

Practice Paper

ON DEMAND

CERTIFICATE IN BOOK-KEEPING AND ACCOUNTS (IAS)

LEVEL 2

ASE20050A

Time allowed: **3 hours**

INSTRUCTIONS FOR CANDIDATES

- Answer **any 4** questions.
- All questions carry equal marks.
- Study the “**REQUIRED**” section of each question carefully and extract the data required for your answers from the information supplied.
- Write your answers in blue or black ink/ballpoint. You can only use pencil for graphs, charts, diagrams, etc.
- Begin your answer to each question on a new page.
- All answers must be correctly numbered but need not be in numerical order.
- Workings must be shown.
- You may use a calculator provided the calculator gives no printout, has no word display facilities, is silent and cordless. The provision of batteries and their condition is your responsibility.
- Marks may be lost through lack of neatness and poor presentation.

QUESTION 1

The following balances remain in the books of DMS Ltd after the preparation of the Income Statement for the year ended 31 December 2009:

Trial Balance at 31 December 2009

	\$000	\$000
Profit for the year		1,363
Property	5,000	
Machinery	1,400	
Office equipment	600	
Provision for depreciation:		
machinery		827
office equipment		255
Inventory at 31 December 2009	540	
Trade receivables	369	
Trade payables		680
Bank overdraft		64
Cash in hand	5	
Other payables		10
Income received in advance		15
Allowance for doubtful debts		18
Issued and fully paid:		
ordinary share capital		3,000
6% Irredeemable preferred share capital		500
Share premium		275
Accumulated profits at 1 January 2009		682
8% Debentures		100
Ordinary interim dividend	150	
Preferred dividend paid	30	
General reserve		320

Additional Information at 31 December 2009:

- (1) \$50,000 is to be transferred to the General Reserve.

REQUIRED

(a) Prepare the:

- (i) Statement of Changes in Equity for the year ended 31 December 2009

(10 marks)

- (ii) Statement of Financial Position at 31 December 2009.

(13 marks)

(b) Explain **one** difference between an ordinary share and a debenture (loan note).

(2 marks)

(Total 25 marks)

QUESTION 2

Suzie Wong does not maintain double-entry records but has produced the following cash book summary for the year ended 31 December 2009:

	Bank	Cash
	\$	\$
Receipts		
Receipts from trade receivables	82,500	-
Cash sales	-	5,200
Cash banked	3,000	-
Payments		
Payments to trade payables	62,000	-
Cash purchases	-	400
Expenses	7,400	500
Drawings	3,000	?
Motor vehicle (purchased on 1 Jan 2009)	8,000	-
Cash banked	-	3,000

Assets and liabilities were as follows:

	1 Jan 2009	31 Dec 2009
	\$	\$
Trade receivables	7,800	9,350
Trade payables	4,000	5,950
Expense accruals	1,800	-
Expense prepayments		2,050
Bank balance	3,400	8,500
Cash balance	70	30
Inventory	2,000	2,400

Additional information:

- (i) Suzie has decided to depreciate the motor vehicle on a straight-line basis over 5 years and estimates that the motor vehicle will have a resale value of \$1,000 at the end of five years
- (ii) An allowance for doubtful debts of 2% of trade receivables is to be created at 31 December 2009.

REQUIRED

- (a) Calculate the following for the year ended 31 December 2009:
 - (i) Total sales
 - (ii) Total purchases
 - (iii) Cash drawings. (6 marks)
- (b) Prepare the Income Statement for the year ended 31 December 2009. (7 marks)
- (c) Prepare the Statement of Financial Position at 31 December 2009. (6 marks)
- (d) Using figures extracted from the above financial statements, calculate the following to **one** decimal place. Clearly show all workings:
 - (i) Gross profit margin
 - (ii) Current/Working Capital ratio
 - (iii) Liquid/Acid Test ratio. (6 marks)

(Total 25 marks)

