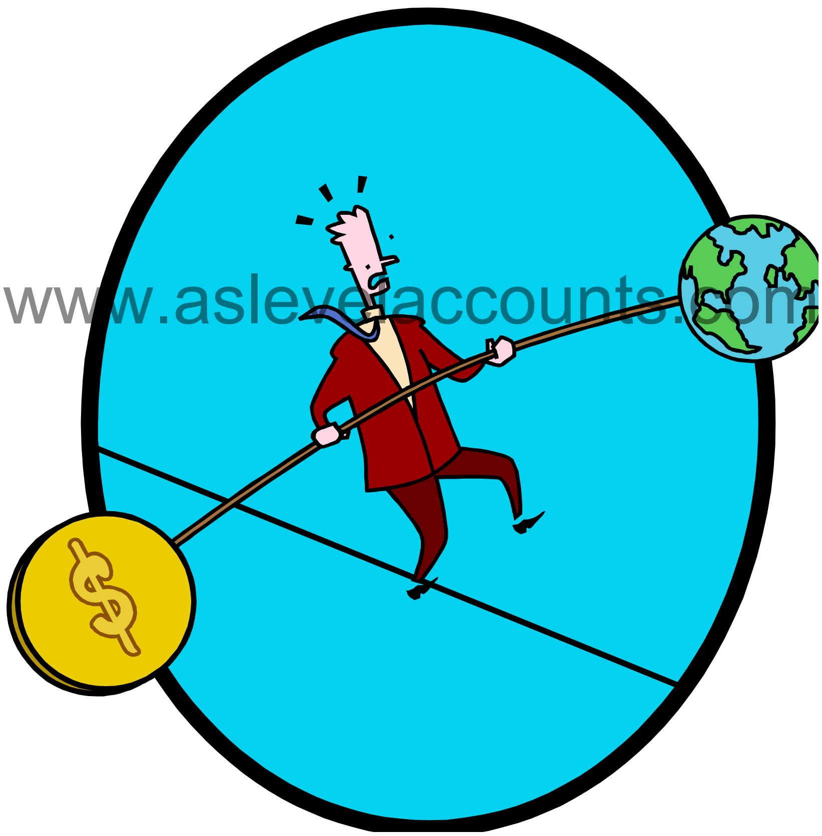
Control Accounts



Prepared by D. El-Hoss

For Examiner's Use

2 A Marie Motiwala's draft profit and loss account for the year ended 30 April 2008 was prepared by her new book-keeper and showed a loss of $100 000. The following errors were then discovered.

1 Capital of $80 000 contributed by Marie Motiwala had been included in sales.

2 Sales returns of $20 000 had been debited to purchases returns.

3 No provision for depreciation on equipment had been charged for the year. Depreciation should have been provided for using the reducing balance method at 40 % per annum. The book value of equipment at 1 May 2007 was $240 000.

4 Accrued bank interest of $10 000 payable at 30 April 2008 had been omitted from the accounts.

5 Marie Motiwala's drawings of $50 000 had been debited to wages.

6 Stock valued at $10 000 at 30 April 2008 should have been valued at $1000.

7 Stock costing $11 000 taken for Marie Motiwala's personal use during the year had not been recorded in the accounts.

8 A $20 000 interest free loan to an employee had been debited to the wages account.

9 $100 000 had been debited to the equipment account. Of this amount, $25 000 should have been debited to equipment repairs.

10 Stock costing $22 000 was delivered to the business on 28 April 2008 and was included in the end-of-year stocktaking. The invoice was received and entered into the accounting records on 3 May 2008.

For Examiner's Use

REQUIRED

Prepare a detailed financial statement showing Marie Motiwala's corrected profit or loss for the year ended 30 April 2008.

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For Examiner's Use

B JR's sales ledger control account balances at 1 March 2008 were as follows.

Dr $340 600 Cr $1 960

During March 2008 the following transactions took place.

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Credit sales	295 000
Cash sales	219 750
Sales returns from credit customers	6 480
Receipts from debtors	238 600
Discounts allowed	3 500

Additional information for the month of March 2008

1 The receipts from debtors included a cheque for $3600 in full settlement of a debt of $3800. This was returned by the bank on 28 March marked "insufficient funds".

2 Eva Little and JR both buy from and sell to each other. At 31 March 2008 Eva owed JR $5000 and JR owed $8600 to Eva. They agreed to offset balances, the net amount being payable by JR on 31 March 2008.

3 It was agreed that a debt of $2300 from Alice Springs was bad and it was written off.

4 The total credit balances in the sales ledger control account at 31 March 2008 were $8340.

For Examiner's Use

REQUIRED

(a) Prepare JR's sales ledger control account for the month of March 2008.

