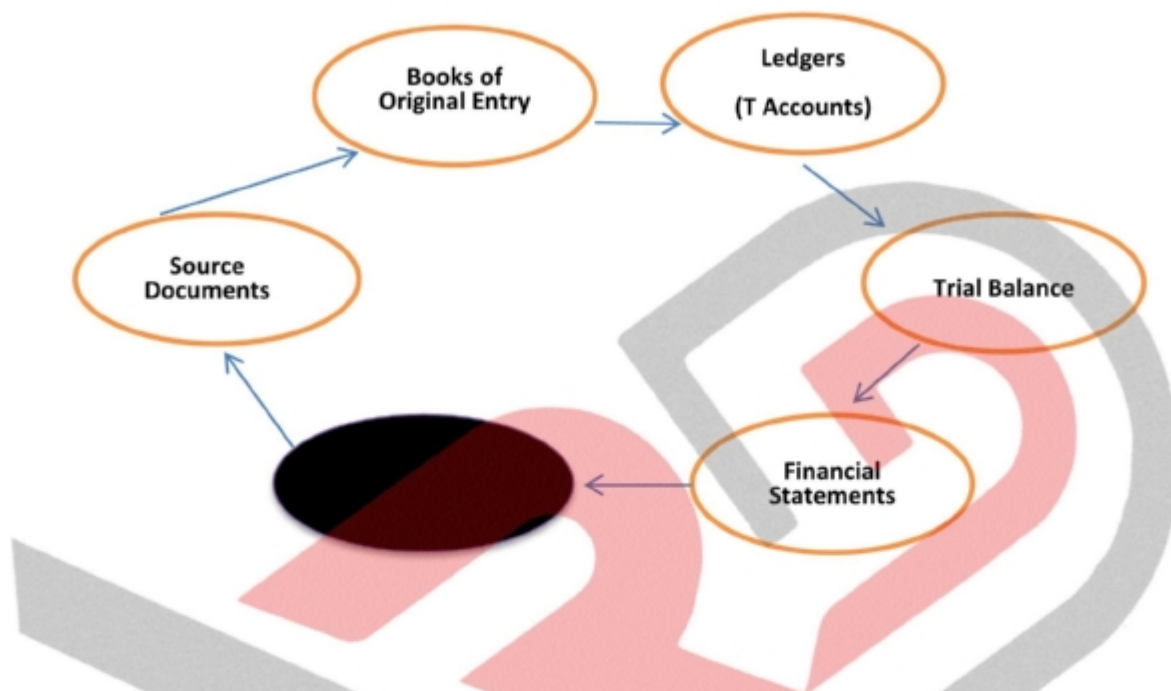


Books of Prime Entry & Ledgers

Accounting Cycle



Transaction: In Business context any commercial event is known as a transaction. This means we are exchanging something for another. Eg. Buy or sell goods or services, Receipt or Payment by cash or by Cheque, Return of goods etc.

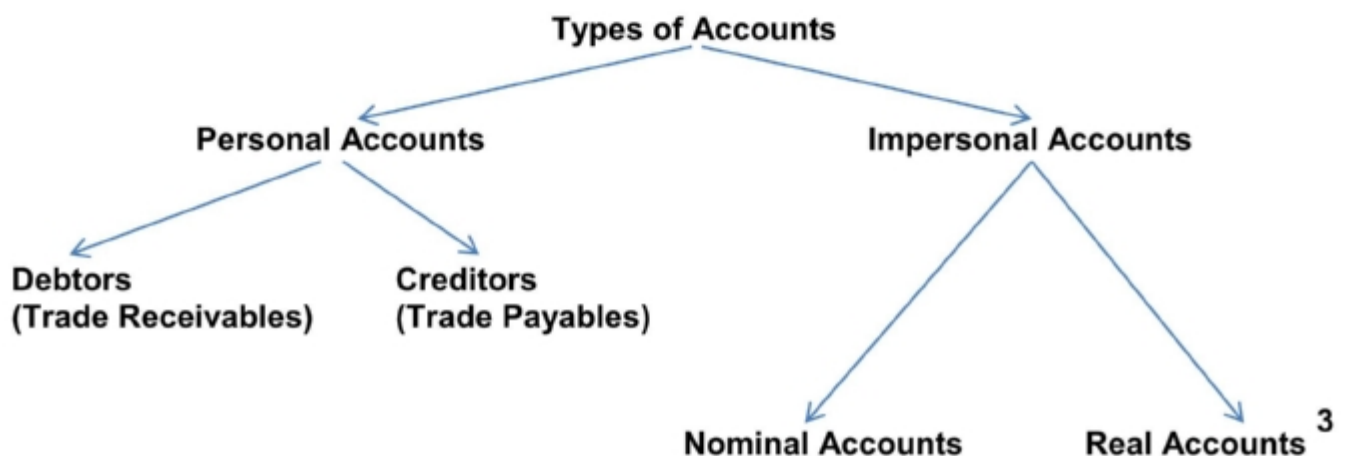
Source Documents / Documentary Records: are the documents that are used as an evidence / Proof and record of business transactions that took place in a particular period. E.g. Sales Invoice, Receipt, Credit Note etc.

| Type of Transaction | Source Document |
|--|-----------------|
| Sale of Goods / Services on Credit | |
| Purchase of Goods / Services on Credit | |
| Sale / Purchase of Goods on Cash | |
| Returned Goods by Customer | |
| Returned Goods to Supplier | |
| Recording / Payment of Wages / Salaries | |
| Payment to Supplier or any other Expense by Cheque | |
| Sent Summary of Transactions to Customer | |
| Summary of Transactions received from Bank | |
| Buy / Sell Non Current Asset on credit | |
| Deposit cash into the bank | |

Books of Prime / original entry are the books in which we first record transactions through source documents

| Type of Transaction | Source Document | Book of Original Entry |
|---|---------------------------------|------------------------|
| Sale of Goods / Services on Credit | Sales Invoice | |
| Purchase of Goods / Services on Credit | Purchase Invoice | |
| Returned Goods from Customer | Credit Notes Issued | |
| Returned Goods to Supplier | Credit Notes Received | |
| Receipt / Payment by Cash or Cheque OR Sales / Purchase by Cash or Cheque | Receipt / Cheque Counterfoil | |
| All Other non-routine Transactions | Invoice etc. | |
| E.g. Bought / Sold NCA on Credit Correction of Errors Drawing of Goods (Stock) Expense Incurred on credit Bad Debt / Provision for Doubtful Debt Depreciation etc. | | |

Account: An Account is a collection of transactions. A T account is an account prepared in T form. It has two sides. Left hand side is Debit and Right hand side is used for credit.



Nominal Accounts

They contain All Income Statement Items eg Sales, Purchase, Return Inwards, Return Outwards, Income and Expense etc. These are also known as temporary Accounts.

Real Accounts

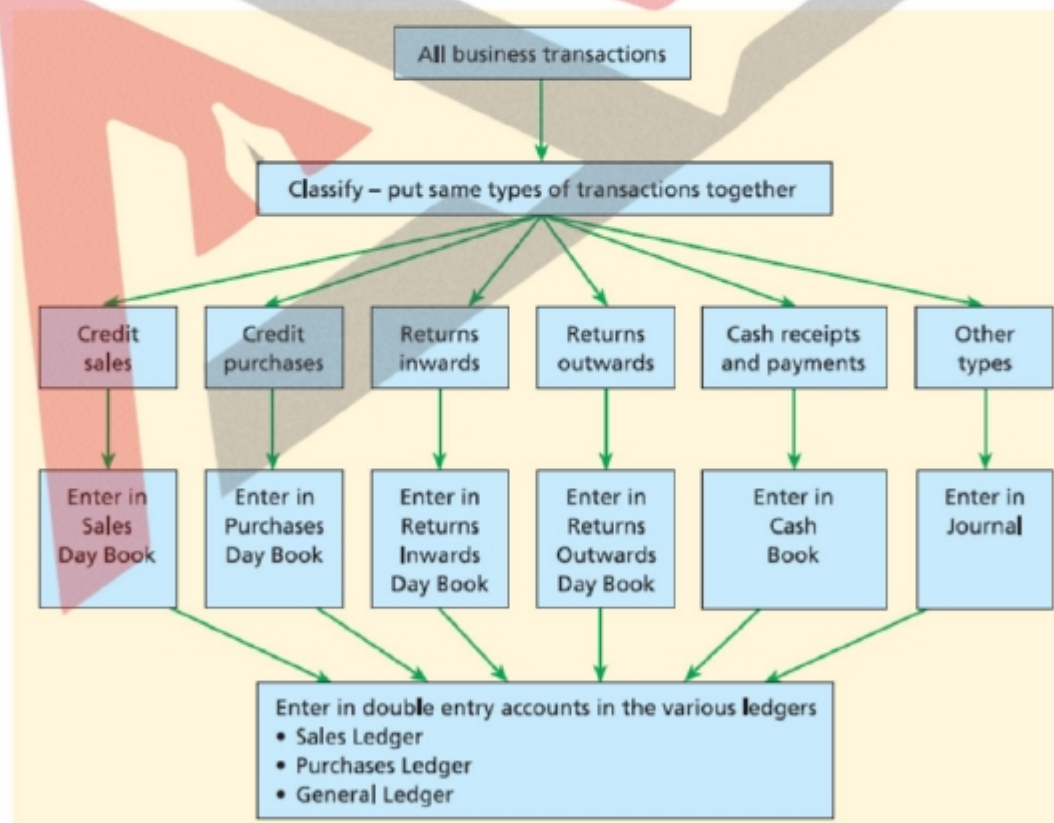
They contain all statement of financial position items eg Assets, Liabilities and Capital etc. Real Accounts are also known as permanent Accounts.

