



Workbook activities

This section contains activities which are suitable for use with the individual chapters of *Financial Records & Accounts Tutorial* from Osborne Books.

Photocopiable documents you will need, such as ledger accounts, extended trial balance, trial balance, trading and profit and loss account, balance sheet, journal pages and fixed asset registers, are to be found in the Appendix at the back of this Workbook.

1

THE ACCOUNTING SYSTEM

1.1 Write out and complete the following:

- (a) The accountant is mainly concerned with external reporting.
- (b) The sales day book is an example of a book of
- (c) Sales ledger contains the personal accounts of
- (d) Sales account is contained in the ledger.
- (e) Income minus equals
- (f) minus equals capital.

1.2 In an accounting system, which one of the following represents the most logical sequence?

- (a) book of prime entry; prime document; double-entry book-keeping; trial balance; final accounts
- (b) prime document; book of prime entry; double-entry book-keeping; trial balance; final accounts
- (c) prime document; book of prime entry; double-entry book-keeping; final accounts; trial balance
- (d) prime document; double-entry book-keeping, book of prime entry; trial balance; final accounts

Answer (a) or (b) or (c) or (d)

1.3 Write out the figures which make up the accounting equation (assets – liabilities = capital) after each of the following consecutive transactions (ignore VAT):

- owner starts in business with capital of £10,000 comprising £9,000 in the bank and £1,000 in cash
- buys office equipment for £2,500, paying by cheque
- obtains a loan of £2,000 by cheque from a friend
- buys factory machinery for £8,000, paying by cheque
- buys office equipment for £2,000 on credit from Wyvern Office Supplies

1.4 Fill in the missing figures:

	Assets £	Liabilities £	Capital £
(a)	10,000	0	.....
(b)	20,000	7,500	.....
(c)	16,750	.....	10,500
(d)	.....	4,350	12,680
(e)	17,290	.....	11,865
(f)	.....	6,709	17,294

2

DOUBLE-ENTRY BOOK-KEEPING

Note: a set of photocopiable blank ledger accounts is printed in the Appendix.

2.1 Fill in the missing words to the following sentences:

- (a) A entry records an account which gains value, or records an asset, or an expense.
- (b) In the books of a business, the side of bank account records money paid out.
- (c) In capital account, the initial capital contributed by the owner of the business is recorded on the side.
- (d) Office equipment is an example of a asset.
- (e) The purchase of a photocopier for use in the office is classed as expenditure.
- (f) Repairs to a photocopier are classed as expenditure.

2.2 The following are the business transactions of Andrew King (who is not registered for VAT) for the month of October 2004:

- 1 Oct Started in business with capital of £7,500 in the bank
- 4 Oct Bought a machine for £4,000, paying by cheque
- 6 Oct Bought office equipment for £2,250, paying by cheque
- 11 Oct Paid rent £400, by cheque
- 12 Oct Obtained a loan of £1,500 from a friend, Tina Richards, and paid her cheque into the bank
- 15 Oct Paid wages £500, by cheque
- 18 Oct Commission received £200, by cheque
- 20 Oct Drawings £250, by cheque
- 25 Oct Paid wages £450, by cheque

You are to:

- (a) write up Andrew King's bank account
- (b) complete the double-entry book-keeping transactions

2.3 Write short notes, distinguishing between:

- (a) capital expenditure and revenue expenditure
- (b) debit balance and credit balance
- (c) bank account and cash account
- (d) capital account and drawings account

2.4 The purchase of goods for resale on credit is recorded in the accounts as:

<i>Debit</i>	<i>Credit</i>
(a) creditor's account	purchases account
(b) purchases account	cash account
(c) purchases account	creditor's account
(d) creditor's account	sales account

Answer (a) or (b) or (c) or (d)

2.5 Unsatisfactory goods, which were purchased on credit, are returned to the supplier. This is recorded in the accounts as:

<i>Debit</i>	<i>Credit</i>
(a) sales returns account	creditor's account
(b) purchases returns account	creditor's account
(c) creditor's account	purchases returns account
(d) creditor's account	purchases account

Answer (a) or (b) or (c) or (d)

2.6 Write short notes, distinguishing between:

- (a) cash purchases and credit purchases
- (b) sales and sales returns
- (c) carriage inwards and carriage outwards
- (d) discount allowed and discount received

2.7 For each transaction below, complete the table to show the accounts which will be debited and credited:

- (a) Bought goods, paying by cheque
- (b) Cheque received for cash sales
- (c) Bought goods on credit from Teme Traders
- (d) Sold goods on credit to L Harris
- (e) Returned unsatisfactory goods to Teme Traders
- (f) L Harris returns unsatisfactory goods
- (g) Received a loan from D Perkins, by cheque
- (h) Withdrew cash from the bank for use in the business