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For Examiner's Use

(b) State **three** possible reasons why a debtor's account might have a credit balance.

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(c) State **three** reasons for keeping control accounts.

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[Total: 30]

For Examiner's Use

2 The following information has been extracted from the accounts of Harvey Rabbit for the year ended 31 March 2010.

	$
Sales ledger balance at 1 April 2009	29 040
Credit sales	499 892
Cash sales	14 634
Credit sales returns	9 878
Receipts from debtors, banked	462 680
Discount allowed on credit sales	21 404
Bad debts written off	9 510
Debtors' cheques dishonoured	662
Contra entries	1 153

REQUIRED

(a) Prepare Harvey Rabbit's sales ledger control account for the year ended 31 March 2010.

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The total of Harvey Rabbit's sales ledger balances at 31 March 2010 was $26 845, which did not agree with the closing balance of his sales ledger control account. On checking his accounts he discovered the following errors.

1 A credit note for $420 which had been sent to a debtor had been entered in the sales journal (day book) and posted as a sale to both accounts.

2 A debit entry in the sales ledger for $698 had been set off as a contra entry in the purchases ledger, but no entry had been made in the control accounts.

3 The discount allowed account had been overstated by $310.

4 A sales invoice for $998 had been completely omitted from the accounts.

5 A debit balance of $2102 had been omitted from the list of debtors.

6 A debtor who owed $896 had been declared bankrupt during March 2010. The debt had been written off in the control account, but no entry had been made in the debtor's account.

7 A receipt for $630 had been debited to the bank account but omitted from the debtor's account.

8 An entry for $816 in the sales journal (day book) had not been posted to the debtor's account.

9 A sales ledger account had been understated by $200.

10 A page of the sales journal (day book) with entries totalling $3856 had been omitted from total sales. The amounts had, however, been posted to the debtors' accounts.

REQUIRED

(b) **(i)** Beginning with the closing balance which you have calculated in **(a)**, prepare a statement showing the amended balance on the control account.

Amendments to sales ledger control account

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(ii) Beginning with Harvey Rabbit's sales ledger balance of $26 845, prepare a statement amending the total of the sales ledger balance to agree with the new control account balance.

For Examiner's Use

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(c) State **three** advantages of keeping control accounts.

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[Total: 30]

1 Marcel owns a wholesale business supplying shops, hotels and restaurants with tea and coffee. He does not keep formal accounting records but is able to supply the following information for the year ended 30 April 2011.

	30 April 2011	1 May 2010
	$	$
Trade receivables	17 000	18 200
Trade payables	14 800	16 600
Inventories	20 600	33 000
Wages accrued	9 350	9 200
General expenses prepaid	–	900
General expenses owing	800	–

Transactions during the year ended 30 April 2011 were as follows:

	$
Cash received from credit customers	103 160
Cash paid to credit suppliers	88 400
Cash sales to staff	10 750
Sales returns from credit customers	9 200
Discounts allowed	9 540
Discounts received	9 000
Bad debts	8 200
Wages	13 650
General expenses	12 300

REQUIRED

(a) **(i)** Prepare a purchases ledger control account to find out the total amount of credit purchases for the year ended 30 April 2011.

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(ii) Prepare a sales ledger control account to find out the amount of credit sales for the year ended 30 April 2011.

For Examiner's Use

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Additional information:

1 The normal gross profit to sales margin is 33.33%.

2 Staff are permitted to buy goods at cost plus 25%.

3 Goods sold in the annual clearance sale, $29 700, were sold at cost price.

4 On 8 March 2011 an unknown quantity of goods was destroyed by fire.

REQUIRED

For Examiner's Use

(b) There were no further losses of goods during the year. Starting with the opening inventory, calculate the value of the goods destroyed by the fire on 8 March 2011.

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(c) Prepare the income statement (trading account only) for the year ended 30 April 2011.

For Examiner's Use

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[Total: 30]

For Examiner's Use

2 The books of Mary Rose gave the following information for the month ended 31 May 2003. All sales and purchases were on credit.

	$000
Sales ledger balance at 1 May 2003	5 627
Purchases ledger balance at 1 May 2003	4 388
Sales for the year	100 384
Purchases for the year	64 987
Sales returns	1 997
Purchases returns	864
Payments received from debtors (all banked)	92 760
Payments made to creditors	63 520
Debtor's dishonoured cheque	109
Discount allowed	4 082
Discount received	3 241
Bad debts written off	1 884
Debit balances transferred to purchases ledger control account	208

The total of Mary Rose's sales ledger balances is £9387, which differs from the closing balance in the sales ledger control account.

REQUIRED

(a) Extract the relevant information from above and prepare the sales ledger control account for the month ended 31 May 2003.