Ledger: A Ledger is a collection of Accounts. It is a book containing Accounts

Types of ledgers

There are three types of ledgers.

- **Sales Ledger.** This is for customers' / Debtor's personal accounts.
- **Purchases Ledger.** This is for suppliers' / Creditor's personal accounts.
- **General Ledger.** It contains all accounts (other than debtors / creditors) eg. Sales, Purchase, Return Inwards, Return Outwards, Cash, Bank, Assets, Liabilities, Income, Expense, Capital and Drawing etc.



Effect on Capital

Capital of the business is affected by following transactions.

| Transaction | Effect of Capital |
|-------------------------------|-------------------|
| Introduce Additional Capital | Increase |
| Drawings in Cash / Goods form | Decrease |
| Profit / Gain / Income | Increase |
| Loss / Expense | Decrease |



Trade / Bulk Purchase Discount

It is discount received or given at the time of purchase which is applied on list price of goods. It is given or received when selling or buying goods in bulk quantity or when we are selling goods to a regular customer or a trader so that he may also earn some profit upon resale. It is never recorded in the books of either seller or buyer means no entry to be recorded.

Cash Discount

It is discount at the time of payment. Always recorded in the books of customer and supplier

Discount Allowed

It is allowed to customer when he pays us early. It is an expense which is recorded as a debit entry which will reduce the customer's balance

Discount Received

It is received when we pay our suppliers early. It is an income which is credited which will reduce our supplier account i.e. liability

Book-Keeping vs accounting

Book-keeping is concerned with recording transactions in the books of accounts. It is a lower level task carried out by book-keeper / clerks on daily basis. Accounting refers to processing that data into meaningful information such as financial statements; Accounting is also concerned with analysis and interpretation of information to help management in planning, controlling and decision making of the business. Accounting is carried out by higher level personnel such as accountants on periodic basis.

Documentary Records / Source Documents

Invoice

It is a commercial document issued by a seller to a buyer as a request for payment, relating to a sale of product. Usually an invoice contains the following information;

- the name and address of the supplier,
- the name and the address of the customer,
- date (on which it is issued)
- list of the products supplied
- its quantities
- agreed price (per unit and total)


Payment terms are usually stated on the invoice. These may specify that the buyer has a maximum number of days in which s/he has to pay, and is sometimes offered a trade discount (offered only on bulk purchases) or cash discount (only if paid before the due date).

Sample - Invoice

COMMERCIAL INVOICE

Bill To
Rodney Sanders
1007 Mountain Drive
sebring
NY10029 NY

INV-000380
02 Jul 2018



Terms : Due end of next month
Due Date : 31 Aug 2018

Zylker
7455 Drew Court
White City
Kansas
66872
U.S.A
270-510-0585

| # | Item & Description | Qty | Rate | Amount |
|---|--|------|------------------|----------------|
| 1 | Onyx Vase Beautifully designed and crafted | 1.00 | 150.000 | 150.000 |
| 2 | Rosewood Frame Proudly display your achievements | 5.00 | 70.000 | 350.000 |
| | | | Sub Total | 500.000 |
| | | | Total | \$500 |

It was wonderful doing business with you. Thank you!

Terms & Conditions

Please make payment within 30 days of issue of the invoice.

Debit note

The customer should check that goods received are in a satisfactory condition and that they are exactly what was ordered (in respect of price, quantity and quality). The supplier must be informed of any shortages, overcharges and faults. This is done by issuing a debit note to the supplier.

Each business has its own format or style of debit note, but they all contain the following information:

- the name and address of the supplier,
- the name and the address of the customer,
- date (on which it is issued)
- full details and quantities / price of the goods returned or overcharged.

When a price is included on a debit note it is the price which the customer was actually charged for those goods (the price after the deductions of trade discount).

Sample - Debit note

| | | |
|---|-------------------|---|
| M/S AKBAR & CO. | | 1218, Ram Nagar, Nagpur, 29 th August, 2011 |
| No. 2318 | DEBIT NOTE | |
| Against : M/s Kabir and Sons, New Delhi | | |
| Goods returned as per delivery | | |
| Challan No. | | |
| (Details of goods returned) | | |
| (Rupees Ten thousand only) | | ₹ 10,000/- M. Karuna Sagar Manager |

Credit note

These are only issued if an adjustment has to be made. E.g. Goods returned by the debtor, overcharged value of goods sold on credit and allowance for faulty / damaged goods. If the supplier sends the wrong product to the buyer then the supplier will give him a credit note for the value of the goods incorrectly supplied. Similarly, if an error was made by the supplier on the invoice, for example the correct goods were delivered but were charged at the wrong piece of rate/unit on the invoice, then the supplier would send a credit note to the buyer. Seller records credit notes (Issued) in sales return journal while Buyer records credit notes (received) in purchases return journal.

- the name and address of the supplier (creditor),
- the name and the address of the customer (debtor),
- date (on which it is issued)
- full details and quantities/price of the goods returned or overcharged.

Sample - Credit note


| | |
|--|--------------------------------|
| M/S SMITH & CO. | |
| 1/2218, White House Walchand Hirachand Marg, Mumbai-400001 19 th September, 2011 | |
| No. 18 | CREDIT NOTE |
| In Favour of : M/s Amrik Singh & Sons, New Delhi | |
| Goods received as per delivery | |
| Challan No. | |
| (Details of goods received) | |
| (Rupees Twelve thousand only) | ₹ 12,000/- |
| | Madho Kumar Manager |

Cheque

It is a document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued.

The drawer writes the various details including the amount, date, and a payee on the cheque, and signs it, ordering their bank, known as the *drawee*, to pay that person or company the amount of money stated.

Sample - Cheque

| | | |
|--|---|---|
|  We understand your world | PAYABLE AT PAR AT ALL BRANCHES OF HDFC BANK LTD <u>A/C PAYEE ONLY</u> | Weekly Holiday on Sunday <i>Preferred</i> Date: 2011 JAN 12 |
| PAY | Sample Payee Company |  |
| RUPEES | One Crore Twenty Three Lacs Forty Five Thousand Six Hundred Seventy Eight Rupee Only | Rs. *** 1,23,45,678.00 *** |
| A/c No. | <input type="text"/> | HDFC PLUS |
| HDFC BANK LTD. 725-1, Airport Road, Chicacott, Goa Vasco-da-gama-403711, Goa RTGS / NEFT IFSC : HDFC000374 447031007 | | Sample Authorized Signatories |

Cheque Counterfoil is that part of a cheque, which is torn off and kept as a receipt by the drawer of a cheque to serve a piece of evidence or proof for having made the payment.

| cheque counterfoil | | cheque | |
|----------------------------|-------------------------------------|------------------------------|-----------|
| Date: 10/10/2015 ① | OUR BANK | Parow ⑨ | ⑦ C4 |
| To: Steaks Fast Food Ltd ② | | 10/10/2015 ① | |
| For: second-hand fridge ③ | | not transferable ⑩ | |
| Balance b/f: | Pay Steaks Fast Food Ltd ② | | or Bearer |
| Deposit: | | | |
| Other debits: | the sum of Five hundred rand only ⑤ | | |
| This cheque: R500,00 ④ | | R 500,00 ④ | |
| Balance: | | Transit Mpotsi ⑥ | |
| C4 ⑦ | | On behalf of TM's Tuckshop ⑧ | |
| | | * 406 245 678 ⑪ | |

Paying-in slip

A piece of paper that a person gives with a bank deposit to show how much money he or she is putting in an account.

Sample – Pay in Slip

| FORM-B (CENTRAL) (See sub paragraph (3) of paragraph 4) PUBLIC PROVIDENT FUND SCHEME, 1968 | | FORM-B (CENTRAL) (See sub paragraph (3) of paragraph 4) PUBLIC PROVIDENT FUND SCHEME, 1968 | |
|--|--------------------|--|--------------------|
| COUNTERFOIL - 1 SUBSCRIBER'S COPY | | COUNTERFOIL-2 BANK'S COPY | |
| SBI BRANCH NAME : _____ | Date: ___/___/20__ | SBI BRANCH NAME : _____ | Date: ___/___/20__ |
| NAME OF SUBSCRIBER: _____ | | NAME OF SUBSCRIBER: _____ | |
| PPF A/C NO : _____ | | PPF A/C NO : _____ | |
| AMOUNT OF DEPOSIT CASH / CHEQUE | | AMOUNT OF DEPOSIT CASH / CHEQUE | |
| SUBSCRIPTION* ₹ _____ | | SUBSCRIPTION* ₹ _____ | |
| LOAN REPAYMENT* ₹ _____ | | LOAN REPAYMENT* ₹ _____ | |
| INTEREST ON LOAN* ₹ _____ | | INTEREST ON LOAN* ₹ _____ | |
| PENALTY / FEES* ₹ _____ | | PENALTY / FEES* ₹ _____ | |
| TOTAL AMOUNT ₹ _____ | | TOTAL AMOUNT ₹ _____ | |
| Amount In Words (Rupees _____) | | Amount In Words (Rupees _____) | |
| DETAILS OF CASH DEPOSIT | AMOUNT | DETAILS OF CASH DEPOSIT | AMOUNT |
| 1000 X | .00 | 1000 X | |
| 500 X | .00 | 500 X | |
| 100 X | .00 | 100 X | |
| 50 X | .00 | 50 X | |
| 20 X | .00 | 20 X | |
| 10 X | .00 | 10 X | |
| 5 X | .00 | 5 X | |
| Cheque / Demand Draft No & Date _____ & ___/___/20__ | | Cheque / Demand Draft No & Date: _____ & ___/___/20__ | |
| Bank / Branch on Which Drawn _____ | | Bank / Branch on Which Drawn: _____ | |
| Depositor's Signature _____ | | Depositor's Signature _____ | |

Notes:
(i) Cheque / DD in favour of "SUBSCRIBER" name and will be credited after realisation of proceeds only on realisation date.
(ii) * Select the Proper type of payment as above

SBI FORMS PF407/02

Receipts

When the customer pays an invoice a receipt should be issued by the supplier. If buyer paid off his entire outstanding amount (liabilities) of previous months then the supplier would send a receipt, keeping a copy of it. This confirms to buyer that he has paid and it ensures that the supplier does not charge him for this amount again.