QUESTION 3

The Trial Balance of Charlie Lee at 30 June 2010 showed a difference, which was posted to a suspense account. A draft income statement for the year ended 30 June 2010 was prepared showing a profit for the year of \$94,480. The following errors were subsequently discovered:

- (1) Goods purchased from Annie Bird, amounting to \$1,530, had been received on 30 June 2010 and included in the closing inventory at that date, but the invoice had not been entered in the Purchases Journal
- (2) A cheque for \$3,000 for rent received from ABC Ltd had been entered correctly in the cash book but the corresponding double entry had been omitted
- (3) Repairs to the motor vehicle, amounting to \$780, had been charged to the Motor Vehicle Account
- (4) The Sales Journal had been under-added by \$2,000
- (5) A payment of \$570 for general expenses had been entered on the credit side of the General Expenses Account as \$750 but entered correctly in the Cash Book
- (6) Sales of \$900 to Allan Smythe had been debited to Ann Smith and Co Ltd.

REQUIRED

- (a) Prepare the journal entries, without narratives, to correct the above errors. (12 marks)
- (b) Prepare the Suspense Account after the above errors have been corrected. (5 marks)
- (c) Show the effect of each of these adjustments on the draft profit for the year and calculate the corrected profit for the year ended 30 June 2010. (8 marks)

(Total 25 marks)

QUESTION 4

Emily and James agreed to dissolve their partnership on 28 February 2010.

At 28 February 2010, the partnership had the following assets and liabilities:

	\$
Machinery	72,000
Motor vehicles	56,000
Inventory	860
Trade payables	680
Trade receivables	2,500
Bank	2,334

Immediately prior to dissolution, the partners' Current Account balances were transferred to their capital accounts.

The Capital Account balances were:

	\$
Emily	102,638
James	30,376

The following information was also available:

- (1) The machinery was sold to Jenkins Ltd for \$40,000. The amount was settled by the issue of 40,000 ordinary shares of \$1 each in Jenkins Ltd. The partners received one-half of the shares each.
- (2) A vehicle with a net book value (carrying amount) of \$24,000 was taken over by James for \$18,000.
- (3) The remaining vehicles were sold for \$30,000 cash.
- (4) Inventory was sold for \$760 cash.
- (5) Trade payables were paid in full.
- (6) Trade receivables paid \$2,300 in full settlement.
- (7) The cost of dissolution was \$4,970.
- (8) Profits and losses are to be shared in the ratio of 2:1.

REQUIRED

- (a) Prepare the Dissolution Account. (11 marks)
- (b) Prepare the partners' Capital Accounts. (9 marks)
- (c) Explain the ruling in the Garner v Murray case (5 marks)

(Total 25 marks)

QUESTION 5

The following information relevant to the month of March 2010 was extracted from the ledgers of Alice:

At 1 March 2010:

		\$
Purchases ledger	Dr balances	291
Purchases ledger	Cr balances	16,428
Sales ledger	Dr balances	27,066
Sales ledger	Cr balances	495
Allowance for doubtful debts		690

At 31 March 2010:

Purchases ledger	Dr balances	399
Sales ledger	Cr balances	642
Allowance for doubtful debts		750

For the month ended 31 March 2010:

Credit sales	162,384
Credit purchases	123,585
Payments to suppliers	112,251
Receipts from customers	147,534
Returns inwards	6,615
Returns outwards	3,204
Discounts allowed	5,232
Discounts received	3,630
Bad debts written off	576
Debit balances in sales ledger transferred to purchases ledger	1,035
Legal expenses charged to customer's account	270
Customer's cheque dishonoured	1,128

REQUIRED

(a) Prepare for the month of March 2010:

(i) Purchases Ledger Control Account (8 marks)

(ii) Sales Ledger Control Account. (13 marks)

(b) Calculate and show the amounts that would be reported in the statement of financial position as trade receivables and trade payables at 31 March 2010.

(4 marks)

(Total 25 marks)