Transaction	Account debited	Account credited
(a)		
(b)		
(c)		
(d)		
(e)		
(f)		
(g)		
(h)		

Note: ignore Value Added Tax

2.8 The following are the business transactions of Pershore Packaging for the month of January 2004:

- 4 Jan Bought goods, £250, on credit from AB Supplies Limited
- 5 Jan Sold goods, £195, a cheque being received
- 7 Jan Sold goods, £150, cash being received
- 11 Jan Received a loan of £1,000 from J Johnson by cheque
- 15 Jan Paid £250 to AB Supplies Limited by cheque
- 18 Jan Sold goods, £145, on credit to L Lewis
- 20 Jan Bought goods, £225, paying by cheque
- 22 Jan Paid wages, £125, in cash
- 26 Jan Bought office equipment, £160, on credit from Mercia Office Supplies Limited
- 28 Jan Received a cheque for £145 from L Lewis
- 29 Jan Paid the amount owing to Mercia Office Supplies Limited by cheque

You are to record the transactions in the books of account.

Notes:

- *Pershore Packaging is not registered for Value Added Tax*
- *day books are not required*

2.9 Enter the following transactions into the double-entry accounts of Sonya Smith:

2004

- 2 Feb Bought goods £200, on credit from G Lewis
- 4 Feb Sold goods £150, on credit to L Jarvis
- 8 Feb Sold goods £240, on credit to G Patel
- 10 Feb Paid G Lewis the amount owing by cheque after deducting a settlement discount of 5%
- 12 Feb L Jarvis pays the amount owing by cheque after deducting a settlement discount of 2%
- 17 Feb Bought goods £160, on credit from G Lewis
- 19 Feb G Patel pays the amount owing by cheque after deducting a settlement discount of 2.5%
- 24 Feb Paid G Lewis the amount owing by cheque after deducting a settlement discount of 5%

Notes:

- *Sonya Smith is not registered for Value Added Tax*
- *day books are not required*

3

BALANCING ACCOUNTS AND THE TRIAL BALANCE

Note: a set of photocopiable blank ledger accounts is printed in the Appendix.

3.1 Which one of the following accounts normally has a debit balance?

- (a) loan
- (b) bank overdraft
- (c) sales
- (d) purchases

Answer (a) or (b) or (c) or (d)

3.2 Which one of the following accounts normally has a credit balance?

- (a) drawings
- (b) capital
- (c) cash
- (d) premises

Answer (a) or (b) or (c) or (d)

3.3 Produce the trial balance of Tina Wong as at 30 November 2004. She has omitted to open a capital account.

	£
Bank overdraft	1,855
Capital	?
Cash	85
Creditors	1,082
Debtors	2,115
Equipment	2,500
Purchases	2,419
Purchases returns	102
Sales	4,164
Sales returns	354
Van	7,500
Wages	1,230

3.4 The book-keeper of Lorna Fox has extracted the following list of balances as at 31 March 2004:

	£
Administration expenses	10,240
Bank overdraft	1,050
Capital	155,440
Cash	150
Creditors	10,545
Debtors	10,390
Drawings	9,450
Interest paid	2,350
Loan from bank	20,000
Machinery	40,000
Premises	125,000
Purchases	96,250
Sales	146,390
Sales returns	8,500
Telephone	3,020
Travel expenses	1,045
Value Added Tax (amount due)	1,950
Wages	28,980

You are to:

- (a) Produce the trial balance at 31 March 2004.
- (b) Take any three debit balances and any three credit balances and explain to someone who does not understand accounting why they are listed as such, and what this means to the business.

3.5 Fill in the missing words from the following sentences:

- (a) "You made an error of when you debited the cost of diesel fuel for the van to vans account."
- (b) "I've had the book-keeper from D Jones Limited on the 'phone concerning the statements of account that we sent out the other day. She says that there is a sales invoice charged that she knows nothing about. I wonder if we have done a and it should be for T Jones' account?"
- (c) "There is a 'bad figure' on a purchases invoice – we have read it as £35 when it should be £55. It has gone through our accounts wrongly so we have an error of
..... to put right."
- (d) "Although the trial balance balanced last week, I've since found an error of £100 in the calculation of the balance of sales account. We will need to check the other balances as I think we may have a error."
- (e) "Who was in charge of that trainee last week? He has entered the payment for the electricity bill on the debit side of the bank and on the credit side of electricity – a
of"
- (f) "I found this purchase invoice from last week in amongst the copy letters. As we haven't put it through the accounts we have an error of"

