



- 1 Sariah owns a business selling ladies' clothing. She maintains a system of double entry bookkeeping.

The following occurred during September 2020.

- 1 Purchased a motor vehicle on credit from Sharpe Motors \$6350.
- 2 Ruhee, a credit customer, was declared bankrupt owing Sariah \$1200. The debt is to be written off.

**REQUIRED**

(a) Prepare journal entries to record the above transactions. Narratives are **not** required.

Sariah  
Journal

Details	Debit \$	Credit \$
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[4]

Sariah is preparing her financial statements for the year ended 30 September 2020. She provides the following information for fixtures and fittings.

2019		\$
October 1	Fixtures and fittings at cost	28 600
	Provision for depreciation of fixtures and fittings	6 185
2020		
January 31	Sold fixtures and received a cheque The fixtures had been purchased on 1 February 2018 for \$1500	1 150
March 31	Purchased new fixtures paying by cheque	3 500

Sariah's policy is to provide depreciation on fixtures and fittings at 10% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase but none in the year of disposal.

**REQUIRED**

- (b) Prepare the following accounts for the year ended 30 September 2020. Close the accounts by balancing or by making an appropriate year end transfer.

Sariah  
Fixtures and fittings account

Date	Details	\$	Date	Details	\$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Provision for depreciation of fixtures and fittings account

Date	Details	\$	Date	Details	\$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Disposal account

Date	Details	\$	Date	Details	\$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[11]



**PLEASE TURN OVER**



Eniola is concerned that her bank balance has decreased significantly during the last year. She is considering how to improve her liquidity.

**REQUIRED**

(c) Suggest **one** effect of **each** of the following proposals.

(i) Hire new non-current assets instead of purchasing them.

.....  
 ..... [1]

(ii) Delay paying credit suppliers.

.....  
 ..... [1]

Eniola's financial year end is 31 July 2020. She provided the following information about the rent and rates of her business.

On 1 August 2019, she owed two months' rent totalling \$900. On the same date, rates of \$260 were prepaid up to 30 September 2019.

During the year ended 31 July 2020 the following payments were made by credit transfer.

2019		\$
August 1	Seven months' rent	3150
October 1	Twelve months' rates	1860
2020		
March 1	Six months' rent	2700





**PLEASE TURN OVER**

- 3 Haziq has not maintained full accounting records for his business.

Haziq provided the following information for the year ended 31 July 2020.

	At 1 August 2019	At 31 July 2020
	\$	\$
Bank loan	6 000	4 500
Inventory	8 400	?
Non-current assets at net book value	35 580	32 450
Rent prepaid	240	–
Trade payables	6 280	7 460
Wages accrued	–	610

Summary of bank account for the year ended 31 July 2020

Date 2020	Details	\$	Date 2019	Details	\$
July 31	Sales receipts	166 000	Aug 1	Balance b/d	2 150
	Balance c/d	6 600	2020		
			July 31	Payments to credit suppliers	96 220
				Bank loan repayments	1 500
				Bank loan interest	300
				Rent	2 640
				Wages	41 400
				General expenses	10 890
				Drawings	17 500
		<u>172 600</u>			<u>172 600</u>

Additional information

- 1 The gross margin was 40%.
- 2 All sales were for cash and all cash received was banked.





**PLEASE TURN OVER**

4 The directors of DW Limited provided the following information at 30 September 2020.

	\$
6% debentures (2028)	18 000
Bank overdraft	6 450
Dividend paid	2 000
General reserve at 1 October 2019	6 500
Inventory at 30 September 2020	26 300
Issued share capital at 1 October 2019	200 000
Non-current assets at 30 September 2020	
Cost	462 000
Provision for depreciation	106 000
Other payables	2 200
Other receivables	1 600
Provision for doubtful debts at 1 October 2019	625
Retained earnings	73 475
Trade payables	8 250
Trade receivables	14 500

Additional information

A draft income statement for the year ended 30 September 2020 was prepared showing a profit of \$84 900.

The following errors were later discovered.

- 1 Inventory of \$26 300 included items valued at cost \$5 200 that needed repair. After repairs costing \$600, the items could be sold for \$5 000.
- 2 Operating expenses included insurance of \$400 that was prepaid at 30 September 2020.
- 3 The provision for doubtful debts should have been adjusted so that it equals 5% of trade receivables.

The directors decided to transfer \$5 000 to general reserve.

There was no change to the issued share capital during the year ended 30 September 2020.

**REQUIRED**

(a) Calculate the correct value of inventory at 30 September 2020.

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..... [2]

(b) Calculate the revised profit for the year ended 30 September 2020 after adjusting for errors 1–3.

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..... [4]

(c) Prepare the statement of changes in equity for the year ended 30 September 2020.

DW Limited  
Statement of Changes in Equity for the year ended 30 September 2020

Details	Share capital \$	General reserve \$	Retained earnings \$	Total \$
On 1 October 2019	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
On 30 September 2020	.....	.....	.....	.....

[5]





**PLEASE TURN OVER**

- 5 Nazim owns a wholesale business and has prepared draft financial statements for the year ended 30 June 2020, his first year of trading.

After the preparation of these financial statements, some errors were discovered.

**REQUIRED**

- (a) Complete the table to indicate the **effect of each error** on the profit for the year and on working capital at 30 June 2020.

Write 'understated', 'overstated' or 'no effect'.

The first one has been completed as an example.

Error	Effect on profit for the year	Effect on working capital
Repairs to office equipment had been entered in the office equipment account.	<i>Overstated</i>	<i>No effect</i>
No adjustment had been made for insurance prepaid.		
An irrecoverable debt had not been written off.		
No record had been made of additional capital introduced in cash.		
Closing inventory had been overstated.		

[8]

After correcting the errors, Nazim compared his results with those of his brother Aziz, who has a similar business.

	Nazim	Aziz
Current ratio	1.71:1	2.12:1
Liquid (acid test) ratio	0.77:1	1.28:1
Return on capital employed	13.65%	15.25%

**REQUIRED**

- (b) Suggest **two** reasons for the differences in **each** ratio.

- (i) Current ratio

1 .....

.....

2 .....

.....

[2]

(ii) Liquid (acid test) ratio

1 .....

.....

2 .....

.....

[2]

(iii) Return on capital employed (ROCE)

1 .....

.....

2 .....

.....

[2]

Nazim discovered that his rate of inventory turnover (times) was also lower than that of Aziz.

**REQUIRED**

(c) Suggest **one** reason for this difference.

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..... [1]

