

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

1 The purpose of accounting

- 1 D
- 2 D
- 3 C
- 4 A
- 5 Book-keeping involves the detailed recording of all the financial transactions that have taken place over a period in a business. Book-keeping is important as it ensures that the records of all financial transactions that a business has undertaken are accurate, up to date and comprehensive.
- 6 Any three of the following answers:
 - to compare it with that of previous years
 - to compare with a competitor's profit
 - to take corrective action if profits are falling
 - to grow the business if profits are increasing
 - to measure the business' ability to pay the highest returns to its owners relative to its competitors.
- 7 Any five of the following:
Owners; managers; trade payables; the bank; the government; prospective investors.

8

	True/False
A book-keeper needs more accounting skills than an accountant.	False
Book-keeping is carried out throughout the financial year.	True
Owners use financial statements to know the net worth of the business	True
One of the main aims of a business is to make a profit.	True
Analysing financial statements is one of the tasks a manager does.	True

9

- a Book-keeping involves the collection, recording, storing and retrieving of financial transactions for a business. The book-keeper is not as skilled as an accountant.

Accounting is a process of collecting, recording, classifying, summarising, analysing, interpreting and communicating financial data to allow the users of accounting information to make informed judgements and decisions. An accountant is more skilled than a book-keeper.
- b Financial data is any aspect of the business that can be measured in terms of money. It is recorded in the financial statements.

Non-financial data cannot be measured accurately in terms of money. It is not recorded in the financial statements.

- c Analysing means examining something in detail with the intention of explaining and interpreting it. Analysis allows for comparisons, between years and between competing businesses, for instance.

Interpreting is the act of deciding what the intended meaning is. A manager will use information from the analysis of figures in the income statement to make important decisions.

- 10 The income statement is used to calculate the profit a business has made. This profit is then compared with that of previous years. If the profit in the current year is less than the previous year's profit, then owners and managers would want to take steps to remedy the situation by either decreasing expenses or increasing revenue.

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- a The bank manager will ask for and use past and present accounting records of the business before granting a loan or any other service, such as an overdraft facility, to the business.
- b Prospective investors would like to know how well their investment will do in the future by studying present and past accounting records of the business they are intending to invest in.
- c Trade payables and suppliers of the business want to know whether they will be paid on time, if at all.

- 12 Either of the following purposes:

The purpose of preparing financial statements is to provide important financial information that helps the owner to monitor progress.

They also help with good decision making.

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2 The accounting equation

- 1 D
- 2 C
- 3 A
- 4 A
- 5 A

6 $\text{Assets} = \text{Owner's equity} + \text{Liabilities}$ (or $\text{Liabilities} = \text{Assets} - \text{Owner's equity}$ or $\text{Owner's equity} = \text{Assets} - \text{Liabilities}$) (any form of the equation is acceptable)

7

- a An asset is a resource of monetary value that a business owns or is owed to the business.
- b A liability is a debt that a business owes for goods or services supplied.
- c Owner's equity is what the business owes the owner (resources supplied by the owner).
- d The statement of financial position is a statement listing a business' assets, liabilities and owner's equity as on a particular day.
- e A trade payable is a person or business to whom money is owed for supplies made to the business.

8 $\text{Owner's equity} = \text{Assets} - \text{Liabilities} = (50\,000 + 10\,000 + 2\,500) - 3\,800 = \$58\,700$

9

	Asset	Liability
Motor van	✓	
Trade receivables	✓	
Long-term loan		✓
Property and buildings	✓	
Bank overdraft		✓
Equipment	✓	
Inventory	✓	
Trade payables		✓
Cash in hand	✓	

10

	Assets	Liabilities	Owner's equity
	\$	\$	\$
a	4 500	2 700	1 800
b	85 200	35 700	49 500
c	7 890	6 350	1 540
d	5 680	3 210	2 470
e	11 810	5 240	6 570
f	23 760	13 770	9 990

11

	Transaction	Effect	
a	Bought goods on credit	increase (inventory)	increase (trade payables)
b	The owner introduced cash into business bank account	increase (bank)	increase (owner's equity)
c	The owner takes money out of the business bank account for personal use	decrease (bank)	decrease (owner's equity)
d	The business sold goods for cash	increase (cash)	decrease (inventory)
e	The business pays the amount owed to a trade payable by cheque	decrease (bank)	decrease (trade payables)
f	The business sold goods on credit	increase (trade receivables)	decrease (inventory)
g	The business took a loan in cash	increase (cash)	increase (loan)
h	A credit customer pays the business in cash	increase (cash)	decrease (trade receivables)
i	The business bought a motor vehicle paying by bank transfer	increase (non-current assets)	decrease (bank)
j	The business pays back the loan by bank transfer	decrease (bank)	decrease (loan)

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3 The double entry system of book-keeping

- 1 A system of book-keeping where a ledger account is opened for each asset, liability, expense, income and for equity. Every transaction is recorded in at least two of these ledger accounts to reflect the equal and opposite effect of it on those accounts.

2 B

3 B

4 D

5 B

6 D

7

- a Purchases ledger
- b i) Explanation: Sung Jin bought inventory from Monica Lee on credit.
ii) Purchases account will be debited in Sung Jin's books.
- c Sales ledger

8

- a Any two of the following: for convenience; for good organisation of data and accounts; to keep accounts of the same type together.
- b

Account	Ledger
Motor vehicle	Nominal (general)
Nadhim, a credit customer	Sales
Purchases	Nominal (general)
Sales	Nominal (general)
Returns outwards	Nominal (general)
Barry, a credit supplier	Purchases
Salaries	Nominal (general)

9

- a An asset is a resource of value that the business owns, e.g. machinery. It can also be a debt owing to the business from its credit customers.
A liability is a debt that the business owes, e.g. trade payables.
- b A non-current asset is purchased with the intention of using it to generate income over a period of more than a year, e.g. machinery. Current assets are assets that can

be sold, exhausted or consumed through the normal workings of a business with no more than a year remaining on the date of the statement of financial position in which they are listed, e.g. inventory.