- 3.6** The following are the business transactions of Mark Tansall, a retailer of computer software, for the months of January and February 2004:

Transactions for January

2004

- | | |
|--------|---|
| 1 Jan | Started in business with capital of £10,000 in the bank |
| 4 Jan | Paid rent on premises £500, by cheque |
| 5 Jan | Bought shop fittings £5,000, by cheque |
| 7 Jan | Bought stock of software, £7,500, on credit from Tech Software |
| 11 Jan | Software sales £2,400, paid into bank |
| 12 Jan | Software sales £2,000, paid into bank |
| 16 Jan | Bought software £5,000, on credit from Datasoft Limited |
| 20 Jan | Software sales £1,500 to Wyvern School, a cheque being received |
| 22 Jan | Software sales £2,250, paid into bank |
| 25 Jan | Bought software from A & A Supplies £3,000, by cheque |
| 27 Jan | Wyvern School returned software £280, cheque refund sent |
| 29 Jan | Sold software on credit to Teme College, £2,495 |

Transactions for February

2004

- | | |
|--------|--|
| 2 Feb | Software sales £2,720, paid into bank |
| 4 Feb | Paid rent on premises £500, by cheque |
| 5 Feb | Bought shop fittings £1,550, by cheque |
| 10 Feb | Software sales £3,995, paid into bank |
| 12 Feb | Sent cheque, £7,500, to Tech Software |

15 Feb	Bought software £4,510, on credit from Tech Software
19 Feb	Sent cheque, £5,000, to Datasoft Limited
22 Feb	Software sales £1,930, paid into bank
23 Feb	Teme College returned software, £145
24 Feb	Software sales £2,145, paid into bank
25 Feb	Bought software £2,120, on credit from Associated Software
26 Feb	Software sales £4,150, paid into bank

You are to:

- (a) Record the January transactions in the books of account, and balance each account at 31 January 2004.
- (b) Draw up a trial balance at 31 January 2004.
- (c) Record the February transactions in the books of account, and balance each account at 29 February 2004.
- (d) Draw up a trial balance at 29 February 2004.

Notes:

- *Mark Tansall is not registered for Value Added Tax*
- *day books are not required*
- *Mark Tansall's accounting system does not use control accounts*
- *make sure that you leave plenty of space for each account – particularly sales, purchases and bank*

4

FINAL ACCOUNTS – THE EXTENDED TRIAL BALANCE

Extended trial balance format

A blank photocopiable extended trial balance is included in the Appendix – it is advisable to enlarge it up to full A4 size. Alternatively you can set up a computer spreadsheet – but remember to allow for all the rows shown on the pro-forma – they will be needed in later Workbook Activities.

4.1 Which one of the following does not appear in the profit and loss account?

- (a) closing stock
- (b) purchases
- (c) interest paid
- (d) cash

Answer (a) or (b) or (c) or (d)

4.2 Which one of the following does not appear in the balance sheet?

- (a) closing stock
- (b) sales
- (c) debtors
- (d) bank

Answer (a) or (b) or (c) or (d)

- 4.3 The following trial balance has been extracted by the book-keeper of Matt Smith at 31 December 2004:

	<i>Dr</i>	<i>Cr</i>
	£	£
Opening stock	14,350	
Purchases	114,472	
Sales		259,688
Rates	13,718	
Heating and lighting	12,540	
Wages and salaries	42,614	
Motor vehicle expenses	5,817	
Advertising	6,341	
Premises	75,000	
Office equipment	33,000	
Motor vehicles	21,500	
Debtors	23,854	
Bank	1,235	
Cash	125	
Capital		62,500
Drawings	12,358	
Loan from bank		35,000
Creditors		14,258
Value Added Tax		5,478
	376,924	376,924

Note: closing stock was valued at £16,280

You are to prepare the final accounts of Matt Smith for the year ended 31 December 2004, using the extended trial balance method.

Note: please retain the extended trial balance as it will be used on page 25 as the starting point for a further Workbook Activity.

- 4.4 The following trial balance has been extracted by the book-keeper of Clare Lewis at 31 December 2004:

	<i>Dr</i>	<i>Cr</i>
	£	£
Debtors	18,600	
Creditors		11,480
Value Added Tax		1,870
Bank overdraft		4,610
Capital		25,250
Sales		144,810
Purchases	96,318	
Opening stock	16,010	
Salaries	18,465	
Heating and lighting	1,820	
Rent and rates	5,647	
Motor vehicles	9,820	
Office equipment	5,500	
Sundry expenses	845	
Motor vehicle expenses	1,684	
Drawings	13,311	
Closing stock – trading and profit & loss account		13,735
Closing stock – balance sheet	13,735	
	201,755	201,755

Tutorial note: this trial balance already incorporates the closing stock adjustments.