Sample – Receipt

| RECEIPT | | DATE _____ | NO. 0001 | | | | | | | | |
|---|--|-----------------------|-----------------|-----------------|--|-----------|--|-------------|--|--|--|
| RECEIVED FROM _____ | | | | | | | | | | | |
| ADDRESS _____ | | | | | | | | | | | |
| FOR _____ | | | | | | | | | | | |
| <table border="1"> <thead> <tr> <th colspan="2">ACCOUNT</th> </tr> </thead> <tbody> <tr> <td>AMT. OF ACCOUNT</td> <td></td> </tr> <tr> <td>AMT. PAID</td> <td></td> </tr> <tr> <td>BALANCE DUE</td> <td></td> </tr> </tbody> </table> | | ACCOUNT | | AMT. OF ACCOUNT | | AMT. PAID | | BALANCE DUE | | <input type="radio"/> CASH <input type="radio"/> CHECK <input type="radio"/> MONEY ORDER | |
| ACCOUNT | | | | | | | | | | | |
| AMT. OF ACCOUNT | | | | | | | | | | | |
| AMT. PAID | | | | | | | | | | | |
| BALANCE DUE | | | | | | | | | | | |
| | | BY _____ | | | | | | | | | |
| | | ©2001 REDIFORM® 81820 | | | | | | | | | |

Statement of account

Each month the supplier will send his customers, a statement. This will record the total value of deliveries made each month, the value of any credit notes issued and any payments made by the customer. These statements from the supplier remind buyer of how much he owes at the end of the month.

Sample - Statement of account

Company Name:
Company Address:
City, ST ZIP Code:
Phone:

Statement Date:
Date Due:

Date
Date

STATEMENT OF ACCOUNT

Customer Name
Address
City, State ZIP Code

| DATE | DESCRIPTION | CHARGES | CREDITS | ACCOUNT BALANCE |
|------|-------------------------|----------|----------|-----------------|
| Date | Balance brought forward | | \$56.00 | \$56.00 |
| Date | The Phone Company | \$500.00 | | \$556.00 |
| Date | Woodgrove Bank | | \$250.00 | \$306.00 |
| Date | City Power & Light | \$125.00 | | \$431.00 |

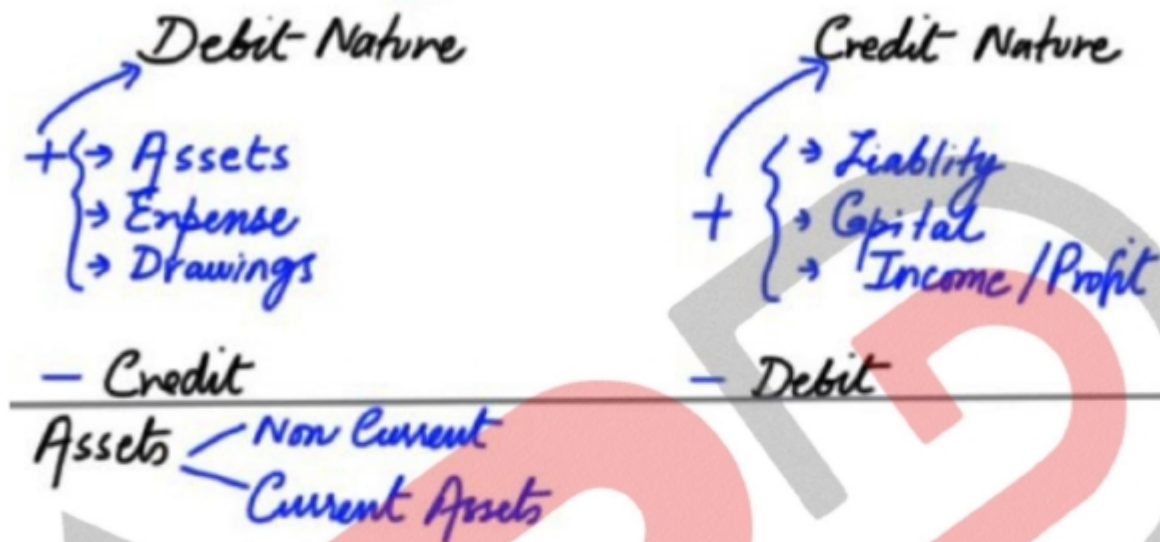
Bank statement

Also known as account statement is a summary of financial transactions which have occurred over a given period on a bank account held by a person or business with a financial institution. Bank statements had historically been printed on one or several pieces of paper and either mailed directly to the account holder, or kept at the financial institution's local branch for pick-up. In recent years there has been a shift towards paperless, electronic statements, and most financial institutions offer direct download into account holders accounting software.

Sample Bank Statement

| JOHN JONES 1643 DUNDAS ST W APT 27 TORONTO ON M6K 1V2 | | Statement period | Account No. | | |
|---|-----------------------------------|--------------------------|-----------------|----------|---------|
| | | 2003-10-09 to 2003-11-08 | 00005-123-456-7 | | |
| Date | Description | Ref. | Withdrawals | Deposits | Balance |
| 2003-10-08 | Previous balance | | | | 0.55 |
| 2003-10-14 | Payroll Deposit - HOTEL | | | 694.81 | 695.36 |
| 2003-10-14 | Web Bill Payment - MASTERCARD | 9685 | 200.00 | | 495.36 |
| 2003-10-16 | ATM Withdrawal - INTERAC | 3990 | 21.25 | | 474.11 |
| 2003-10-16 | Fees - Interac | | 1.50 | | 472.61 |
| 2003-10-20 | Interac Purchase - ELECTRONICS | 1975 | 2.99 | | 469.62 |
| 2003-10-21 | Web Bill Payment - AMEX | 3314 | 300.00 | | 169.62 |
| 2003-10-22 | ATM Withdrawal - FIRST BANK | 0064 | 100.00 | | 69.62 |
| 2003-10-23 | Interac Purchase - SUPERMARKET | 1559 | 29.08 | | 40.54 |
| 2003-10-24 | Interac Refund - ELECTRONICS | 1975 | | 2.99 | 43.53 |
| 2003-10-27 | Telephone Bill Payment - VISA | 2475 | 6.77 | | 36.76 |
| 2003-10-28 | Payroll Deposit - HOTEL | | | 694.81 | 731.57 |
| 2003-10-30 | Web Funds Transfer - From SAVINGS | 2620 | | 50.00 | 781.57 |
| 2003-11-03 | Pre-Auth. Payment - INSURANCE | | 33.55 | | 748.02 |
| 2003-11-03 | Cheque No. - 409 | | 100.00 | | 648.02 |
| 2003-11-06 | Mortgage Payment | | 710.49 | | -62.47 |
| 2003-11-07 | Fees - Overdraft | | 5.00 | | -67.47 |
| 2003-11-08 | Fees - Monthly | | 5.00 | | -72.47 |
| *** Totals *** | | | 1,515.63 | 1,442.61 | |

Double Entry



Non Current Assets

- Building
- Motor Vehicles
- Machine
- Office Equipment etc

Current Assets

- Inventory (Goods)
- Trade Receivables (Debtors)
- Bank / Cash etc

Purchase ↑ Dr

Sales ↓ Cr

Return Inwards ↑ Dr

Return Outwards ↓ Cr

| | Type of Transaction | Debit | Credit |
|----|--------------------------------|-------|--------|
| 1 | Introduction of Capital | | |
| 2 | Buy NCA | | |
| 3 | Sell NCA | | |
| 4 | Return NCA to Supplier | | |
| 5 | Purchase Goods / Inventory | | |
| 6 | Sold Goods / Stock | | |
| 7 | Returned Goods from Customer | | |
| 8 | Return Goods to Supplier | | |
| 9 | Expense Paid / Incurred | | |
| 10 | Income Received / Earned | | |
| 11 | Payment to Supplier (Creditor) | | |
| 12 | Drawings in Cash / Goods form | | |
| 13 | Received Loan from Bank | | |
| 14 | Repaid Loan to Bank | | |

Capital & Revenue Expenditure

Capital expenditure is incurred when a business spends money either to:

- buy fixed assets, or
- add to the value of an existing fixed asset.

Included in such amounts should be spending on:

- acquiring fixed assets
- bringing them into the business
- legal costs of buying buildings
- carriage inwards on machinery bought
- any other cost needed to get a fixed asset ready for use.

Capital expenditure not only consists of the cost of purchasing a fixed asset, but also includes other costs necessary to get the fixed asset operational.