- c Non-current liabilities are debts that must be paid after a period of a year. Current liabilities are those debts that must be paid within a year from the date of the statement of financial position in which they are listed, e.g. trade payables or overdraft.
- d The personal accounts of a business' credit customers appear in the sales ledger. The nominal (general) ledger contains the accounts of all other assets, liabilities, income, expenses, sales, purchases and returns – i.e. all accounts not contained in the sales and purchases ledgers.
- e Trade payables are suppliers to whom the business owes money for goods or services received. Trade receivables are customers who owe the business money for goods or services provided by the business.

10 a

$$\begin{aligned}
 \text{Ji Lui's equity} &= \text{Assets} - \text{Liabilities} \\
 &= (7\,200 + 800 + 1\,300 + 180 + 250) - (830 + 510) \\
 &= \$8\,390
 \end{aligned}$$

b

	Account(s) debited	\$	Account(s) credited	\$
i)	Salaries	319	Cash	319
ii)	Drawings	89	Cash	89
iii)	Motor vehicle	1 970	Capital	1 970
iv)	Ken Lee	100	Bank	98
			Discounts received	2

11 a

Bank charges account

Date	Details	\$	Date	Details	\$
2018			2018		
Mar 31	Bank	48	Dec 31	Income statement	261
June 30	Bank	86			
Sept 30	Bank	71			
Dec 31	Bank	<u>56</u>			
		<u>261</u>			<u>261</u>

- b The total of bank charges is transferred to the income statement because they are an expense and need to be set against the income/profit of the year in which they are incurred. If the balance was carried down it would indicate that it was an asset and recorded in the statement of financial position.

12 a

Motor vehicles account

Date	Details	\$	Date	Details	\$
2018			2018		
Jan 1	Balance b/d	17 000	Dec 31	Balance c/d	38 000
Oct 31	Bank	12 000			
	Tip Top Motors	<u>9 000</u>			
		<u>38 000</u>			<u>38 000</u>
2019					
Jan 1	Balance b/d	38 000			

Tip Top Motors account

Date	Details	\$	Date	Details	\$
2018			2018		
Nov 30	Bank	1 000	Oct 31	Motor vehicles	9 000
Dec 31	Bank	1 000			
	Balance c/d	<u>7 000</u>			
		<u>9 000</u>			<u>9 000</u>
			2019		
			Jan 1	Balance b/d	7 000

- b The balance on the motor vehicles account was brought down as it represents an asset which will be used in the coming year and which should be recorded in the statement of financial position.

The balance on Tip Top Motors account was brought down as it represents a liability which will be paid in the coming year and which also needs to be recorded in the statement of financial position.

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4 Business documents

- 1 A
- 2 A
- 3 B
- 4 A
- 5 A
- 6
 - a Trade discount
 - b Invoice
 - c Statement of account
 - d Credit note
 - e Statement of account
 - f Debit note
 - g Debit note
- 7
 - Boxes of nails = $500 \times 15.10 = \$7\,550$
 - Trade discount = $2\% \times 7\,550 = \$151$
 - Total of invoice = $7\,550 - 151 = \$7\,399$
- 8
 - a i) \$60.75; ii) 20; iii) Trade; iv) \$1.61; v) \$159.14
 - b L. Kerry
 - c Because L. Kerry is returning goods which he had purchased from K Lui.

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5 Books of prime entry

- 1 A
- 2 A
- 3 C
- 4 D
- 5 D
- 6 Any of the following suggestions:

Book of prime entry	Source document
Purchases journal	Purchases invoice
Sales journal	Sales invoice
Cash book	Cash receipt/cheque
Petty Cash book	Petty cash voucher/receipt
Purchases returns journal	Credit note received
Sales returns journal	Credit note issued

- 7 Any of the following answers:
 - To prevent too many details from making their way into the ledgers
 - A quicker way to record transactions
 - Helps to prevent errors
 - Book-keeping can be divided between several people.
- 8 Discounts allowed; Discounts received.
- 9 Source documents are used to make records in books of prime entry. Source documents also serve as proof that a transaction has taken place.
- 10 Cash book/petty cash book/general journal
- 11

Basant's account

Date	Details	\$	Date	Details	\$
Oct 1	Balance b/d	160	Oct 31	Sales returns	110
Oct 31	Sales	<u>400</u>	Oct 31	Bal c/d	<u>450</u>
		<u>560</u>			<u>560</u>
Nov 1	Bal b/d	450			

Sales account

Date	Details	\$	Date	Details	\$
			Oct 31	Total for the month	770

Sales returns account					
Date	Details	\$	Date	Details	\$
Oct 31	Total for the month	180			

12 a

Date	Details	Dis	Cash	Bank	Date	Details	Dis	Cash	Bank
2018		\$	\$	\$	2018		\$	\$	\$
Sept 1	Bal b/d		2 500	4 000	Sept 10	Drawings			60
Sept 3	Sales		300		Sept 16	Bank c		250	
Sept 15	Johnny	40		460	Sept 18	Ali	35		665
Sept 16	Cash c			250	Sept 20	Cash c			320
Sept 20	Bank c	—	320		Sept 30	Balances c/d		2 870	4 799
Sept 25	Jenny	36		864					
Sept 28	Sales	—		270					
		<u>76</u>	<u>3 120</u>	<u>5 844</u>			<u>35</u>	<u>3 120</u>	<u>5 844</u>
Oct 1	Bal b/d		2 870	4 799					

b Cash discount or discount allowed

c 4%

d Contra entries are used to record cash from the business' cash till paid into the business' bank account and cash withdrawn from the business' bank account for business use. These transactions are called contra entries because they appear on both sides of the cash book, e.g. September 16 and 20 entries.