You are to prepare the final accounts of Clare Lewis for the year ended 31 December 2004, using the extended trial balance method.

Note: please retain the extended trial balance as it will be used on page 25 as the starting point for a further Workbook Activity.

- 4.5** The trial balance of Jane Richardson, who runs a secretarial agency, has been prepared at 31 December 2004 as follows:

	<i>Dr</i>	<i>Cr</i>
	£	£
Capital		25,000
Office equipment	30,000	
Income from clients		75,450
Administration expenses	3,280	
Wages	37,145	
Rent paid	8,052	
Telephone	1,287	
Travel expenses	926	
Rates	2,355	
Debtors	3,698	
Creditors		1,074
Value Added Tax		2,021
Bank	3,971	
Cash	241	
Drawings	12,590	
	103,545	103,545

You are to prepare the final accounts of Jane Richardson for the year ended 31 December 2004, using the extended trial balance method.

Note: please retain the extended trial balance as it will be used on page 25 as the starting point for a further Workbook Activity.

5

SOLE TRADER FINAL ACCOUNTS**Conventional format**

Example layouts of the trading and profit and loss account and balance sheet in conventional format – or proper form – are included in the Appendix. They may be photocopied for guidance with Workbook Activities; alternatively, a computer spreadsheet layout can be set up.

5.1 Cost of sales is calculated as:

- (a) opening stock + purchases – closing stock
- (b) purchases – opening stock + closing stock
- (c) opening stock + purchases + closing stock
- (d) purchases – opening stock – closing stock

Answer (a) or (b) or (c) or (d)

5.2 Which one of the following is used to calculate net profit?

- (a) trial balance
- (b) trading account
- (c) balance sheet
- (d) profit and loss account

Answer (a) or (b) or (c) or (d)

5.3 Which one of the following describes working capital?

- (a) the excess of fixed assets over long-term liabilities
- (b) the excess of current assets over long-term liabilities
- (c) the excess of current assets over current liabilities
- (d) the excess of fixed assets over current liabilities

Answer (a) or (b) or (c) or (d)

5.4 You are to fill in the missing figures for the following sole trader businesses:

	Sales	Opening stock	Purchases	Closing stock	Gross profit	Overheads	Net profit or loss*
	£	£	£	£	£	£	£
Business A	20,000	5,000	10,000	3,000	.....	4,000	.....
Business B	35,000	8,000	15,000	5,000	.....	.....	10,000
Business C	.....	6,500	18,750	7,250	18,500	11,750	.....
Business D	45,250	9,500	.....	10,500	20,750	.....	10,950
Business E	71,250	.....	49,250	9,100	22,750	24,450	.....
Business F	25,650	4,950	13,750	.....	11,550	.....	(3,450)

* Note: net loss is indicated by brackets

5.5 Please refer back to the extended trial balance of Matt Smith prepared in Workbook Activity 4.3.

You are to prepare the final accounts of Matt Smith for the year ended 31 December 2004 in proper form, using the conventional format.

5.6 Please refer back to the extended trial balance of Clare Lewis prepared in Workbook Activity 4.4.

You are to prepare the final accounts of Clare Lewis for the year ended 31 December 2004 in proper form, using the conventional format.

5.7 Please refer back to the extended trial balance of Jane Richardson prepared in Workbook Activity 4.5.

You are to prepare the final accounts of Jane Richardson for the year ended 31 December 2004 in proper form, using the conventional format.

6

ACCRUALS AND PREPAYMENTS

Extended trial balance format

A blank photocopyable pro-forma of the extended trial balance is included in the Appendix – it is advisable to enlarge it up to full A4 size.

Conventional format

Blank photocopyable pro-formas of the trading and profit and loss account and balance sheet are included in the Appendix – it is advisable to enlarge them up to full A4 size.

- 6.1** Show how the following will be recorded in the accounts of a business with a financial year end of 31 December 2004.
- (a) Rent paid for the business premises is £500 per month. The rental for January 2005 was paid in December 2004 and is included in the total payments during 2004 which amounted to £6,500.
 - (b) Motor vehicle expenses paid to 31 December 2004 amount to £8,455. On 4 January 2005 a fuel bill of £610 is received which relates to December. The bill is paid by cheque on 18 January 2005.
 - (c) A claim has been made on the company's insurance policy for stock damaged in a small fire. On 16 December 2004, the amount of the claim has been agreed at £180. The amount is paid by the insurance company on 26 January 2005.
 - (d) At 31 December 2004, the balance of telephone account is £500. Of this, £100 is the amount of personal calls made by the owner of the business.