Revenue Expenditure which is not spent on increasing the value of fixed assets, but on running the business on a day-to-day basis, is known as **revenue expenditure**. The difference between revenue expenditure and capital expenditure can be seen clearly with the total cost of using a van for a business. Buying a van is capital expenditure. The van will be in use for several years and is, therefore, a fixed asset. Paying for petrol to use in the van is revenue expenditure. This is because the expenditure is used up in a short time and does not add to the value of fixed assets.

1 If expenditure is directly incurred in bringing a fixed asset into use for the first time, it is capital expenditure.

2 If expenditure improves a fixed asset (by making it superior to what it was when it was first owned by the organization, e.g. building an extension to a warehouse), it is capital expenditure.

3 All other expenditures are revenue expenditure.

Differences between capital and revenue expenditure

| Expenditure | Type of Expenditure |
|--|----------------------------------|
| 1 Buying van | Capital |
| 2 Petrol costs for van | Revenue |
| 3 Repairs to van | Revenue |
| 4 Putting extra headlights on van | Capital |
| 5 Buying machinery | Capital |
| 6 Electricity costs of using machinery | Revenue |
| 7 We spent \$1,500 on machinery: \$1,000 was for an item (improvement) added to the machine; and \$500 was for repairs | Capital \$1,000 Revenue \$500 |
| 8 Painting outside of new building | Capital |
| 9 Three years later – repainting outside of building in (8) | Revenue |

Examples of Capital expenditures

1. Acquiring fixed, and in some cases, intangible assets.
2. Repairing an existing asset so as to improve its useful life.
3. Upgrading an existing asset if its results in a superior performance
4. Preparing an asset to be used in business
5. Restoring property or adapting it to a new or different use.
6. Starting or acquiring a new business.
7. Paint on a new building
8. Head Lights on vehicle for better visibility.
9. Training cost.
10. Any legal cost to acquire non-current assets.

Examples of Revenue expenditures:

1. Salaries and wages
2. Heat and Lighting
3. Repair and maintenance
4. Insurance
5. Paint on an old building.
6. Sundry expenses.
7. Rent and rates.

Incorrect treatment of expenditure

If one of the following occurs:

1 capital expenditure is incorrectly treated as revenue expenditure, or
2 revenue expenditure is incorrectly treated as capital expenditure,
then both the balance sheet figures and trading and profit and loss account figures will be incorrect.

This means that the net profit figure will also be incorrect and, if the expenditure affects items in the trading account part of that statement, the gross profit figure will also be incorrect.

Capital and revenue receipts

When an item of capital expenditure is sold, the receipt is called a capital receipt. Suppose a van is bought for \$5,000, and sold five years later for \$750. The \$5,000 was treated as capital expenditure. The \$750 received is treated as a capital receipt and credited to the fixed asset account in the General Ledger.

Revenue receipts are sales and other revenue items that are added to gross profit, such as rent receivable and commissions receivable.

Capital receipts A capital receipt is a receipt which is derived from sale or purchase of capital assets like plant and machinery, furniture, investment (long term) etc which shall not be occurring all the time. Capital receipts refer to incoming cash flows (receipts) originating from one of the following sources:

- Cash from the sale of fixed assets (either or intangible)(Can also include a payment associated with an insurance claim from a damaged fixed asset).
- Cash from the sale of shares in the business
- Cash from the issuance of a debt instrument

REVENUE RECEIPT

A revenue receipt is something which is carried out from daily activities like sale of goods or purchase of goods etc. A revenue receipts shall be repetitive in nature and shall be shown (credited) in the profit and loss account.

Receipt which is recurring (received again and again) by nature and which are available for meeting all day to day expenses (revenue expenditure) of a business concern are known as Revenue receipts, e.g. sale proceeds of goods interest received, commissions received, rent received, dividend received etc.

DISTINCTION BETWEEN CAPITAL RECEIPT AND REVENUE RECEIPT

The main differentiate between revenue receipts and capital receipts is that revenue receipts are recurring in nature, which the company can expect to receive year after year, whereas capital receipts are a kind of one time income. E.g. the salary you receive is your revenue receipt and the income you receive by selling your home is capital receipt.

| Revenue Receipt | | Capital Receipt | |
|-----------------|---|-----------------|--|
| 1. | It has short term effect. The benefit is enjoyed within one accounting period. | 1. | It has long term effect. The benefit is enjoyed for many years in future. |
| 2. | It occurs repeatedly. Its recurring and regular | 2. | It doesn't occur repeatedly. Its non recurring and irregular |
| 3. | It is shown in profit and loss account on the credit side. | 3. | It is shown in the Balance Sheet on the liability side. |
| 4. | It does not produce capital receipt | 4. | Capital receipt, when invested, produces revenue receipt e.g. when capital is invested by the owner business gets revenue receipt (i.e. sale proceeds of goods etc). |
| 5. | This does not increase or decrease the value of asset or liability | 5. | The capital receipt decreases the value of asset or increases the value of liability e.g. sale of a fixed asset, loan from bank etc. |
| 6. | Sometimes, expenses of capital nature are to be incurred for revenue receipt, e.g. purchase of shares of a company is capital expenditure but dividend received on shares is a revenue receipt. | 6. | Sometimes expenses of revenue nature are to be incurred for such receipt e.g. on obtaining loan (a capital receipt) interest is paid until its repayment. |

Joint expenditure

Sometimes one item of expenditure will need to be divided between capital and revenue expenditure

Exercises

Ex. 1 For the business of J Charles, wholesale chemist, classifies the following between 'capital' and 'revenue' expenditure:

- (a) Purchase of an extra van.
- (b) Cost of rebuilding warehouse wall which had fallen down.
- (c) Building extension to the warehouse.
- (d) Painting extension to warehouse when it is first built.
- (e) Repainting extension to warehouse three years later than that done in (d).
- (f) Carriage costs on bricks for new warehouse extension.
- (g) Carriage costs on purchases.
- (h) Carriage costs on sales.
- (i) Legal costs of collecting debts.
- (j) Legal charges on acquiring new premises for office.
- (k) Fire insurance premium.
- (l) Costs of erecting new machine.

Ex. 2 For the business of H Ward, a food merchant, classifies the following between 'capital' and 'revenue' expenditure:

- (a) Repairs to meat slicer.
- (b) New tyre for van.
- (c) Additional shop counter.
- (d) Renewing sign writing on shop.
- (e) Fitting partitions in shop.
- (f) Roof repairs.
- (g) Installing thief detection equipment.
- (h) Wages of shop assistant.
- (i) Carriage on returns outwards.
- (j) New cash register.
- (k) Repairs to office safe.
- (l) Installing extra toilet.

Ex. 3 The following costs were incurred by Napa Ltd during the financial year ended 30 June 2017:

- (1) Interest on loan to purchase microcomputer.
- (2) Cost of software for use with the microcomputer.
- (3) Cost of customizing the software for use in Napa Ltd's business.
- (4) Cost of paper used by the computer printer.
- (5) Wages of computer operators.
- (6) Cost of ribbons used by the computer printer.
- (7) Cost of adding extra memory to the microcomputer.
- (8) Cost of floppy disks used during the year.
- (9) Costs of adding a manufacturer's upgrade to the microcomputer equipment.
- (10) Cost of adding air conditioning to the computer room.

Required:

Classify each of the above as capital expenditure or revenue expenditure.

Ex. 4 Classify the following items as either revenue or capital expenditure:

- (a) An extension to an office building costing \$24,000.
- (b) The cost of replacement valves on all the labeling machines in a canning factory.
- (c) Repairs to the warehouse roof.
- (d) Annual service costs for a courier firm's fleet of vans.
- (e) Replacement of rubber treads on a printing press with a plastic one that has resulted in the useful economic life of the printing press being extended by three years.
- (f) A new bicycle purchased by a newsagent for use by the newspaper delivery boy.
- (g) Repairs to a refrigeration system of a meat wholesaler.
- (h) Repainting of the interior of a bar/restaurant which has greatly improved the potential for finding a buyer for the bar/restaurant as a going concern.
- (i) Wages paid to employees who worked on the construction of their company's new office building.



Qualitative Characteristics of Financial Statements

- **Understandability.** The information must be readily understandable to users of the financial statements. This means that information must be clearly presented, with additional information supplied in the supporting footnotes as needed to assist in clarification.
- **Relevance.** The information must be relevant to the needs of the users, which is the case when the information influences the economic decisions of users. This may involve reporting particularly relevant information, or information whose omission or misstatement could influence the economic decisions of users.
- **Reliability.** The information must be free of material error and bias, and not misleading. Thus, the information should faithfully represent transactions and other events, reflect the underlying substance of events, and prudently represent estimates and uncertainties through proper disclosure.
- **Comparability.** The information must be comparable to the financial information presented for other accounting periods, so that users can identify trends in the performance and financial position of the reporting entity.

Accounting concepts

The historical cost concept

It means that assets are normally shown at original cost price, and that this is the basis for valuation of the asset.

The money measurement concept

The money measurement concept in financial reporting is that an item should not be 'recognised' and included in the financial statements unless it has a money value that can be measured reliably and objectively.

For example land can be included in the financial statements because its value can be measured objectively, either at its original cost or at its current market value (which can be determined objectively from a professional valuation).

On the other hand, the value of a skilled and experienced employee is not included in a statement of financial position, partly because the cost or value of an employee to the business cannot be measured objectively.