e

i. Discounts allowed account

Date	Details	\$	Date	Details	\$
2018					
Sept 30	Total for the month	76			

ii. Discounts received account

Date	Details	\$	Date	Details	\$
			2018		
			Sept 30	Total for the month	35

13

- a The advantage of the imprest system is that the cashier is always aware of how much petty cash is being spent in each accounting period.
- b One of the following reasons:
 - To save the cash book from being cluttered with too many transactions.
 - Gives experience to junior staff.
 - Frees up the time of the chief cashier.

c

Sangita's petty cash book							
Receipts	Date	Details	Total paid	Postage	Travel	Sundries	Ledger accounts
\$	2018		\$	\$	\$	\$	\$
19	Aug 1	Balance b/d					
231	Aug 1	Cash					
	Aug 3	Taxi fares	24		24		
	Aug 6	Postage	10	10			
16	Aug 16	Loan					
	Aug 15	Mansi	17				17
	Aug 20	Supplies	10			10	
			61	10	24	10	17
	Aug 31	Balance c/d	205				
266			266				
205	Sept 1	Balance b/d					
45	Sept 1	Cash					

- d Postage account will be debited with the column total of \$10

14

- a Any three of the following:
- to write off irrecoverable debts
 - to record the purchase of a non-current asset on credit
 - to record an opening entry to open the books of accounts
 - to correct errors
 - to record one-off irregular transactions.
- b i) Electricity for the year \$5 700 included a prepayment of \$600.

Date	Details	Debit	Credit
2019		\$	\$
	Income statement	5 100	
	Electricity account		5 100
	(Transfer of electricity for the year to the income statement)		

- ii) Provide for depreciation of equipment \$400

Date	Details	Debit	Credit
2019		\$	\$
	Income statement	400	
	Provision for depreciation of equipment account		400
	(Transfer of annual depreciation charge for machinery to the income statement)		

- iii) Closing inventory was \$20 000

Date	Details	Debit	Credit
2019		\$	\$
	Inventory	20 000	
	Trading account		20 000
	(Transfer of closing inventory to the trading account section of the income statement)		

- iv) Provide for doubtful debts \$200

Date	Details	Debit	Credit
2019		\$	\$
	Income statement	200	
	Provision for doubtful debts		200
	(Transfer of provision for doubtful debts to the income statement)		

- v) Opening inventory on 1 January 2019 was valued at \$10 000

Date	Details	Debit	Credit
2019		\$	\$
	Trading account	10 000	
	Inventory		10 000
	(Transfer of opening inventory to the trading account section of the income statement)		

- vi) Returned faulty furniture bought on credit from Ace Furniture, \$2 500

Date	Details	Debit	Credit
2019		\$	\$
	Ace Furniture account	2 500	
	Furniture account		2 500
	(Furniture returned to Ace Furniture)		

15 \$54.20.

Workings:

$$\$134.50 + \$11.30 = \$145.80$$

$$\$200 - \$145.80 = \$54.20$$

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6 The trial balance

- 1 B
- 2 A
- 3 B
- 4 B
- 5
 - a A trial balance is a statement listing account names and their balances in debit and credit columns as on a particular day.
 - b Closing inventory is inventory that has remained unsold at the end of the financial year.
- 6 To detect errors; to provide information from which the financial statements can be drawn up.
- 7 As a rule, the accounts of expenses or assets should each have debit balances. On the other hand, the accounts of income, liabilities and owner's equity should each have a credit balance.
- 8 It does not reveal all errors. Errors of commission or principle are some of the errors not revealed by a trial balance.

9

Gaurav's corrected trial balance as at 31 July 2019			
	Debit	Credit	
	\$		\$
Owner's equity		40 000	
Cash	170		
Bank overdraft		300	
Trade receivables	500		
Trade payables		700	
Property and buildings	28 520		
Machinery	7 000		
Inventory at 1 Sept 2018	1 000		
Purchases	760		
Sales		2 000	
Returns outwards		50	
Returns inwards	200		
Salaries	500		
Interest received		600	
Rent	2 000		
Furniture and fixtures	3 000		
	<u>43 650</u>		<u>43 650</u>

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7 Correction of errors

1 A

2 C

3 C

4 B

5 C

6

a Any two of the following:

- Arithmetical errors – these would include errors of addition and subtraction, e.g. an error in addition within an account or within the trial balance.
- Using one figure for a debit entry of a transaction and another figure for the credit entry.
- Entering only one aspect of a transaction (e.g. making a debit entry but not the corresponding credit entry)
- Entering a transaction twice on the same side of an account (e.g. entering two debits instead of one debit and one credit)

b Error of complete reversal occurs when the correct amounts are used but double entries are made on the wrong side of the accounts concerned. For example, Mason paid us \$350 by cheque. We debited Mason's account and credited bank account with the amount of \$350, instead of debiting bank account and crediting Mason's account with that amount.

c Error of principle is when the correct amount is entered, both debit and credit, but one of the entries is made in an account belonging to a different class. For example, repairs to a motor vehicle are debited to the motor vehicle account.