6.2 Write short notes distinguishing between *income and expenditure accounting* and *receipts and payments accounting*.

6.3 A credit balance on accruals account indicates:

- (a) a liability and an expense owing
- (b) an asset and a prepayment of income
- (c) an asset and an accrual of income
- (d) a liability and an expense prepaid

Answer (a) or (b) or (c) or (d)

6.4 Which one of the following is a current asset?

- (a) creditors
- (b) accruals
- (c) machinery
- (d) prepayments

Answer (a) or (b) or (c) or (d)

6.5 The following trial balance has been extracted by the book-keeper of Cindy Hayward, who runs a delicatessen shop, at 30 June 2004:

	<i>Dr</i>	<i>Cr</i>
	£	£
Capital		20,932
Drawings	10,000	
Purchases	148,500	
Sales		210,900
Repairs to buildings	848	
Delivery van	5,000	
Van expenses	1,540	
Land and buildings	85,000	
Loan from bank		60,000
Bank	540	
Shop fittings	2,560	
Wages and salaries	30,280	
Discount allowed	135	
Discount received		1,319
Rates and insurance	2,690	
Debtors	3,175	
Creditors		8,295
Heating and lighting	3,164	
General expenses	4,680	
Sales returns	855	
Purchases returns		1,221
Opening stock	6,210	
Value Added Tax		2,510
Closing stock – trading and profit & loss account		7,515
Closing stock – balance sheet	7,515	
	312,692	312,692

Notes at 30 June 2004:

- rates prepaid £255
- wages owing £560
- van expenses owing £85
- goods costing £200 were taken by Cindy Hayward for her own use

You are to prepare the final accounts of Cindy Hayward for the year ended 30 June 2004:

- using the extended trial balance method
- in proper form, using the conventional format

- 6.6** The following list of balances has been extracted by the book-keeper of Southtown Supplies, a wholesaling business, at 31 December 2004:

	£
Opening stock	70,000
Purchases	280,000
Sales	420,000
Sales returns	6,000
Purchases returns	4,500
Discount received	750
Discount allowed	500
Electricity	13,750
Salaries	35,600
Post and packing	1,400
Premises	120,000
Fixtures and fittings	45,000
Debtors	55,000
Creditors	47,000
Bank balance	5,000
Capital	195,000
Drawings	41,000
Value Added Tax (amount due)	6,000

Notes at 31 December 2004:

- stock was valued at £60,000; this figure excludes goods which were damaged by a burst water pipe and have been scrapped (no sale proceeds); Wyvern Insurance has agreed to cover the loss of £500 incurred in writing off the goods
- electricity owing £350
- salaries prepaid £400

You are to prepare the final accounts of Southtown Supplies for the year ended 31 December 2004:

- using the extended trial balance method
- in proper form, using the conventional format

7

DEPRECIATION OF FIXED ASSETS

Extended trial balance format

A blank photocopiable pro-forma of the extended trial balance is included in the Appendix – it is advisable to enlarge it up to full A4 size.

Conventional format

Blank photocopiable pro-formas of the trading and profit and loss account and balance sheet are included in the Appendix – it is advisable to enlarge them up to full A4 size.

- 7.1** A car which cost £20,000 is being depreciated at 30 per cent per year using the reducing balance method. At the end of three years it will have a net book value of:
- (a) £2,000
 - (b) £6,860
 - (c) £13,140
 - (d) £18,000

Answer (a) or (b) or (c) or (d)

- 7.2** A car is being depreciated using the reducing balance method. The original cost of the car was £15,000. At the end of year three it has a net book value of £5,145. What percentage of reducing balance is being used?
- (a) 20%
 - (b) 25%
 - (c) 30%
 - (d) 35%

Answer (a) or (b) or (c) or (d)

7.3 A machine which originally cost £1,000 is sold for £350 (both amounts net of VAT). The provision for depreciation account for this machine shows a balance of £620. This means (for a VAT-registered business) that there is a:

- (a) loss on sale of £380
- (b) profit on sale of £350
- (c) loss on sale of £30
- (d) profit on sale of £30

Answer (a) or (b) or (c) or (d)

7.4 The book-keeping entries to record a profit on sale of fixed assets are:

<i>Debit</i>	<i>Credit</i>
(a) fixed asset account	profit and loss account
(b) disposals account	profit and loss account
(c) profit and loss account	disposals account
(d) bank account	profit and loss account

Answer (a) or (b) or (c) or (d)

7.5 Martin Hough, sole owner of Juicyburger, a fast food shop, operating from leased premises in the town, is suspicious of his accountant, Mr S Harris, whom he claims doesn't really understand the food business. On the telephone he asks Mr Harris why depreciation is charged on a rigid formula, as surely no-one really knows how much his equipment is worth, and in fact he might not get anything for it. Draft a reply to Mr Hough from Mr Harris explaining the importance of depreciation and its application to final accounts.