The business entity concept

A concept used in financial reporting is that a business entity is an entity that is separate from its owners. In other words, the business entity and its owners are different.

For example, suppose that ARD sets up a sole trader business as a builder, and he calls the business 'ARD Builders'. For the purpose of financial reporting, the business (ARD Builders) and ARD, the owner of the business, are different and separate from each other.

The dual aspect concept

This states that there are two aspects of accounting, one represented by the assets of the business and the other by the claims against them. The concept states that these two aspects are always equal to each other. In other words, this is the alternate form of the accounting equation: **Assets = Capital + Liabilities**. Double entry is the name given to the method of recording transactions under the dual aspect concept.

Accounting Year

One of the underlying principles of accounting, the accounting year concept, is that financial statements are prepared at regular intervals of one year. For internal management purposes they may be prepared far more frequently, possibly on a monthly basis or even more frequently.

Going concern Basis

The going concern basis of accounting is that all the items of value owned by a business, such as inventory and property, plant and equipment, should be valued on the assumption that the business will continue in operation for the foreseeable

future. The business will not close down or be forced to close down and sell off all its items (assets). This assumption affects the value of assets and liabilities of an entity, as reported in the financial statements.

For example, if a business entity is not a going concern, and is about to be closed down and liquidated, the value of its assets would be their estimated value in the liquidation process. Assets are valued differently on a going concern basis.

Consistency

It states that when a business has once fixed a method for the accounting treatment of an item, it will enter all similar items that follow in exactly the same way. However, it does not mean that the business has to follow the method until the business closes down. A business can change the method used, but such a change is made with a lot of consideration.

Prudence (conservatism)

The accountant should make certain that assets are not valued too highly. Similarly, liabilities should not be shown at values that are too low. The accountant should always exercise caution when dealing with uncertainty while, at the same time, ensuring that the financial statements are neutral – that gains and losses are neither overstated nor understated. It also states that if we can foresee loss it should be recorded immediately but income should not be recorded once it's realized.

The accruals / matching concept

The accruals basis of preparing financial statements, which is also called the 'matching concept', is based on the following assumptions.

- The cost of sales in the income statement (or within profit and loss in the statement of comprehensive income) must be matched with the sales. Sales income and 'matching' expenses must be reported in the same financial period.
- Other expenses should be charged in the period to which they relate, not the period in which they are paid for.
- Income, such as sales, should be reported in the period when the income arises. This might not be the same as the period when the cash is received.

With the accruals basis, financial transactions and other events are recognised in the financial statements when they occur, and not when the cash relating to the transaction is received or paid.

Materiality

Anything that appears in a financial statement should be 'material'. Means It should be of interest to the stakeholders, those people who make use of financial accounting statements. It need not be material to every stakeholder, but it must be material to a stakeholder before it merits inclusion. Do not waste your time in the elaborate recording of trivial items. Example small items of assets should be treated as expenses

Realization

The realization principle is the concept that revenue can only be recognized once the underlying goods or services associated with the revenue have been delivered or rendered, respectively. Thus, revenue can only be recognized after it has been earned.

Accounting Concepts

Q1 John is considering the following proposals to improve his profit for the year.

- 1 Change the depreciation methods for non-current assets.
- 2 Remove the provision for doubtful debts from the financial statements.
- 3 Value the inventory at market price.
- 4 Place a value on the skill of the workforce in the financial statements.
- 5 Exclude expenses owing from the income statement.

REQUIRED

(d) Name the accounting principle/concept which would **not** be complied with if each proposal was implemented. The first one has been completed as an example.

| | Proposal | Accounting principle/ concept |
|---|---|----------------------------------|
| 1 | Change the depreciation methods for non-current assets | <i>Consistency</i> |
| 2 | Remove the provision for doubtful debts from the financial statements | |
| 3 | Value the inventory at market price | |
| 4 | Place a value on the skill of the workforce in the financial statements | |
| 5 | Exclude expenses owing from the income statement | |

[4]

Q2 Lai Yee is also considering improving her profit for the year by:

- 1 revaluing her business premises to the market value of \$120 000 (cost \$100 000)
- 2 removing the provision for doubtful debts.

REQUIRED

(d) Name which accounting concept would not be complied with if Lai Yee implemented her proposals.

Proposal 1

Proposal 2[2]

Haung is considering a number of possible actions when preparing his future income statements.

- (i) Charging the income statement with the total cost of non-current assets purchased in the year.
- (ii) Recording the value of the increased skill of the workforce as an income for the year.
- (iii) Changing the method of depreciation to be used for each non-current asset to reflect current market values.

REQUIRED

(c) State, in **each** of (i) to (iii) above, which accounting concept would be broken if Haung implemented his proposals. In each case, give a reason for your answer.

(i) Accounting concept

..... [1]

Reason

.....
.....
..... [2]

(ii) Accounting concept

..... [1]

Reason

.....
.....
..... [2]

(iii) Accounting concept

..... [1]

Reason

.....
.....
..... [2]

Q3 Identify which **two** of the following accounting principles/concepts support the charging of depreciation in an accounting year.

- Accruals/Matching
- Dual aspect
- Going concern
- Materiality
- Money measurement

1

2 [2]

Q4 Explain how the matching/accruals concept should be used in calculating subscriptions for the year.

.....
.....
.....
..... [4]

Q5 Explain why depreciation is an application of the accruals concept.

.....
.....
..... [2]

Q6 Ajib is considering:

Proposal 1 Charging the total purchase price of the motor van to the 2015 income statement.

Proposal 2 Using the diminishing (reducing) balance method to charge depreciation on the motor van in 2015, and then to change to the straight line method for 2016 and 2017.

REQUIRED

(e) Name and explain which accounting concept would **not** be complied with if Ajib implemented his proposals.

Proposal 1

Accounting concept

Explanation

.....

Proposal 2

Accounting concept

Explanation

.....

1 Hammad Limited provided some recent transactions that affected his business.

(a) Complete the table, identifying the name of the principle that has been applied in each case. The first item has been completed as an example.

| | Transaction | Relevant principle / concept |
|----|---|------------------------------|
| a. | When preparing the income statement, an adjustment was made to an expense account to record a prepayment. | <i>Accruals</i> |
| b. | Accounts should only include items with a monetary value. | |
| c. | The directors of the company decided to record inventory of stationery as an asset only if they are over \$500. | |
| d. | A business's transactions and the owner's private transactions are recorded separately in a business's accounting system. | |
| e. | Transactions of a similar nature should be recorded in the same way in the same accounting period and in all future accounting periods. | |
| f. | Salaries unpaid at the end of the financial year is added to the business's expenses and shown as a current liability in the statement of financial position. | |
| g. | A payment of salary by cheque has been debited to the Salaries account and credited to the Bank account. | |
| h. | It is assumed that the business will continue to operate for an indefinite period of time and that there is no intention to close down the business. | |
| i. | Premises bought for \$100 000 was recorded at that price, even though it was valued at a higher price. | |
| j. | Profits and assets should not be over-valued and that liabilities are not under-valued. | |
| k. | Received rent from a tenant and transferred to the income statement taking into account of the fact that the tenant owed an amount for rent at the year end. | |

(b) Complete the following table to show which accounting principle / concept would be violated if a business performs the actions stated.

| | Transaction | Principle / concept |
|-------|---|---------------------|
| i. | Changes the rate of depreciation every year. | |
| ii. | Decides to stop maintaining provision for depreciation. | |
| iii. | Charges personal expenses to the business' income statement. | |
| iv. | Not recording an expected loss related to current year, resulting over-statement of profit. | |
| v. | Records the purchase of a small item worth \$20 as a separate asset. | |
| vi. | Placed a value on the technical skill of the workforce in the financial statements. | |
| vii. | Excluded an expense unpaid from the financial statements. | |
| viii. | Without delivery of goods to the customer, treating the amount received in advance as income to the business. | |

[8]

(c) Explain the term 'Historical cost'.

.....

.....

..... [2]

[Total: 20]

Accruals & Prepayments

Accrued Expenses: Expenses Incurred but not paid for (**Current Liability**)

Prepaid Expenses: Expenses Paid for but not Incurred (**Current Asset**)

Accrued Income: Income Earned but not received yet (**Current Asset**)

Prepaid Income: Income Received but not earned yet (**Current Liability**)

| Expense Account | | | |
|-------------------------|------------|-------------------------|------------|
| | \$ | | \$ |
| P Balance b/d | XXX | A Balance b/d | XXX |
| Bank / Cash | XXX | Income Statement | XXX |
| A Balance c/d | <u>XXX</u> | P Balance c/d | <u>XXX</u> |
| | XXX | | XXX |
| Income Account | | | |
| | \$ | | \$ |
| A Balance b/d | XXX | P Balance b/d | XXX |
| Income Statement | XXX | Bank / Cash | XXX |
| P Balance c/d | XXX | A Balance c/d | XXX |
| | <u>XXX</u> | | <u>XXX</u> |

Source Documents and Books of Original Entry (IGCSE)

- 1 (a) Name **two** books of prime (original) entry which a trader may keep. In **each** case name a source document for that book. An example has been provided.

| Book of prime (original) entry | Source document |
|--------------------------------|---------------------------|
| <i>Cash book</i> | <i>Cheque counterfoil</i> |
| | |
| | |

[4]

- (b) State **one** reason why a trader might use books of prime (original) entry.

.....

[1]

- (c) Name the **two** accounts which are posted with the totals from a three column cash book.

1
 2

[2]

Abdoulaye received a cheque from Pierre which was subsequently dishonoured.