7

Error	Effect on profit for the year		
	Increase \$	Decrease \$	No effect
1.		\$700	
2.		\$426	
3	\$800		
4.		\$1 300	

8

Profit for the year is overstated	✓
Profit for the year is understated	
Current assets are overstated	✓
Current assets are understated	
Non-current assets are understated	
Non-current assets are overstated	

9 a Error of original entry

b

	Debit	Credit
	\$	\$
Nelly	180	
Purchases		180

10 Two of the following reasons:

- To enable draft financial statements to be prepared
- To enable the correction of errors to be recorded using a ledger account
- To be able to see easily if the balance on the account is cleared, suggesting that all errors have been found

11 a

Debit entry	\$	Credit entry	\$
Sales account	200	Ted account	200

b

Suspense account			
	\$		\$
Difference on trial balance	512	Heat and light	612
Insurance	<u>100</u>		<u>—</u>
	<u>612</u>		<u>612</u>

- c The entries made to the suspense account clear the difference on the trial balance, which will now balance. However there may still be errors which do not affect the trial balance.

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8 Bank reconciliation

1 A

2 B

3 B

4 B

5 A

6

	Increase	Decrease	Have no effect
Bank charges		✓	
Credit transfer	✓		
Customer's cheque dishonoured		✓	

7 a

Salim's cash book (bank columns only)					
Date	Details	\$	Date	Details	\$
2018			2018		
Mar 1	Balance b/d	3 500	Mar 6	Bishwas	1 100
Mar 2	Lala	400	Mar 10	Salaries	500
Mar 15	Anton	1 780	Mar 20	Arden	900
Mar 31	Sales	<u>4 600</u>	Mar 31	Balance c/d	<u>7 780</u>
		<u>10 280</u>			<u>10 280</u>
Apr 1	Balance b/d	7 780			

b

Salim's bank reconciliation statement 31 March 2018	
	\$
Balance as per cash book	7 780
Add: unpresented cheque: Arden	<u>900</u>
	8 680
Less: uncredited to deposits	<u>4 600</u>
Balance as per bank statement	<u>4 080</u>

- c When deposits are made by the business into their bank account, their cash book will be debited as the bank now owes this money to the business and is a debtor. The bank will, however, credit this amount as the business has now become one of the bank's creditors. Hence, a positive bank balance will appear as a debit balance in the cash book and a credit balance in the bank statement. An overdraft will appear as a credit balance in the cash book and a debit balance in the bank statement.

8

- a Dishonoured cheques are those cheques that the business has received from another person or company which have been rejected for payment by the bank when deposited.
- b A bank overdraft is a temporary loan extended by the bank to help the business through a liquidity crisis. It allows the business to withdraw more than they have deposited.

9

- a Items in the cash book which do not appear on the bank statement are usually caused by timing differences.
- b A cheque that has been received by the business from their debtors, paid into bank and debited in the cash book but not recorded in the bank statement is called an un-credited cheque.
- c A bank statement is a copy of the bank's customers' account in the books of the bank.
- d A positive bank balance will appear as a debit balance in the cash book and a credit balance in the bank statement.
- e The balance as per updated cash book is mentioned as a current asset in the statement of financial position.

10 a

Logan's cash book (bank columns only)					
Date	Details	\$	Date	Details	\$
2018					
Apr 1	Balance b/d	460	Apr 14	Henry industries	600
Apr 9	Kelsey	1 300	Apr 18	Kairu	780
Apr 19	Yuki	680	Apr 20	Interest	60
Apr 20	Dividends	<u>400</u>	Apr 20	Bal c/d	<u>1 400</u>
		<u>2 840</u>			<u>2 840</u>

b

Bank reconciliation statement at 20 April	
	\$
Balance as per cash book	1 400
Add: unpresented cheque: Kairu	<u>780</u>
	2 180
Less: uncredited deposits	<u>680</u>
Balance as per bank statement	<u>1 500</u>

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9 Control accounts

- 1 C
- 2 C
- 3 A
- 4 C
- 5 C
- 6 Sales ledger control account
- 7
- a

Sales ledger control account

Date	Details	\$	Date	Details	\$
2018			2019		
June 1	Balance b/d	8 200	May 31	Cash/bank	37 600
2019					
May 31	Sales	37 000	May 31	Balance c/d	<u>7 600</u>
		<u>45 200</u>			<u>45 200</u>

Sales = \$37 000

b

Purchases ledger control account

Date	Details	\$	Date	Details	\$
2019			2018		
May 31	Cash/bank	29 500	Jun 1	Balance b/d	7 900
			2019		
	Balance c/d	<u>5 700</u>	May 31	Purchases	<u>27 300</u>
		<u>35 200</u>			<u>35 200</u>

Purchases = \$27 300

c Any two of the following:

- To help identify errors in the sales and purchases ledgers by acting as a trial balance for the sales and purchases ledger. If the control account does not balance, only the accounts relating to that control account need to be checked for errors. This speeds up the checking process.
- As a quick way of calculating total trade receivables/payables or showing a summary of transactions involving trade receivables/payables for the period
- Control accounts can help to speed up the preparation of draft financial statements
- Control accounts can help to reduce the risk of fraud

d A control account can only check for arithmetical accuracy. Errors such as errors of original entry or errors of complete reversal of entries are not revealed by control accounts.

8

Entries in the sales ledger control account	Source of the entries
Balance b/d	List of trade receivables' balances prepared at the end of the previous accounting period or previous accounting period's control account closing balance
Sales	Total credit sales from the sales journal
Cash	Total cash received from credit customers taken from the debit side of the cash book (cash column)
Bank	Total receipts from credit customers taken from the debit side of the cash book (bank column)
Sale returns	Total sales returns from sales returns journal
Irrecoverable debts	Total taken from the general journal
Discounts allowed	Total taken from the discounts column on the debit side of the cash book
Dishonoured cheques	Bank column of cash book (credit side)
Refunds to trade receivables	Cash book – cash or bank columns
Interest charged on overdue accounts	Total posted from the general journal
Balance c/d	Total of the list of trade receivables' balances prepared at the end of the current accounting period or the balancing figure of the control account prepared for the current accounting period.

