



BOOKKEEPING

December 2021

Time allowed

Three hours

Instructions

- Write the question number next to each answer in your answer booklet.
- You are not required to rewrite the question in your answer booklet.
- Ensure that you pay particular attention to words in **bold**.
- Show all your workings.

Information

- Different questions may carry a different number of marks.
- Marks for each question are shown in [].

Advice

- Read each question carefully before you start to answer it.
- Use the full time permitted and check all your answers.

Materials

- Notes or books are not permitted.
- Non-programmable calculators are permitted.

ANSWER ANY FIVE QUESTIONS FROM THE FOLLOWING EIGHT QUESTIONS

1. The following is the trial balance for a business as at 31st December 2020:

Trial Balance	Dr	Cr
	£000	£000
Purchases	930	
Sales		1,500
Drawings	33	
Capital		420
Bank loan (long-term)		100
Carriage inwards	20	
Opening inventory	31	
Returns	5	3
Receivables	101	
Payables		62
Business rates	46	
Insurances	35	
Energy costs	51	
Advertising	32	
Interest paid	5	
Wages and salaries	280	
Land and buildings at cost	470	
Equipment at cost	100	
Equipment – accumulated depreciation		50
Bank overdraft		5
Cash	1	-
Totals	2,140	2,140

Notes as at 31st December 2020:

- Inventory was valued at £33,000
- Advertising expenses prepaid were £2,000
- Energy costs owing were £4,000
- Wages owing were £5,000
- Interest owing was £1,000
- The equipment is to be depreciated at 25% pa on cost

- (a) Prepare the income statement for the year ended 31st December 2020.
- (b) Prepare the position statement as at 31st December 2020.

[11 marks]

[9 marks]

2.

Harry is a sole trader who purchased new coffee machines for use in his café business on 1st July 2020. The machines cost £30,000. The merchant who sold the machines to Harry agreed that the machines would not be paid for until 30th September 2020.

In his business accounts for the year ended 30th June 2021, Harry intends to value his machines at £27,000. This is based on the cost of £30,000 less depreciation of £3,000. Harry intends to keep his machines for 5 years, at the end of which, he does not expect the machines to have any resale value. In June 2021, a friend of Harry had offered to buy the machines for £35,000.

Explain **ten** concepts of financial accounting, which have been applied by Harry in valuing the machines at £27,000 in his accounts for the year ended 30th June 2021.

[20 marks]

3. (a) Kate buys and sells second-hand goods. On 25th March 2020 she leases a shop for £10,400 pa. The rent is payable in quarterly instalments in advance and is due on 25th March, 24th June, 29th September and 25th December respectively. Kate has paid the amounts due on the dates specified.

Prepare the account for rent as it would appear in Kate's double-entry accounting records for the year ended 31st December 2020.

[10 marks]

- (b) William owns a business selling clothes which he advertises. He receives invoices from advertising agents, which cover various periods of time, during which different advertising campaigns operate. Sometimes William must pay for advertising before the campaign begins but at other times he is not required to pay until the campaign is over.

William's financial year ends on 31st December, but he does not complete the preparation of his financial statements until the following March, as advertising agents are slow in issuing their invoices. In March 2021, William notes that he has paid the following advertising invoices relating to campaigns taking place in the year ended 31st December 2020:

Date of payment	Amount (£)	Period of advertising campaign
6 th March 2020	1,200	5 months to 31 st March 2020
7 th May 2020	1,400	3 months to 30 th June 2020
8 th October 2020	1,700	3 months to 30 th September 2020
11 th January 2021	2,300	2 months to 30 th November 2020
12 th January 2021	2,400	6 months to 31 st May 2021

Prepare the account for advertising, as it would appear in William's double-entry accounting records for the year ended 31st December 2020.

[10 marks]

4. A sole trader received a bank statement on 31st May 2021. It showed a closing balance which differed from the sole trader's cash book balance. The cash book balance had an overdrawn balance of £724 on 31st May 2021.