7.6 Rachael Hall's financial year runs to 31 December. On 1 January 2004, her accounts show that she owns a car with an original cost of £12,000 and depreciation to date of £7,200.

On 1 October 2004, Rachael bought a new car at a cost of £15,000. She traded in the old car at a part-exchange value of £5,500 and paid the balance by cheque.

Rachael depreciates vehicles at 20 per cent per year using the straight-line method. Her accounting policy is to charge a full year's depreciation in the year of purchase, but none in the year of sale.

You are to show:

- (a) vehicles account for 2004
- (b) depreciation account for 2004
- (c) provision for depreciation account for 2004
- (d) asset disposal account for 2004
- (e) balance sheet extract at 31 December 2004

7.7 The following trial balance has been extracted by the book-keeper of Wintergreen Supplies at 31 December 2004:

	<i>Dr</i>	<i>Cr</i>
	£	£
Premises at cost	120,000	
Provision for depreciation (premises)		7,200
Long-term loan		52,800
Capital		70,000
Debtors	1,900	
Creditors		1,500
Drawings	6,750	
Cash	150	
Opening stock	4,200	
Fixtures and fittings at cost	5,000	
Provision for depreciation (fixtures and fittings)		1,000
Vehicles at cost	10,000	
Provision for depreciation (vehicles)		2,000
Bank		750
Sales		195,000
Purchases	154,000	
Wages	20,500	
Sundry expenses	9,500	
Value Added Tax		1,750
Closing stock – trading and profit & loss account		5,200
Closing stock – balance sheet	5,200	
	337,200	337,200

Notes at 31 December 2004:

- premises are to be depreciated at 2 per cent (straight-line)
- vehicles and fixtures and fittings are to be depreciated at 20 per cent (straight-line)
- wages prepaid are £560, and sundry expenses accrued are £500

You are to prepare the final accounts of Wintergreen Supplies for the year ended 31 December 2004:

- using the extended trial balance method
- in proper form, using the conventional format

7.8 Cindy Smith owns an engineering supplies business, and the following trial balance has been extracted by her book-keeper at 30 June 2004:

	<i>Dr</i>	<i>Cr</i>
	£	£
Capital		38,825
Opening stock	18,050	
Purchases	74,280	
Sales		149,410
Discounts	3,210	1,140
Rent and rates	7,280	
Returns	1,645	875
Cash	820	
Bank		13,300
Debtors and creditors	14,375	8,065
Wages and salaries	43,895	
General expenses	2,515	
Motor vehicles at cost	30,000	
Provision for depreciation on motor vehicles		7,500
Fixtures and fittings at cost	10,000	
Provision for depreciation on fixtures and fittings		3,000
Motor vehicle expenses	6,725	
Drawings	12,500	
Value Added Tax		3,180
	225,295	225,295

Notes at 30 June 2004:

- stock was valued at £20,145
- general expenses owing £175
- rates prepaid £95
- depreciate motor vehicles at 25 per cent per annum, using the reducing balance method
- depreciate fixtures and fittings at 10 per cent per annum, using the straight-line method

You are to prepare the final accounts of Cindy Smith for the year ended 30 June 2004:

- using the extended trial balance method
- in proper form, using the conventional format

8

BAD DEBTS AND PROVISION FOR DOUBTFUL DEBTS

Extended trial balance format

A blank photocopiable pro-forma of the extended trial balance is included in the Appendix – it is advisable to enlarge it up to full A4 size.

Conventional format

Blank photocopiable pro-formas of the trading and profit and loss account and balance sheet are included in the Appendix – it is advisable to enlarge them up to full A4 size.

- 8.1** The accounts supervisor at the firm where you work has instructed you to write off a debtor's account as bad. Which one of the following double-entry book-keeping entries will you make?

	<i>Debit</i>	<i>Credit</i>
(a)	debtor's account	bad debts written off account
(b)	bank account	debtor's account
(c)	bad debts written off account	debtor's account
(d)	debtor's account	provision for doubtful debts account

Answer (a) or (b) or (c) or (d)

Ignore VAT relief on bad debt write-off.