REQUIRED

- (d) State what is meant by a dishonoured cheque.

.....

[1]

- (e) State how Abdoulaye recorded the dishonouring of the cheque.

| Account debited | Account credited |
|-----------------|------------------|
| | |

[2]

- (f) Name the statement prepared by Abdoulaye to ensure that his bank account is free from error.

.....

[1]

2 (a) Insert the missing figures in the following document.

| CREDIT NOTE | | | |
|---|-------------------------------|---|------------|
| Vijay Singh 11 North Road Lowtown | | Jai Kapur 44 West Street Hightown | |
| | | 25 April 2015 | |
| Quantity | Description | Unit price | Amount |
| 4 | External doors | \$ 55 | \$ 220 |
| | Less (i).....% trade discount | | 33 |
| | | | (ii) |
| 20 metres | Floorboards | 1.50 | ...30... |
| | | | (iii)..... |

[3]

(b) Name the person who issued the credit note.

..... [1]

(c) Suggest **one** reason for the issue of the credit note.

..... [1]

(d) Name the document which would have been issued to request a credit note.

..... [1]

(e) Complete the following table to show where the credit note would be recorded.

| Books of Jai Kapur | | Books of Vijay Singh | |
|--------------------|------------------|----------------------|------------------|
| Account debited | Account credited | Account debited | Account credited |
| | | | |
| | | | |

[4]

3 The following incomplete statement of account was available on 31 August 2015.

| STATEMENT OF ACCOUNT | | | | |
|--|-------------|-------------|----------------|---------------|
| Shahid Ayub | | | | |
| 44 Narrow Lane, Anytown | | | | |
| Mariam Soliman The Avenue Weston | | | 31 August 2015 | |
| Date | Reference | Debit \$ | Credit \$ | Balance \$ |
| 2015 August 1 | Balance due | | | 520 |
| 9 | Goods | 340 | | 860 |
| 13 | Returns | | 24 | ? |
| 24 | Payment | | 507 | ? |
| | Discount | | 13 | ? |

REQUIRED

(b) (i) Calculate the balance due on 31 August.

..... [1]

(ii) State the name of the trader who owes the balance at 31 August.

..... [1]

(c) State the business document and the book of prime (original) entry Shahid Ayub would use to record the following transactions which appear on the statement of account.

| Transaction | Document | Book of prime (original) entry |
|----------------|----------|--------------------------------|
| August 9 Goods | | |
| 13 Returns | | |
| 24 Payment | | |

[6]

4 J Smith is a wholesaler. He provided the following incomplete document on 28 February 2018.

| Date | | Reference | Debit \$ | Credit \$ | Balance \$ |
|------|----|-------------|-------------|--------------|---------------|
| 2018 | | | | | |
| Feb | 1 | Balance due | | | 700 |
| | 11 | Goods | 450 | | ? |
| | 19 | Returns | | 115 | ? |
| | 28 | Payment | | 686 | ? |
| | | Discount | | 14 | ? |

REQUIRED

- (a) (i) State the name of the document.
[1]
- (ii) Calculate the balance on the document at the end of February 2018.

[1]
- (iii) Calculate the percentage of the discount on 28 February.

[1]
- (iv) Name the type of discount on 28 February.
[1]

5 Andy sells furniture on credit. Fred is a credit customer.

REQUIRED

(g) Complete the following invoice.

| Fred Shop Road Toptown | | Andy Factory Street Toptown | Invoice no 1001 |
|------------------------------|--------------------|-----------------------------------|-----------------|
| | | | 22 May 2017 |
| Quantity | Details | Unit price | Amount \$ |
| 20 | Standard chair | \$50 | ..... |
| 10 | Luxury chair | ..... | ..... |
| | 10% trade discount | | 1750 |
| | | | |
| | | | |

[5]

(h) State which value from the invoice is recorded in Fred's account.

\$.....

[1]

(i) Name the document Andy issues if Fred returns any chairs.

.....[1]

(j) State the difference between Andy's business and a service business.

.....

[2]

6 Jade is a customer of Adil. On 1 April 2019 Jade owed Adil \$440. They exchanged the following documents in April 2019.

2019

- April 4 Cheque to settle account less 2% cash discount
- 12 Invoice for goods, \$560, less 25% trade discount
- 17 Debit note relating to some goods supplied on 12 April, list price \$120
- 20 Credit note relating to some goods supplied on 12 April, list price \$100
- 30 Statement of account

REQUIRED

(a) Name the person who issued **each** of the following documents.

In **each** case suggest **one** reason for the issue of that document.

(i) Debit note 17 April

Name of person issuing the document

Reason for the issue of the document

.....

..... [2]

(ii) Credit note 20 April

Name of person issuing the document

Reason for the issue of the document

.....

..... [2]

(iii) Statement of account 30 April

Name of person issuing the document

Reason for the issue of the document

.....

..... [2]

7 Annabel purchases goods on credit from Ed. They exchanged various business documents during April 2019.

REQUIRED

(b) Name the person who issued **each** of the following documents.

| document | person issuing the document |
|----------------------|-----------------------------|
| invoice | |
| debit note | |
| credit note | |
| statement of account | |

[4]

(c) Explain the difference between a debit note and a credit note.

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

[4]

(d) State **one** purpose of issuing a statement of account.

.....
.....

[1]

8 Diane is a trader. She buys goods on credit from Udomo. On 1 October 2016 Diane owed Udomo \$720.

Several transactions took place between the traders in October 2016.

REQUIRED

(a) Complete the following table. Name the book of prime (original) entry in which **each** document would be recorded by **each** trader. If the document is not entered in a book of prime (original) entry, write "No entry".

| Date | Document | Book of prime entry used by Diane | Book of prime entry used by Udomo |
|-------|----------------------------|-----------------------------------|-----------------------------------|
| Oct 8 | Invoice \$560 | ..... | ..... |
| 12 | Debit note \$115 | ..... | ..... |
| 16 | Credit note \$100 | ..... | ..... |
| 24 | Cheque \$720 | ..... | ..... |
| 31 | Statement of account \$460 | ..... | ..... |

[10]

(b) Name the person who issued **each** of the following documents. In **each** case suggest **one** reason for the issue of that document.

(i) Debit note 12 October

Name of person issuing the document.....

Reason for the issue of the document.....

.....

..... [2]

(ii) Credit note 16 October

Name of person issuing the document.....

Reason for the issue of the document.....

.....

..... [2]

(iii) Statement of account 31 October

Name of person issuing the document.....

Reason for the issue of the document.....

.....

..... [2]

9 Thato opened a wholesale shoe business on 1 August 2018. He buys and sells on credit terms.

REQUIRED

(a) (i) State the purpose of a debit note received by Thato from Abebe, a credit customer.

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

(ii) Complete the following table by placing a tick (✓) to indicate how Thato would record this debit note in the account of Abebe.

| credit Abebe account | debit Abebe account | no entry |
|----------------------|---------------------|----------|
| | | |

[1]

(b) (i) State the purpose of a statement of account issued by Thato to Abebe.

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

(ii) State why Thato did **not** record this in his ledger.

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

Thato received the following invoice from Nyack, a credit supplier.

| | | | | |
|---|---|---|---------------|--|
| Thato Lot 14 Industrial Estate Somecity | | Invoice Nyack Low Road Anytown | 4 August 2018 | |
| 100 pairs | Men's shoes assorted sizes and styles | \$ per unit | \$ | |
| 50 pairs | Ladies' shoes assorted sizes and styles | 40 | 4000 | |
| | | 45 | <u>2250</u> | |
| | Less 20% trade discount | | 6250 | |
| | | | <u>1250</u> | |
| | | | <u>5000</u> | |
| Terms: 2½% discount for payment in 30 days | | | | |

REQUIRED

- (c) (i) State **one** reason why Nyack allowed Thato trade discount.
 [1]
- (ii) State **one** reason why Nyack offered Thato cash discount.
 [1]
- (iii) Calculate the amount of the cheque Thato gave to Nyack on 31 August 2018 to settle the account.

 [1]
- (iv) Name the ledger in which Thato would maintain Nyack's account.
 [1]

Purchases returns journal

| Date | Details | \$ | \$ |
|-------|---------|-------|-------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

[5]

(e) Prepare the following accounts in Thato's ledger for the month of August 2018. It is **not** necessary to balance any of the accounts.

Thato
Purchases account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
| | | | | | |

Purchases returns account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
| | | | | | |

Gaby account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

[6]

10 Aysha sells on credit to Ravi.

The following information relates to the month of February 2019.

- February 1 Ravi owed \$400
- 6 Credit sales to Ravi, list price \$700, less 20% trade discount
Carriage charged on goods sold, \$25
- 12 Ravi requested to be allowed to return some of the goods purchased on
6 February, list price \$220
- 14 Aysha agreed that Ravi could return goods, list price \$200
- 21 Ravi paid the balance due on 1 February 2019 by bank transfer after deducting
2½% cash discount

REQUIRED

(b) Name the document which would be issued on **each** of the following dates.
Name the person who issued this document.

- February 6 Document
- Person issuing the document
- 12 Document
- Person issuing the document
- 14 Document
- Person issuing the document [6]

(c) Name the document Aysha would issue on 28 February 2019.
Suggest **one** reason why Aysha may issue this document.

- Document
- Reason for issue
- [2]

11 Tumelo is a trader. He buys goods on credit from Azuel.

The traders exchanged various documents in July 2019.