The following differences were identified in the cash book and the bank statement:

- The bank statement had bank charges of £119 but were not recorded in the cash book
- A credit transfer of £840 from a customer, Kab Ltd, was in the bank statement but not in the cash book
- A standing order payment of £623 for rates had not yet been recorded in the cash book
- A cheque sent to a trade supplier, Meghan, for £1,778 did not appear on the bank statement
- The bank had yet to record cash banked of £1,823 on 29th May 2021

- (a) Calculate the sole trader's updated cash book balance on 31st May 2021.
- (b) Prepare a bank reconciliation statement dated 31st May 2021.
- (c) Explain the benefits of preparing bank reconciliation statements.

[6 marks]

[6 marks]

[8 marks]

5. The position statement of a limited company as at 30th June 2021 shows motor vehicles as follows:

Position statement of motor vehicles	£
Motor vehicles at cost:	61,850
Provision for depreciation:	32,426

Motor vehicles are depreciated on the straight line basis over a 5-year life, assuming a zero value at the end of the 5 years. In the financial year in which the vehicle is bought, depreciation is provided for the appropriate proportion of the year during which the vehicle is owned. However, in the financial year in which a vehicle is disposed of, no depreciation is provided. A disposal of vehicles account is prepared at the end of each financial year.

During the financial year ended 30th June 2021, the following motor vehicle transactions had taken place:

Purchase of vehicles

30 th September 2020	New delivery van	Cost £8,000
31 st March 2021	New truck	Cost £14,000

Sale of vehicles

31 st October 2020	Car (purchased on 1 st July 2016 at a cost of £2,800)	Sale proceeds £300
31 st December 2020	Tractor (purchased on 1 st December 2017 at a cost of £2,400)	Sale proceeds £540

- (a) Explain what is meant by depreciation and how it is applied to non-current assets. [5 marks]
- (b) Prepare the accounts for the cost of motor vehicles, provision for depreciation of motor vehicles and the disposal of motor vehicles as they would appear in the double-entry accounting records of the limited company for the year ended 30th June 2021. [15 marks]

6. The following list of account balances have been excluded from the trial balance as at 30th June 2021 for a business:

Trial balance exclusions	£000
Purchases	140
Carriage inwards	4
Carriage outwards	5
Interest paid on bank loan	6
Motor vehicles	80
Motor vehicles – accumulated depreciation	20
Bank overdraft	6
Salaries and wages	182
Drawings	60
6% long-term bank loan	150
Provision for doubtful debts	9
Bad debts	3
Discounts received	9
Discounts allowed	4
Returns inwards	2
Returns outwards	1
Rent received	4
Capital (balancing figure)	X

Prepare a trial balance as at 30th June 2021 starting with a debit balance of £300,000, a credit balance of £340,000 and concluding with the balancing figure for capital.

[20 marks]

7. A sole trader has provided the following accounting records:

Balances as at 1 July 2021	£
Purchases ledger debit balance	400
Purchases ledger credit balance	14,000
Sales ledger debit balance	19,800
Sales ledger credit balance	300
Sales:	
Credit sales	63,500
Cash sales	18,000
Purchases:	
Credit purchases	43,000
Cash purchases	4000
Payments to trade payables	41,500
Receipts from trade receivables	65,000
Returns inwards (from returns inwards day book)	1,400
Returns outwards (from returns outwards day book)	600
Bad debts (sales ledger accounts written off)	800
Discounts allowed	700
Discounts received	900
Interest charged on overdue accounts of receivables	600
Contra entry (debit balance in sales ledger transferred to purchase ledger)	650
Balances as at 31 July 2021	
Purchases ledger debit balance	500
Purchases ledger credit balance	X
Sales ledger debit balance	X
Sales ledger credit balance	500

- (a) Prepare the purchase ledger control for July 2021. [8 marks]
- (b) Prepare the sales ledger control for July 2021. [12 marks]
8. (a) Evaluate **three** benefits and **two** limitations of extracting a trial balance. [10 marks]
- (b) Explain **five** reasons why a business needs to maintain accurate accounting records. [10 marks]

END OF QUESTIONS