- 9 a Customer has overpaid
 Customer has paid in advance/paid a deposit for goods
 Customer paid for goods which were later returned
 Customer failed to take discount to which he/she was entitled
- b

Sales ledger control account

Date	Details	\$	Date	Details	\$
2018			2018		
Jan 1	Balance b/d	9 760	Jan 1	Balance b/d	27
Dec 31	Credit sales	78 205	Dec 31	Sales returns	1 121
	Bank	302		Bank	69 600
	Balance c/d	117		Discount allowed	1 418
				Irrecoverable debts	116
				PLCA	405
				Balance c/d	<u>15 697</u>
		<u>88 384</u>			<u>88 384</u>

c

Purchases ledger control account

Date	Details	\$	Date	Details	\$
2018			2018		
Jan 1	Balance b/d	16	Jan 1	Balance b/d	6 270
Dec 31	Purchases returns	764	Dec 31	Credit purchases	54 209
	Bank	51 926		Bank	330
	Discount received	1 061		Interest payable	61
	SLCA	405		Balance c/d	54
	Balance c/d	<u>6 752</u>			
		<u>60 924</u>			<u>60 924</u>

- d Charging interest on customers' accounts might upset customers and cause them to take their custom elsewhere. If customers are not paying because they do not have the funds it may make no difference to cash flow and merely increase amounts which have to be written off.
- It could bring in additional income. It could encourage customers to pay earlier. It could reduce irrecoverable debts.
- Decision to be backed by appropriate reasons as outlined above.

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10 Capital and revenue expenditure and receipts

1 D

2 C

3 B

4 B

5

- a Capital expenditure is money spent to purchase or improve a productive asset with the intention of increasing its efficiency or capacity to generate income for more than one accounting period.
- b Revenue expenditure is expenditure incurred in the day-to-day running of the business.
- c Capital receipts are funds received from the non-operating activities of the business.
- d Revenue receipts are recurring in nature. They are income generated from the main operating activities of a business.

6

	True/False
Revenue expenditure is the amount spent by a business to acquire, improve or extend the life of non-current assets.	False
Capital expenditure is non-recurring by nature.	True
Revenue expenditure is shown in the statement of financial position of a business.	False
Industries such as telecommunications have high levels of capital expenditure.	True
Revenue expenditure is a short-term expense incurred to meet the operational costs of running the business on a day-to-day basis.	True
Revenue expenditure is meant to extend a business' ability to earn income.	False
The one-off costs incurred in the acquisition of non-current assets should be included as capital expenditure.	True
Capital expenditure is charged to profit in the income statement as soon as it is incurred.	False
Revenue expenditure is meant to maintain the business' ability to operate.	True
Businesses must spread the cost of a non-current asset over the years the asset is used.	True

7

	Capital expenditure	Revenue expenditure
Employees' wages		✓
New mirrors for salon	✓	
Installation of new mirrors for salon	✓	
Purchase of shampoo		✓
Purchase of hair driers	✓	

8

	Capital receipts	Revenue receipts
A loan taken from a bank	✓	
Fees received by a service business		✓
Rent received		✓
An issue of shares	✓	
Sales revenue received by a trading or manufacturing business		✓

9

	Profit for the year	Total assets
	\$	\$
Draft values	17 620	5 1204
Error i	(400)	(400)
Error ii	(2 000)	0
Error iii	1 050	1 050
Corrected values	16 270	51 854

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

11 Accounting for depreciation and disposal of non-current assets

1 D

2 D

3 B

4 C

5 B

6 Any two of the following:

Depletion; time factor (e.g. lease); economic reasons.

7

- a When the straight-line method is used, an estimate is made of how long the asset is likely to last. The cost of the asset less any estimated scrap value is spread evenly over the estimated useful life of the asset. Using furniture as an example, let us assume that it cost \$50 000 and will last ten years. At the end of this period it will have a scrap value of \$5 000. The original cost of \$50 000, less the \$5 000 scrap value, \$45 000, is divided by 10 (the number of years), to get the figure \$4 500. Each year \$4 500 will be written off (written down from) the value of the furniture and will be regarded as an expense. Hence, the asset will be depreciated by \$4 500 every year for ten years. (Example not required)
- b This method is used when the asset is expected to be used equally over its life to generate income.
- c Each year, the amount of depreciation written off will diminish, or get smaller. Depreciation is charged each year on the net book value (cost less accumulated depreciation) using a given percentage. For example, a motor vehicle is bought on 1 January 2018 for \$50 000. It is decided to charge 10 per cent per annum as depreciation. At the end of the first year, 2018, depreciation will be 10 per cent of \$50 000, i.e. \$5 000. The statement of financial position will thus show the asset at a net book value of \$45 000 (\$50 000 – \$5 000). At the end of the second year, 2019, depreciation will be 10 per cent of \$45 000, i.e. \$4 500. This asset will be shown on the statement of financial position at the end of the second year at a net book value of \$45 000 less \$4 500 depreciation, i.e. \$40 500. Each year depreciation is calculated as 10 per cent of the net book value of the asset. Therefore, the depreciation charge gets smaller each consecutive year. (Example not required)
- d This method is used when an asset's economic use is greater in the early years as compared to the later years of its life.