- 8.2** An increase in provision for doubtful debts will:

- (a) decrease net profit for the year
- (b) be recorded in the debtors' accounts
- (c) decrease the cash/bank balance
- (d) increase net profit for the year

Answer (a) or (b) or (c) or (d)

- 8.3** The profit and loss account of a business has been prepared showing a net loss of £2,350. A reduction of £150 in the provision for doubtful debts should have been made, and bad debts of £70 should have been written off. Net loss will now be:

- (a) £2,130
- (b) £2,270
- (c) £2,430
- (d) £2,570

Answer (a) or (b) or (c) or (d)

Ignore VAT relief on bad debt write-off.

- 8.4** You are the book-keeper at Enterprise Trading Company. The following information is available for the financial years ending 31 December 2005, 2006, 2007:

	£
• Debtor balances at 31 December 2005, before writing off bad debts	105,200
• Bad debts written off on 31 December 2005	1,800
• 2.5% provision for doubtful debts created at 31 December 2005	
• Debtor balances at 31 December 2006, before writing off bad debts	115,600
• Bad debts written off on 31 December 2006	2,400
• 2.5% provision for doubtful debts adjusted in line with the change in the level of debtors at 31 December 2006	
• Debtor balances at 31 December 2007, before writing off bad debts	110,200
• Bad debts written off on 31 December 2007	1,400
• 2.5% provision for doubtful debts adjusted in line with the change in the level of debtors at 31 December 2007	

Note: ignore VAT relief on bad debt write-off

You are to:

- (a) write up the following accounts for 2005, 2006 and 2007 (see pages 36 and 37):
- bad debts written off
 - provision for doubtful debts: adjustment
 - provision for doubtful debts
- (b) show the effect of these transactions in the following table:

YEAR	PROFIT AND LOSS ACCOUNT				BALANCE SHEET		
	Expense		Income		Debtors	Less prov for doubtful debts	Net debtors
	Bad debts	Prov for doubtful debts	Bad debts	Prov for doubtful debts			
	£	£	£	£	£	£	
2005							
2006							
2007							

Dr			Provision for Doubtful Debts Account			Cr		
Date	Details	Amount	Date	Details	Amount			
		£			£			

8.5 The following trial balance has been extracted by the book-keeper of Jane Jones, who sells carpets, as at 31 December 2005:

	<i>Dr</i>	<i>Cr</i>
	£	£
Debtors	37,200	
Creditors		30,640
Value Added Tax		4,280
Bank	14,640	
Capital		50,500
Sales		289,620
Purchases	182,636	
Opening stock	32,020	
Wages and salaries	36,930	
Heat and light	3,640	
Rent and rates	11,294	
Vehicles	20,000	
Provision for depreciation on vehicles		4,000
Equipment	10,000	
Provision for depreciation on equipment		1,000
Sundry expenses	1,690	
Motor expenses	3,368	
Drawings	26,622	
	380,040	380,040

Notes at 31 December 2005:

- stock was valued at £34,000
- bad debts of £2,200 are to be written off and a provision for doubtful debts of 5% is to be created
- vehicles are to be depreciated at 20% per annum and equipment at 10% per annum (both using the reducing balance method)
- there are sundry expenses accruals of £270, and rates prepayments of £2,190

You are to prepare the final accounts of Jane Jones for the year ended 31 December 2005:

- using the extended trial balance method
- in proper form, using the conventional format

- 8.6** The following trial balance has been extracted by the book-keeper of Andrew Brown, a fashion designer, as at 31 December 2005:

	<i>Dr</i>	<i>Cr</i>
	£	£
Purchases	31,480	
Sales		95,660
Opening stock	7,580	
Returns	240	620
Discounts	380	1,080
Drawings	34,720	
Premises at cost	100,000	
Provision for depreciation on premises		10,000
Fixtures and fittings	24,000	
Provision for depreciation on fixtures and fittings		3,000
Wages and salaries	18,620	
Advertising	2,260	
Rates	8,240	
Sundry expenses	7,390	
Bank	4,020	
Cash	120	
Debtors	5,000	
Bad debts written off	100	
Provision for doubtful debts		520
Creditors		3,740
Value Added Tax		3,240
Capital		81,290
Bank loan		45,000
	244,150	244,150

Notes at 31 December 2005:

- stock was valued at £6,060
- depreciate premises at 2 per cent using the straight-line method
- depreciate fixtures and fittings at 12.5 per cent per annum using the straight-line method
- provision for doubtful debts is to be 5% of debtors
- wages accrued are £500, and advertising prepaid is £350

You are to prepare the final accounts of Andrew Brown for the year ended 31 December 2005:

- using the extended trial balance method
- in proper form, using the conventional format