REQUIRED

(a) Complete the table by naming the person who issued **each** document. Name the book of prime (original) entry in which **each** document would be recorded by **each** trader.

If a document is not entered in a book of prime (original) entry, write 'No entry'.

| document | name of person issuing document | book of prime (original) entry used by Tumelo | book of prime (original) entry used by Azuel |
|-------------|---------------------------------|---|--|
| invoice | | | |
| debit note | | | |
| credit note | | | |

[9]

The following incomplete document was prepared on 31 July 2019.

| Tumelo North Avenue Anytown | | Azuel West Street Somecity | | | 31 July 2019 |
|-----------------------------------|-------------|----------------------------------|--------------|---------------|--------------|
| Date | Reference | Debit \$ | Credit \$ | Balance \$ | |
| 2019 July 1 | Balance due | | | 300 | |
| 14 | Goods | 470 | | ? | |
| 18 | Returns | | 190 | ? | |
| 27 | Payment | | 294 | ? | |
| | Discount | | 6 | ? | |

REQUIRED

(b) (i) State the name of the document.

..... [1]

(ii) Name the person who issued the document.

..... [1]

(iii) State **one** reason for the issue of the document.

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

(iv) Name the person who owed the opening balance of \$300.

..... [1]

(v) Calculate the percentage of the discount on 27 July 2019.

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

(vi) Calculate the balance due on 31 July 2019.

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

(vii) State why this document **was not** used as a source document by either Tumelo or Azuel.

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

Azuel divides his ledger into three – the sales ledger, the purchases ledger and the nominal (general) ledger.

(c) State **two** advantages of dividing the ledger into these three sections.

1 [2]
.....
2
.....

(d) Complete the table by naming the ledger in which Azuel would maintain **each** of the following accounts.

| account | ledger |
|---------------------------|--------|
| Tumelo, a credit customer | |
| sales returns | |
| Lerato, a credit supplier | |
| purchases | |
| carriage inwards | |

[5]

[Total: 23]

12 Aisha is a retailer. She buys goods on credit from Kadir, a wholesaler. They exchanged several documents during September 2019.

The following incomplete document was issued on 18 September 2019.

| Credit Note | | | |
|--------------------------------------|--|-------------------------------------|-------------------|
| Aisha 14 Straight Row Anywhere | | Kadir 123 West View Some City | |
| | | 18 September 2019 | |
| Quantity | Description | Unit price \$ | Amount \$ |
| 70 | Suits assorted sizes | (i)..... | 4130 |
| | Less 20% Trade discount | | <u>(ii).....</u> |
| | Reason for issue: Correcting overcharge on goods supplied on 4 September 2019 | | <u>(iii).....</u> |

REQUIRED

(a) Insert the missing figures in (i) – (iii) in the above document. [3]

(b) Name the person who issued the above document. [1]

(c) Suggest **one** reason why a credit note may be issued **other than** correcting an overcharge. [1]

(d) State why it was necessary to deduct trade discount on the credit note. [1]

(e) Name the book of prime (original) entry in which **each** trader would record the credit note.

| | |
|---|---|
| book of prime (original) entry used by Aisha | book of prime (original) entry used by Kadir |
| | |

[2]

On 1 September 2019 Aisha owed Kadir \$3400.

During September 2019 Aisha and Kadir exchanged the following documents (**in addition to the credit note**).

September 4 Invoice for goods, \$8960

13 Debit note, \$3540, claiming overcharge for goods supplied on 4 September

27 Cheque to settle balance outstanding on 1 September less 2% cash discount

30 Statement of account showing a closing balance of \$5656

REQUIRED

(f) Name the book of prime (original) entry in which Aisha would record these documents. If the document is not recorded in a book of prime (original) entry, write 'no entry'.

| document | book of prime (original) entry used by Aisha |
|----------------------|--|
| invoice | |
| debit note | |
| cheque | |
| statement of account | |

[4]

- 13 Kumar supplies goods to Simran on credit. Some documents were exchanged between them during August 2017.

REQUIRED

- (a) Complete the table to name the person who issued **each** document. The first item has been completed as an example.

| document | name of person issuing the document |
|----------------------|-------------------------------------|
| invoice | <i>Kumar</i> |
| debit note | |
| credit note | |
| statement of account | |
| cheque | |

[4]

- (b) State the purpose of a debit note.

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

- (c) State the book of prime (original) entry in which Kumar would record the credit note.

.....[1]

- (d) Name the ledger in which Kumar maintains Simran's account.

.....[1]

Simran is a regular customer. Kumar allows Simran a discount for buying in bulk.

REQUIRED

- (e) Name the type of discount offered by Kumar.

.....[1]

- (f) State where Kumar would record this discount.

.....[1]

The following are details of the credit notes issued by Kumar in December 2017.

| Date | Customer | Credit note number | \$ |
|---------------|--------------------|--------------------|-----|
| 2017 Dec 3 | Sam | C1015 | 295 |
| 12 | Saira | C1016 | 103 |
| 31 | Total for December | | 398 |

REQUIRED

(g) State where Kumar will post

(i) the total of the credit notes for December

.....[1]

(ii) the individual credit notes

.....[1]

Kumar has received positive feedback about his customer service. No entry has been made in the accounting records to reflect this success.

REQUIRED

(h) Name and explain the accounting principle Kumar has applied.

Name

Explanation

.....

.....[2]

(i) Complete the following to show the accounting equation.

equals assets minus

[2]

Double Entry / Trial Balance / Source Docs / Accruals etc

Q1 The following balances were taken from the books of Krul Limited on 1 July 2015.

| | |
|----------------------------|------------|
| | \$ |
| Carston Garages account | 200 credit |
| Motor van expenses account | 3200 debit |

The following transactions took place in July 2015.

- July 12 Paid Carston Garages their outstanding balance by cheque, deducting 3% cash discount
- July 15 Purchased fuel for the motor van, on credit, from Carston Garages, \$120
- July 23 Paid motor van repairs by cheque, \$200
- July 26 Purchased new motor van tyres from Carston Garages on credit, \$400, less 15% trade discount

Additional information

- 1 Krul Limited prepared financial statements on 31 July 2015.
- 2 Motor van expenses, \$125, were accrued on 31 July 2015.

REQUIRED

- (a) Prepare the Carston Garages account for the year ended 31 July 2015. Balance the account and bring down the balance on 1 August 2015.

Carston Garages account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

- (b) Prepare the motor van expenses account for the year ended 31 July 2015. Make the transfer to the income statement. Balance the account and bring down the balance on 1 August 2015.

Motor van expenses account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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(c) Name the subdivision of the ledger containing **each** of the following accounts.

| Account | Subdivision of the ledger |
|--------------------------|---------------------------|
| Sales | |
| T Wong (credit customer) | |

(d) Explain **each** of the following accounting terms.

(i) Revenue expenditure

.....

 [2]

(ii) Capital receipt

.....

 [2]

(e) Indicate by placing a tick (✓) whether **each** of the following transactions is revenue expenditure, revenue receipt, capital expenditure or capital receipt.

| Transaction | Revenue expenditure | Revenue receipt | Capital expenditure | Capital receipt |
|------------------------------|---------------------|-----------------|---------------------|-----------------|
| Sale of motor van | | | | |
| Purchase new motor van tyres | | | | |
| Cash discount received | | | | |
| Purchase a new motor van | | | | |

REQUIRED

(b) Prepare the following ledger accounts for the three months to 31 July 2014.

Midland Telecoms account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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[5]

Telephone expenses account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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[4]

(c) Name and explain the accounting concept applied in estimating the telephone expenses owing on 31 July 2014.

Accounting concept

.....

Explanation

.....

.....

.....[3]

The following were some of the transactions which took place in July.

- 5 July Purchased inventory on credit.
- 10 July Goods returned by a credit customer.
- 20 July Paid wages in cash.
- 25 July Disposed of fixtures and fittings on credit.

REQUIRED

(d) Complete the following table for the above transactions naming the source document prepared by Maria and the book of prime entry used. The first item has been completed as an example.

| | Source document | Book of prime entry |
|---------|-------------------------|--------------------------|
| 5 July | <i>Purchase invoice</i> | <i>Purchases journal</i> |
| 10 July | | |
| 20 July | | |
| 25 July | | |

Q3 The following balances were taken from the books of Asir on 1 July 2012.

| | |
|-----------------------|----------|
| Stationery | \$ 60 Dr |
| Rapid Office Supplies | 400 Cr |

The following transactions took place in the three months ended 30 September 2012:

- July 30 Paid the balance owing on 1 July 2012 to Rapid Office Supplies by cheque, after deducting 4% cash discount.
- August 18 Purchased stationery on credit from Rapid Office Supplies, list price \$500, and received 10% trade discount.
- August 20 Purchased stationery for cash, \$150.
- September 3 Returned to Rapid Office Supplies stationery purchased on 18 August, list price \$50.

Asir prepared his financial statements on 30 September 2012. On that date inventory of stationery was valued at \$225.

REQUIRED

(a) State the meaning of the debit balance on the stationery account on 1 July 2012.

.....
 [1]

(b) Prepare the following ledger accounts. Balance the accounts at 30 September 2012 and show the transfer to the income statement where appropriate.

Stationery account

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Rapid Office Supplies account

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..... [9]

(c) State the document sent by Rapid Office Supplies to Asir for the:

(i) Purchase of stationery on 18 August 2012

..... [1]

(ii) Return of stationery on 3 September 2012.