- e i) Premises
Method: Straight-line
Reason: The asset is expected to be used equally over its life to generate income.
- ii) Motor vehicle
Method: Reducing balance
Reason: To balance the repairs and maintenance and provision for depreciation charged to the income statement as the asset gets older and needs more repairs and maintenance.
- iii) Computer equipment
Method: Straight-line
Reason: The asset is expected to be used equally over its life to generate income.
- f With the revaluation method, the asset is revalued at the end of the financial year. The end-of-year value is then subtracted from the value at the beginning of the year. If the value at the end of the year is less than the value at the beginning of the year, the result is a depreciation charge.
- g The revaluation method is used in cases where assets are individually of little monetary value but collectively of considerable value, e.g. a collection of loose tools. This method is also used when it is difficult or time-consuming to keep detailed records of inexpensive assets.
- h Two answers from: Loose tools; lubricant; containers.
- 8 a Profit for the year will decrease
b Net book value will decrease.
- 9 a i) Year one: \$1 800 (\$6 000 x 30%);
ii) Year two: \$1 260 (\$4 200 x 30%);
iii) Year three: \$882 (\$2 940 x 30%)
b

Pamela Statement of financial position (extract)			
Non-current assets	Cost	Provision for depreciation	Net book value
	\$	\$	\$
Office furniture	6 000	3 942	2 058

- c Depreciation rate should have been higher because net book value after three years (\$2 058) is greater than expected scrap value after three years (\$1 000).

10

Angus Recanni
Machinery account

Date	Details	\$	Date	Details	\$
2018			2018		
Jan 1	Balance b/d	14 000	Jun 30	Disposal of machinery	4 000
Jul 1	Bank	<u>5 000</u>	Dec 31	Balance c/d	<u>15 000</u>
		<u>19 000</u>			<u>19 000</u>
2019					
Jan 1	Balance b/d	15 000			

Provision for depreciation – Machinery account

Date	Details	\$	Date	Details	\$
2018			2018		
Jun 30	Disposal of machinery	*1 000	Jan 1	Balance b/d	2 800
Dec 31	Balance c/d	<u>3 250</u>	Dec 31	Income statement	** <u>1 450</u>
		<u>4 050</u>			<u>4 050</u>
			2019		
			Jan 1	Balance b/d	3 250

* Accumulated depreciation for machine sold = $10\% \times 4\,000 \times 2.5$ (years)

** Depreciation charge for the year = $10\% \times 10\,000 + (10\% \times 5\,000 \times 0.5(\text{yr})) + (10\% \times 4\,000 \times 0.5(\text{yr})) = 1\,000 + 250 + 200$

Disposal of machinery account

Date	Details	\$	Date	Details	\$
2018			2018		
Jun 30	Machinery account	4 000	Jun 30	Prov. for depreciation - machinery	1 000
			Jun 30	Cash	300
		<u>4 000</u>	Dec 31	Income statement	<u>2 700</u>
					<u>4 000</u>

11 Any two of the following

- To spread the cost of the asset over the years it is used.
- So that the income statement shows a 'true and fair view' of the expenses for the period. Since the asset is being used to generate income, a figure representing the 'cost' of this asset should be charged to the profits of the period in question. This is in keeping with the matching principle.
- To follow the prudence principle so that profits and assets are not overstated.
- So that the statement of financial position shows a true and fair view of the non-current assets.

12 a

General journal				
Date	Details	Debit	Credit	
2018			\$	\$
Dec 31	Income statement	1245		
	Provision for depreciation of machinery account (Depreciation charge for the year ended 31 December 2018 on machinery)		1245	

b

General journal				
Date	Details	Debit	Credit	
2018			\$	\$
Dec 31	Disposal account	7000		
	Motor vehicles account		7000	
	Provision for depreciation of motor vehicles	3300		
	Disposal account		3300	
	Cash account	3100		
	Disposal account		3100	
	Income statement	600		
	Disposal account		600	
	Sale of motor vehicle on 31 December 2018			

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

12 Other payables and receivables

1 B

2 D

3 B

4 A

5 B

6

- a The matching principle states that income and expenses, earned and incurred in a financial year, regardless of when received or paid, should be included to arrive at a meaningful profit for that year.

b

Mala's nominal ledger

Electricity account

Date	Details	\$	Date	Details	\$
2018			2018		
Feb 15	Bank	110	Feb 1	Balance b/d	60
		—	Feb 28	Income statement	<u>50</u>
		<u>110</u>			<u>110</u>
Mar 8	Bank	85	Mar 31	Income statement	56
		—	Mar 31	Balance c/d	<u>29</u>
		<u>195</u>			<u>195</u>
Apr 1	Balance b/d	29			

7 a Current assets – other receivable

b Matching principle

c

Richard's nominal (general) ledger

General expenses account

Date	Details	\$	Date	Details	\$
2018			2018		
Jan 1–	Cash	10 900	Jan 1	Balance b/d	2 690
Dec 31					
Dec 31	Balance c/d	2 500	Dec 31	Income statement	10 710
		<u>13 400</u>			<u>13 400</u>

- 8 a \$560
 b \$480
 c \$80 represents unused stationery.
 d Name of the financial statement: The statement of financial position.

Reason: As a current asset as it represents money paid for goods that will be used in the following year.

- 9 When a customer has not received the goods or services by the end of the financial year, but has already paid for them, it is called prepaid income in the books of the supplier. Due to the matching principle, only those expenses incurred during the year should be included in the income statement. Accrued expenses should be included in the income statement or else the profit will be overstated. Accrued income from sales is already represented by trade receivables in the trial balance. If income is owing at the end of the current financial year, it should be added to the amount already received, before being transferred to the income statement to ensure that profits are not understated.