9

THE REGULATORY FRAMEWORK OF ACCOUNTING

- 9.1 (a) Explain the accounting concept of materiality.
- (b) Describe three types of situation to which the concept of materiality is applicable.
- (c) Suggest two problems which may occur when applying the concept of materiality.
- 9.2 Eveshore Electronics Limited imports electronic goods from the Far East and sells to retailers in the UK. The company has always valued its stock on the FIFO (first in, first out) basis. One of the directors comments that, because of the recent strength of the pound sterling against Far Eastern currencies, the price of imported electronic goods has been falling throughout the year. She suggests that the closing stock should be recalculated on the LIFO (last in, first out) basis.
- (a) Assuming that the prices of electronic goods have been falling throughout the year, would the change suggested increase profit for the year, decrease profit, or would profit remain the same?
- (b) Which accounting concept states that a business should not normally change its basis for valuing stock unless it has good reasons for so doing?
- 9.3 A business buys twenty units of a product in January at a cost of £3.00 each; it buys ten more in February at £3.50 each, and ten in April at £4.00 each. Eight units are sold in March, and sixteen are sold in May.
- You are to** calculate the value of closing stock at the end of May using:
- (a) FIFO (first in, first out)
- (b) LIFO (last in, first out)
- (c) AVCO (average cost)

Note: where appropriate, work to the nearest penny.

- 9.4** Wyvern Office Supplies sells a range of pens, paper, computer supplies and other office sundries. One of its lines is photocopying paper for which the stock movements in January 2004 were:

1 January	Stock of 800 reams (a ream is 500 sheets) of photocopying paper brought forward at a cost of £2.00 per ream
5 January	Sold 700 reams
11 January	Bought 1,200 reams at £2.20 per ream
15 January	Sold 600 reams
19 January	Bought 1,000 reams at £2.10 per ream
21 January	Sold 400 reams
26 January	Bought 700 reams at £2.25 per ream

The selling price of each ream is £3.25.

You are to calculate the value of:

- (a) sales for January
- (b) the closing stock at 31 January and cost of sales for January, assuming that stock is valued on the FIFO (first in, first out) basis
- (c) the closing stock at 31 January and cost of sales for January, assuming that stock is valued on the LIFO (last in, first out) basis

- 9.5 YZ Limited is formed on 1 January 2004 and trades in two products, Y and Z. At the end of its first half-year the stock movements of the two products are as follows:

2004	PRODUCT Y		PRODUCT Z	
	Bought (units)	Sold (units)	Bought (units)	Sold (units)
January	100 at £4.00		200 at £10.00	
February		80 at £10.00	100 at £9.50	
March	140 at £4.20			240 at £16.00
April	100 at £3.80		100 at £10.50	
May		140 at £10.00	140 at £10.00	
June	80 at £4.50			100 at £16.00

The company values stock on the FIFO (first in, first out) basis.

At 30 June 2004, the net realisable value of each type of stock is:

product Y	£1,750.00
product Z	£1,950.00
	<u>£3,700.00</u>

You are to calculate the value of:

- total sales for the half-year
 - the closing stock at 30 June 2004 for each product using the FIFO basis
 - the total at which the company's stocks should be valued on 30 June 2004 in order to comply with standard accounting practice
 - cost of sales for the half-year in order to comply with standard accounting practice
- 9.6 Which one of the following is revenue expenditure?
- purchase of a computer for the office
 - legal costs for the purchase of property
 - cost of extension to property
 - quarterly electricity bill
- Answer (a) or (b) or (c) or (d)

9.7 Which one of the following is capital expenditure?

- (a) repairs to motor vehicles
- (b) goods taken by owner for own use
- (c) cost of raw materials used in extending the premises
- (d) renewing the electrical wiring in the office

Answer (a) or (b) or (c) or (d)

9.8 Wages paid to own employees who have redecorated the office are:

- (a) capital expenditure
- (b) debited to profit and loss account
- (c) debited to premises account
- (d) credited to profit and loss account

Answer (a) or (b) or (c) or (d)

9.9 Classify the following costs (tick the appropriate column):

- (a) purchase of motor vehicles
- (b) depreciation of motor vehicles
- (c) rent paid on premises
- (d) wages and salaries
- (e) legal fees relating to the purchase of property
- (f) re-decoration of office
- (g) installation of air-conditioning in office
- (h) wages of own employees used to build extension to the stockroom
- (i) installation and setting up of a new machine

	capital expenditure	revenue expenditure
(a) purchase of motor vehicles		
(b) depreciation of motor vehicles		
(c) rent paid on premises		
(d) wages and salaries		
(e) legal fees relating to the purchase of property		
(f) re-decoration of office		
(g) installation of air-conditioning in office		
(h) wages of own employees used to build extension to the stockroom		
(i) installation and setting up of a new machine		