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For Examiner's Use

The following errors have been discovered since the sales ledger control account was prepared.

(i) A sales invoice for $2001 had been completely omitted from the books.
(ii) A page of the sales day book with entries totalling $7820 had been omitted from total sales but the individual entries had been posted to the debtors' accounts.
(iii) A debit balance of $4020 had been omitted from the list of debtors.
(iv) A sales ledger account had been understated by $220.
(v) A purchases ledger account had been overstated by $350.
(vi) Discount allowed had been overstated by $620.
(vii) Discount received had been understated by $450.
(viii) An entry for $1620 in the sales day book had been omitted from the debtor's account.
(ix) A contra entry had been made in the purchases ledger for a debit balance of $1412 in the sales ledger, but no entry had been made in the control accounts.
(x) A receipt of $1210 was debited to bank but not posted to the debtor's account.
(xi) A credit note for $720, sent to a debtor, had been entered in the sales day book and posted as a sale to both accounts.
(xii) A debtor owing $1820 was declared bankrupt during May 2003. The debt was written off in the control account but no entry had been made in the debtor's account.

REQUIRED

(b) (i) Prepare an amended sales ledger control account, extracting the relevant information from the list of errors given above.

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For Examiner's Use

(ii) Prepare a Statement altering the total of the sales ledger balance to agree with the new sales ledger control account balance.

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(c) Give **three** reasons for keeping control accounts.

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For Examiner's Use

2 Answer Section **A** and Section **B**.

A The sales ledger control account of Dream Beds for the year ended 31 December 2010 is shown below.

		$			$
Jan 1	Balance b/d	43 900	Dec 31	Sales returns	28 510
Dec 31	Sales	522 650		Bank	436 300
	Bank (dishonoured cheques)	2 200		Discount allowed	28 800
				Bad Debts	8 400
				PLCA	3 210
				Balance c/d	63 530
		568 750			568 750

The schedule of trade receivables (debtors) extracted from the sales ledger at 31 December 2010 totalled $61 140.

The following errors were subsequently discovered:

1 A sale of $750 had been entered in John's account in the sales ledger as $570. The correct entry had been made in the sales journal.

2 An entry of $850 was correctly entered in Samera's account in the sales ledger, closing the account owing to Samera's bankruptcy. No other entry had been made.

3 A sum of $120 discount allowed had been debited to Beach's account in the sales ledger. The correct entry had been made in the cash book.

4 At 31 December 2010 the balances in Richard's accounts were:

	$	
Purchases Ledger	2680	Credit
Sales Ledger	1980	Debit

It was decided to set off Richard's balance in the sales ledger against the balance in the purchases ledger. No entries had been made.

5 Goods to the value of $800 were sold to Claire in June 2010, and the account had not yet been paid. Interest charges of $30 are to be applied on the overdue account, but no entries for this had yet been recorded.

In addition a provision for doubtful debts of 10% on the new outstanding balance is to be created.

6 Dream Beds had sent goods with a selling price of $400 on a sale or return basis to Majit. Majit had not yet signified any intention to purchase the goods. Dream Beds had considered the goods as sold, and made the relevant accounting entries.

7 A page in the sales returns journal in October 2010 had been undercast by $1600. No correction had yet been made.

REQUIRED

For Examiner's Use

(a) Prepare the corrected sales ledger control account for the year ended 31 December 2010.

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(b) Prepare a statement reconciling the schedule of trade receivables (debtors) total with the corrected balance in the sales ledger control account.

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For Examiner's Use

(c) Explain **two** advantages of using a sales ledger control account.

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(ii) ....

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B S Turner owns a food wholesale business. The following amounts were extracted from books of account at 31 December 2010.

	$
Inventory – 1 January	45 000
Inventory – 31 December	65 000
Cost of sales	880 000
Business expenses	130 000
Trade payables	100 000
Trade receivables	150 000
Bank overdraft	50 000
Capital – 31 December 2010	1 125 000

The mark up on goods is 25%.

REQUIRED

(a) Calculate the profit for the year (net profit) ended 31 December 2010.

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(b) Calculate the following ratios, giving your answer to **one** decimal place.

(i) Return on capital employed

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For Examiner's Use

(ii) Inventory turnover (as a number of times)

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(iii) Liquid (acid test) ratio.

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S Turner is considering expanding her business by purchasing another food wholesale business.

She has obtained the following information on two possible business purchases.

	Paradis Foods	**Jones Wholesalers**
Return on capital employed	15%	6%
Current ratio	3.4:1	1.8:1
Liquid (acid test) ratio	0.5:1	1.4:1

REQUIRED

(c) Advise which business, if any, she should purchase on the basis of all of the information provided. Justify your answer.

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[Total: 30]