting records. They help detect and prevent fraud. They provide a quick figure for total balances as at a given time to be reflected in the statement of financial position.

Question 5

a) (i) Gross profit % = $\frac{\text{Gross profit}}{\text{Sales}} \times 100$

2019.	2020.
$\frac{190,000}{600,000} \times 100$	$\frac{195,000}{700,000} \times 100$
<u>31.67%</u>	<u>27.86%</u>

(ii) Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

2019	2020
$\frac{80,000}{45,000} = \underline{1.8}$	$\frac{101,000}{70,000} = \underline{1.44}$

(iii) Acid test ratio

$\frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$

2019

$$\frac{80,000 - 20,000}{45,000} = \underline{1.33}$$

2020

$$\frac{101,000 - 35,000}{70,000} = 0.94$$

(iv) Trade receivable days = $\frac{365}{\text{Debtors turnover}}$

Debtors turnover = $\frac{\text{Sales}}{\text{Average debtors}}$

Trade receivable days = $\frac{365 \times \text{Average debtors}}{\text{credit sales}}$

2019.

$$\frac{365 \times 50,000}{600,000} = 30.42 \text{ days}$$

2020.

$$\frac{365 \times 65,000}{700,000} = 33.89 \text{ days}$$

v) Inventory days

$$= \frac{365 \times \text{Average stock}}{\text{Cost of sales}}$$

Cost of sales =

$$\text{Average stock} = \frac{\text{Opening stock} + \text{Closing stock}}{2}$$

$$\text{Cost of sales} = \text{Sales} - \text{Gross profit}$$

2019.

$$\text{Average stock} = \frac{18,000 + 20,000}{2} = 19,000$$

$$\text{Cost of sales} = 600,000 - 190,000 = 410,000$$

$$\text{Inventory days} = \frac{365 \times 19,000}{410,000} = \underline{\underline{16.91 \text{ days}}}$$

2020

$$\text{Average stock} = \frac{20,000 + 35,000}{2} = 27,500$$

$$\text{Cost of sales} = 700,000 - 195,000 = 505,000$$

$$\text{Inventory days} = \frac{365 \times 27,500}{505,000} = \underline{\underline{19.88 \text{ days}}}$$

b) It took a shorter period i.e. 30.42 days to collect money from debtors in 2019, than in 2020 i.e. 33.89 days

It took Barry Smith 16.91 days to sell his inventory in 2019 and 19.88 days in 2020.