- 10 a

General journal			
Date	Details	Debit	Credit
2017		\$	\$
31 Dec	Income statement	1 200	
	Insurance account		1 200

- b

General journal			
Date	Details	Debit	Credit
2017		\$	\$
31 Dec	Commission receivable account	15 100	
	Income statement		15 100

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

13 Irrecoverable debts and provision for doubtful debts

- 1 B
- 2 A
- 3 A
- 4 D
- 5 a Alex had more trade receivables.
b

Alex General journal		
	Dr \$	Cr \$
Income statement	400	
Provision for doubtful debts (Increasing the provision for doubtful debts.)		400

- c Any of the following answers:
 - Prudence principle: The provision appears in the statement of financial position as a deduction from trade receivables and the increase in provision appears as an expense in the income statement; therefore, the trade receivables and profit are reported at a lower figure, an application of the prudence principle which requires assets and profit to be understated rather than overstated.
 - Matching principle: The provision for doubtful debts should be made in the same period that the revenue was earned. In this way, revenues are matched with all relevant expenses in the income statement.
- 6 Any four of the following answers:
 - The business should sell for cash or cheque payments only.
 - The business can assess the creditworthiness of a potential customer by asking for trade references or pay for a credit check.
 - A lower credit limit for new customers could be set until trust is built in the ability of the customer to pay their debts on time.
 - The business should draw up clear terms and conditions and inform the customers of them, by perhaps publishing them on their website or invoices.
 - Customers should be reminded that the business has a right to charge interest on late payments.
 - Invoices and statements of account should be sent promptly.
 - An offer of discounts for early payment publicised on the invoice or the statement of account is a good way of influencing customers to pay on time.
 - Reminder letters can be sent.
- 7 Any two of the following answers.

- Using past experience to estimate what percentage of trade receivables will not pay.
- By looking at each debt to determine whether it will be paid or not. A total is made of any doubtful debts to arrive at the amount of the provision.
- By using an ageing schedule.

8

a

i) An irrecoverable debt is an amount owed by a credit customer which is not expected to be paid. It is written off and becomes a business expense.

ii) The recovery of debts written off occurs when a credit customer, whose debt has been written off, later pays some or all of that debt.

b

1 To comply with the principle of prudence

2 To match the cost of debts not being paid with the income earned from the sales giving rise to those debts

3 To prevent assets and profits from being overstated.

9

a

General journal			
Date	Details	Debit	Credit
2017		\$	\$
Mar 7	Irrecoverable debts account	170	
	Sam account		170
	(Write off of debt owed by Sam considered irrecoverable)		

b

Irrecoverable debts account					
Date	Details	\$	Date	Details	\$
2017			2017		
Mar 7	Sam	170	Dec 31	Income statement	385
Oct 9	Abdul	<u>215</u>			
		<u>385</u>			<u>385</u>

c

General journal			
Date	Details	Debit	Credit
2018		\$	\$
Jan 6	Sam account	170	
	Irrecoverable debts recovered account		170
	Cash account	170	
	Sam account		170
	(Payment of debt owed by Sam previously written off)		

d

Sam account					
Date	Details	\$	Date	Details	\$
Jan 6	Irrecoverable debts		Jan 6	Cash	
		<u>170</u>			<u>170</u>

Irrecoverable debts recovered account					
Date	Details	\$	Date	Details	\$
2018			2018		
Dec 31	Income statement	<u>170</u>	Jan 6	Sam	<u>170</u>

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

14 Valuation of inventory

1 A

2 A

3 'Inventory is valued at the lower of cost and net realisable value.'

4 a Cost or net realisable value, whichever is lower.

b

Product	Selling price per unit	Cost per unit	Carriage inwards	Value of inventory
	\$	\$	\$	\$
X	400	340	40	340
Y	230	400	-	230
Z	170	240	-	170
Value of inventory recorded in statement of financial position				<u>740</u>

c The prudence principle

5 Cost of five tables = \$500

Net realisable value = $(80 \times 5) - 75 = \$325$

Value of five tables in Maximus' inventory at 20 June 2019 = \$325

6 Inventory is a term used to describe goods, purchased for resale by a business, that have remained unsold. Inventory at cost includes, in addition to cost price, all those costs necessary to acquire the inventory and convert it to a saleable condition. Net realisable value is the difference between estimated receipts from sales of inventory less estimated costs associated with bringing inventory to saleable condition. If closing inventory is overvalued, the cost of sales will be undervalued and therefore the gross profit will be overvalued. If inventory is overvalued, then the total assets figure in the statement of financial position will be overstated.

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

15 Sole traders

- 1 A
- 2 D
- 3 C
- 4 B
- 5 D
- 6

Felcy's capital account

Date	Details	\$	Date	Details	\$
2018			2018		
Dec 31			Jan 1	Balance b/d	56 000
	Drawings (bank)	4 500			
	Drawings (inventory)	1 000	Dec 31	Income statement(profit)	15 700
Dec 31	Balance c/d	<u>66 200</u>			<u>15 700</u>
		<u>71 700</u>			<u>71 700</u>
			2019		
			Jan 1	Balance b/d	66 200

7

Sita			
Statement of financial position as at 31 December 2019			
ASSETS	\$	\$	\$
Non-current assets	Cost	Accumulated Depreciation	NBV
Machinery	1 440	750	690
Motor van	<u>2 400</u>	<u>1 170</u>	<u>1 230</u>
	<u>3 840</u>	<u>1 920</u>	<u>1 920</u>
Current assets:			
Inventory at 31 December 2019		2 380	
Trade receivables	4 920		
Less: provision for doubtful debts	<u>240</u>	4 680	
Other receivables		240	
Cash at bank		210	
Cash in hand		<u>1 140</u>	<u>8 650</u>
Total assets			<u>10 570</u>
CAPITAL AND LIABILITIES			
Capital:			
Balance at 1 March 2018		8 500	
Add: profit for the year		<u>2 080</u>	<u>10 580</u>
Less: drawings			<u>2 850</u>
			7 730
Current liabilities:			
Trade payables		2 490	
Other payables		<u>350</u>	<u>2 840</u>
Total capital and liabilities			<u>10 570</u>

8

Sylvester		
Income statement for the year ended 30 June 2018		
	\$	\$
Income:		
Takings		14 500
Less: Expenses:		
Rates	1 000	
Assistant's salary	<u>1 650</u>	
Rent	350	
Electricity	1 000	
Internet	400	
Depreciation	<u>500</u>	<u>4 900</u>
Profit for the year		<u>9 600</u>

9

	True/False
As a service business trades, a trading account is required to be prepared.	False
Non-current assets are listed in the statement of financial position in the order of the length of their economic life.	True
Profit for the year decreases the owner's capital.	False
The trading account and the profit and loss account make up the income statement.	True
Carriage outwards is the cost of transporting goods to the customer.	True

10

	Sales	Cost of sales	Gross profit/loss
	\$	\$	\$
a	6 700	2 400	4 300 (profit)
b	4 100	3 000	1 100 (profit)
c	3 600	2 800	800 (profit)
d	4 600	4 900	300 (loss)
e	3 000	3 500	500 (loss)

11 Advantages:

- A sole trader makes his own decisions/there are no arguments/is his/her own boss.
- A sole trader keeps all the profits for him/herself.

