







During the year, Joe purchased finished goods in order to meet excess demand for his product. These purchases have not yet been recorded.

(c) Identify the effect on the financial statements.

(1)

- A** Production cost overstated
- B** Production cost understated
- C** Profit for the year overstated
- D** Profit for the year understated

(Total for Question 1 = 19 marks)

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You will need to use the data on **page 3** of the Resource Booklet to answer part (d).

**2** On 31 July 2018 Hatton prepared a trial balance that did not balance. The difference was posted to a suspense account.

(a) Complete the table to show the entries necessary to correct each error. The first correction has been shown as an example.

(10)

Error	Debit \$	Credit \$
<i>A payment of \$350 to Jones had been recorded in the account of James.</i>	<i>Jones 350</i>	<i>James 350</i>
A receipt of \$175 had been recorded twice in the commission received account.		
A cheque payment for \$45 for advertising had been recorded in the cash book correctly but recorded as \$54 in the advertising account.		
A receipt of \$3 600 for rent had been recorded correctly in the cash book. No other entries had been made.		
Wages included \$750 taken by Hatton for his own use.		
A sales invoice of \$85 to Haynes had been recorded as \$58		

(b) Prepare the suspense account.

(5)

**Suspense Account**

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(c) Identify the accounting concept that Hatton has **not** complied with by withdrawing wages from the business.

(1)

- A** Accruals
- B** Business entity
- C** Consistency
- D** Materiality

(d) Calculate the amount of the allowance for doubtful debts for the year ended 31 July 2018 to be shown in the statement of profit or loss.

(3)

(e) Identify the double entry to record the writing off of an irrecoverable debt.

(1)

	<b>Debit</b>	<b>Credit</b>
<b>A</b>	Allowance for doubtful debts	Irrecoverable debts
<b>B</b>	Irrecoverable debts	Allowance for doubtful debts
<b>C</b>	Irrecoverable debts	Trade receivables ledger control account
<b>D</b>	Trade receivables ledger control account	Irrecoverable debts

(f) Identify where the revenue account will appear in a business maintaining a full set of books of account.

(1)

- A** General journal
- B** General ledger
- C** Trade payables ledger
- D** Trade receivables ledger

**(Total for Question 2 = 21 marks)**

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(b) Prepare the following accounts at 31 March 2018.

(i)

**Current Account – Leonard**

(7)

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(ii)

**Capital Account – Leonard**

(6)

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You will need to use the data on **page 5** of the Resource Booklet to answer parts (a) and (b).

- 4 (a) Prepare the subscriptions account for the year ended 31 July 2018. Balance the account on this date and bring the balances down on 1 August 2018.

(7)

**Subscriptions Account**

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- (b) (i) Prepare the disposal account.

(5)

**Disposal Account**

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- (ii) State whether the minibus was sold for a profit or a loss.

(1)

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(c) State, indicating with a tick (✓), whether each item is capital expenditure or revenue expenditure for the new minibus.

(6)

	Capital expenditure	Revenue expenditure
Driver's wages		
Fuel		
Installation of air conditioning		
Insurance		
Purchase of minibus		
Sign writing		

(d) Explain to the members of Celran Football Club the effect on the club's financial statements of the incorrect treatment of capital expenditure.

(2)

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**(Total for Question 4 = 21 marks)**

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You will need to use the data on **page 6** of the Resource Booklet to answer parts (a), (b) and (e).

5 (a) Calculate the retained earnings at 30 June 2018.

(3)

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(b) Complete the statement of financial position at 30 June 2018.

(5)

**Batigol Ltd**  
**Statement of financial position at 30 June 2018**

	\$	\$
<b>Non-current assets</b>		
Property plant and equipment		
<b>Current assets</b>		
Inventory	84 000	
Trade receivables	22 000	
Other receivables	4 500	
Cash and cash equivalents	1 500	
		112 000
<b>Total assets</b>		390 000
<b>Equity and liabilities</b>		
<b>Equity</b>		
Ordinary share capital		
Share premium		
Retained earnings		
<b>Non-current liabilities</b>		
10% debentures (2030)		4 000
<b>Current liabilities</b>		
Trade payables		35 000
<b>Total liabilities</b>		
<b>Total equity and liabilities</b>		390 000

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(c) State what is meant by 10% in the term '10% debentures (2030)'. (1)

- A Interest of 10% is payable every year
- B Interest of 10% is payable only in 2030
- C Interest of 10% is receivable every year
- D Interest of 10% is receivable only in 2030

(d) Explain why shareholders would be concerned if Batigol Ltd increased the amount of loan capital. (2)

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(e) Calculate the ratios at 30 June 2018. (2)

Ratio	30 June 2018	30 June 2017
Current (working capital)		2.1:1
Liquid (acid test)		1.1:1



(f) Assess the change in these **two** ratios.

(4)

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(g) Explain why the liquid (acid test) ratio is a better measure of liquidity than the current (working capital) ratio.

(2)

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**(Total for Question 5 = 19 marks)**

**TOTAL FOR PAPER = 100 MARKS**

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