..... [1]

- (d) On 30 September 2012 Asir extracted a trial balance and prepared his financial statements. State the amount for stationery which would appear in **each** of the following:

| | \$ |
|------------------|----|
| Trial balance | |
| Income statement | |
| Balance sheet | |

[3]

- (e) State the section of Asir's balance sheet on 30 September 2012 in which the following balances would appear:

(i) Stationery

..... [1]

(ii) Rapid Office Supplies

..... [1]

- (f) (i) Explain why Asir did not transfer all of the stationery purchased in the three month period to the income statement.

.....

 [2]

(ii) Name the accounting concept applied by Asir.

..... [1]

Q4 Alia's brother Roshan also runs a business.

Roshan provided the following information for the month of September 2018.

- September 1 Balances Computer maintenance expenses account \$720
 KK Computers account \$450 Credit
- 8 Roshan paid \$425 to KK Computers by cheque in full settlement of the balance owing on 1 September 2018.
- 19 Roshan received an invoice for \$750 from KK Computers for computer maintenance.
- 30 Roshan prepared the financial statements for the year. It was estimated that \$70 of computer maintenance expenses were prepaid.

REQUIRED

(b) Prepare the following accounts for the month of September 2018. Complete the appropriate transfer. Balance the accounts and bring down the balances on 1 October 2018.

Computer maintenance expenses account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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KK Computers account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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[9]

On 15 October 2018 Roshan sold a computer (non-current asset) to Jones on a 20-day credit for \$200. The computer had cost Roshan \$250 and had accumulated depreciation of \$70.

On 30 October Jones still owed \$200.

REQUIRED

- (c) (i) Name the book of prime (original) entry in which Roshan would record the sale.
.....[1]
- (ii) Name the document that Roshan sent to Jones on 15 October.
.....[1]
- (iii) Name the document that Roshan sent to Jones on 30 October.
.....[1]

On 2 November Jones paid Roshan \$195 in full settlement of the debt for the computer.

REQUIRED

- (d) (i) Name the type of discount given to Jones.
.....[1]
- (ii) Calculate the amount of the profit or loss that Roshan made on the sale of the computer.
.....
.....[2]

[Total: 20]

Q5

Complete the following table for **each** of Fabio's transactions in July 2016. If the capital is not affected write 'No effect'. The first transaction has been completed as an example.

| Transaction | Book of prime entry | Account to be debited | Account to be credited | Effect on capital \$ |
|--|---------------------|-----------------------|------------------------|----------------------|
| Sold goods costing \$900 on credit to Noah for the list price of \$1500. | Sales Journal | Noah | Revenue (Sales) | +\$600 |
| Noah returned goods with a list price of \$100. | | | | |
| Paid Sophie a cheque for \$610. | | | | |
| A debt, \$230, owed by Zain was written off. | | | | |

[12]

Q6 The following ledger account appeared in the books of Kusum on 31 March 2018.

| Smith account | | | | | | | |
|---------------|----|----------------|-----|-------|----|-------------|-----|
| | | | \$ | | \$ | | |
| March | 1 | Balance b/d | 200 | March | 7 | Returns | 150 |
| | 5 | Sales (credit) | 700 | | 21 | Bank | 144 |
| | 14 | Bank (refund) | 60 | | | Discount | 6 |
| | | | 960 | | 31 | Balance c/d | 660 |
| April | 1 | Balance b/d | 660 | | | | 960 |

REQUIRED

(a) Name the:

- (i) subdivision of Kusum's ledger which would contain the account of Smith
[1]
- (ii) document that Kusum would issue to Smith on 5 March
[1]
- (iii) document that Kusum would send to Smith on 14 March
[1]
- (iv) book of prime entry in which the transaction of 7 March would be recorded
[1]
- (v) type of discount given to Smith on 21 March
[1]
- (vi) section in Kusum's statement of financial position that would contain the account of Smith.
[1]

(b) Calculate the percentage discount taken by Smith on 21 March.

.....

.....

.....

.....[2]

The following information is available for the month of April 2018.

| | | | |
|-------|---|---|------|
| | | | \$ |
| April | 1 | Balances | |
| | | Drawings account | 6400 |
| | | Capital account | 9000 |
| 7 | | Kusum paid \$2500 into the business bank account from her personal bank account. | |
| 9 | | Kusum cashed a cheque from the business bank account for \$500 for her personal use. | |
| 15 | | The annual insurance premium, \$750, was paid by cheque. This included \$150 for the insurance of Kusum's home. | |
| 30 | | Kusum prepared the financial statements. The profit for the year was \$3700. | |

REQUIRED

(c) Prepare the following accounts for the month of April 2018.

Complete the appropriate year-end transfer from the drawings account.

Balance the capital account and bring down the balance on 1 May 2018.

(i) Drawings account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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[5]

(ii) Capital account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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[5]
31

(d) Distinguish between book-keeping and accounting.

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[2]

[Total: 20]



Q7 Lohit is a supplier of goods to Asanka. The following entries require recording in the books of Asanka for the month of August 2018.

- August 1 Asanka owed Lohit, \$90
- 9 Lohit supplied goods to Asanka, list price \$80 less 15% discount
- 10 Asanka returned goods, list price \$20, supplied on 9 August
- 15 Asanka paid \$97 by cheque after deducting \$3 discount

REQUIRED

(a) Prepare the account of Lohit in the books of Asanka for August 2018. Balance the account and bring down the balance on 1 September 2018.

Lohit account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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[5]

(b) Name each of the following:

- (i) type of discount allowed by **Lohit** on 9 August
.....[1]
- (ii) book of prime entry in which **Lohit** would record the transaction on 9 August
.....[1]
- (iii) document that **Lohit** would send to Asanka recording the transaction on 10 August
.....[1]
- (iv) sub-division of **Lohit's** ledger which would contain the account of Asanka
.....[1]
- (v) section of **Lohit's** statement of financial position which would contain the balance on Asanka's account.
.....[1]

The following were recorded in the books of Asanka in the year ended 31 August 2018.

| | Balance 1 September 2017 \$ | Cash book entries for the year ended 31 August 2018 \$ | Balance 1 September 2018 \$ |
|--------------------|-----------------------------------|---|-----------------------------------|
| Rent payable | 150 Debit | 14 000 Paid | 250 Debit |
| Telephone expenses | 60 Debit | 1 500 Paid | 25 Credit |
| Rent receivable | 200 Credit | 1 800 Received | 500 Debit |

REQUIRED

(c) Explain the meaning of the:

(i) \$150 debit balance on the rent payable account on 1 September 2017;

.....
 [2]

(ii) \$25 credit balance on the telephone expenses account on 1 September 2018.

.....
 [2]

(d) Complete the following table by inserting the values of rent payable, telephone expenses and rent receivable which would appear in the trial balance, income statement and statement of financial position.

The first one has been completed as an example.

| | Trial balance at 31 August 2018 | Income statement for the year ended 31 August 2018 | | Statement of financial position at 31 August 2018 | |
|--------------------|--|---|--------|--|-------------|
| | | Expenses | Income | Assets | Liabilities |
| | \$ | \$ | \$ | \$ | \$ |
| Rent payable | 14 150 | 13 900 | – | 250 | – |
| Telephone expenses | | | | | |
| Rent receivable | | | | | |

[6]

[Total: 20]

Q8 Lyana is preparing her financial statements. She provides the following information.

1 October 2015 Rent receivable account \$2500 Credit

The bank account contained the following entries.

Receipts
31 December 2015 Rent received by cheque \$6700
30 April 2016 Rent received by cheque \$3100

Payments
31 January 2016 Refund for overpayment of rent receivable \$700

Additional information

The rent receivable amounts to \$12000 a year.

REQUIRED

(a) Prepare the rent receivable account for the year ended 30 September 2016. Make the transfer to the income statement and bring down the balance on 1 October 2016.

Rent receivable account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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[5]

(b) Define the term 'revenue receipt'.

.....
.....
.....[2]

- (c) Complete the following table by inserting a (✓) showing whether **each** transaction is revenue expenditure, a revenue receipt, capital expenditure or a capital receipt. The first one has been completed as an example.

| Transaction | Revenue | | Capital | |
|---------------------------------------|-------------|---------|-------------|---------|
| | Expenditure | Receipt | Expenditure | Receipt |
| Sold office computer | | | | ✓ |
| Received interest on deposit account | | | | |
| Took out a 5-year bank loan | | | | |
| Paid property insurance | | | | |
| Bought motor vehicle to deliver goods | | | | |
| Received commission | | | | |

[5]

[Total: 20]

Q9 Nor purchases goods from Adam. On 1 April Nor owed Adam \$1500. The following transactions occurred in April 2017.

- April 9 Adam sold goods to Nor on credit, list price \$1200, less 20% trade discount.
- 11 Nor returned goods purchased on 9 April, list price \$100.
- 28 Nor paid by cheque the balance on her account at 1 April and was allowed 3% cash discount.

REQUIRED

(a) Prepare the account of Adam in the ledger of Nor for April 2017. Balance the account and bring down the balance on 1 May 2017.

Adam account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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(b) Name the: [5]

(i) book of prime (original) entry in which the transaction on 9 April would be recorded by Nor. [1]

.....[1]

(ii) document that Adam would send to Nor on 11 April. [1]

.....[1]

(iii) division of Nor's ledger in which the account of Adam would be kept. [1]

.....[1]

(c) State **one** reason why Adam would allow Nor:

(i) trade discount

.....

.....[1]

(ii) cash discount

.....

.....[1]