Disadvantages:

Any two of the following:

- A sole trader bears all the workload/has no help for holidays and sickness.
- A sole trader bears all the risk.
- A sole trader bears all the losses.
- A sole trader has unlimited liability for the debts of the business/could lose his personal assets.

12 An income statement is a summary of incomes and expenses for a specified period. It measures the performance of a business by calculating the profit for the period and allows comparisons to be made.

13 It is a summary of assets, liabilities and equity of a business or organisation at a specific date. It shows the position of the business or organisation by showing its net worth (net assets) and allows comparisons to be made.

14 A trading business purchases goods for resale. Gross profit measures the difference between the sales and the cost of those sales, which is the profit on trading. Since a service business does not sell goods there cannot be a profit arising from their sale.

15 a

Interest account

Date	Details	\$	Date	Details	\$
2018			2018		
Oct 31	Bank	250	Oct 31	Income statement	500
	Balance c/d	<u>250</u>			<u>500</u>
		<u>500</u>	Nov 1	Balance b/d	250

b

Leroy			
Income statement for the year ended 31 October 2018			
	\$	\$	\$
Sales			195 600
Sales returns			<u>(600)</u>
Net sales revenue			195 000
Inventory – 1 November 2017		22 100	
Purchases	87 150		
Carriage inwards	<u>450</u>		
	87 600		
Drawings	<u>(2 000)</u>		
		<u>85 600</u>	
		107 700	
Inventory – 31 October 2018		<u>(19 800)</u>	
Cost of sales			<u>87 900</u>
Gross profit			107 100
Rent		12 000	
Wages and salaries		25 600	
Operating expenses (52 600 + 1 650)		54 250	
Irrecoverable debt		120	
Increase in provision for doubtful debts (14 000 x 0.02 – 260)		20	
Depreciation			
Loose tools (400 – 320)		80	
Motor vehicles (13 600 x 0.2)		2 720	
Fixtures and fittings (8 000 x 0.01)		<u>800</u>	
			<u>95 590</u>
Profit from operations			11 510
Finance charges (interest)			<u>500</u>
Profit for the year			<u>11 010</u>

c

Statement of financial position at 31 October 2018			
	\$	\$	\$
Non-current assets	Cost	Accumulated depreciation	Net book value
Motor vehicles	17 000	6 120	10 880
Fixtures and fittings	8 000	3 200	4 800
Loose tools	<u>400</u>	<u>80</u>	<u>320</u>
	<u>25 400</u>	<u>9 400</u>	16 000
Current assets			
Inventory		19 800	
Trade receivables	14 000		
Provision for doubtful debts	<u>(280)</u>	13 720	
Bank		<u>780</u>	<u>34 300</u>
Total assets			<u>50 300</u>
Capital and liabilities			
Capital at 1 November 2017			19 290
Profit for the year			<u>11 010</u>
			30 300
Drawings (4 500 + 2 000)			<u>(6 500)</u>
Capital at 31 October 2018			23 800
Non-current liabilities			
5% bank loan (2026)			10 000
Current liabilities			
Trade payables		14 600	
Other payables (250 + 1 650)		<u>1 900</u>	<u>16 500</u>
Total capital and liabilities			<u>50 300</u>

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

16 Partnerships

- 1 D
- 2 A
- 3 D
- 4 A
- 5 D
- 6
- a

Rahila and Poppy Profit and loss appropriation account for the year ended 31 May 2019				
		\$	\$	\$
Profit for the year				91 000
Add: Interest on drawings:	Rahila (5% x 10 000)		500	
	Poppy (5% x 12 000)		<u>600</u>	<u>1 100</u>
				92 100
Less: Salary (Rahila)			10 000	
Less: Interest on capital:	Rahila (5% x 25 000)	1 250		
	Poppy (5% x 30 000)	<u>1 500</u>	<u>2 750</u>	<u>12 750</u>
Residual profits to be shared				79 350
	Rahila (1/3 x 79 350)		26 450	
	Poppy (2/3 x 79 350)		<u>52 900</u>	<u>79 350</u>

b

Rahila's current account					
Date	Details	Rahila	Date	Details	Rahila
2019		\$	2018		\$
May 31	Drawings	10 000	Jun 1	Balance b/d	15 000
May 31	Int. on drawings	500	2019		
May 31	Balance c/d	42 200	May 31	Int. on capital	1 250
			May 31	Salary	10 000
			May 31	Profit share	<u>26 450</u>
		<u>52 700</u>			<u>52 700</u>

The balance on Rahila's current account is \$42 200 (cr)

- 7 a Profit for the year = Gross profit – expenses = 25 000 – 10 500 = \$14 500
b

		\$	\$
Profit for the year			14 500
Less: Interest on capital:	Smith	3 000	
	Jamil	<u>2 000</u>	<u>5 000</u>
Residual profits to be shared:			9 500
	Smith	4 750	
	Jamil	<u>4 750</u>	<u>9 500</u>

c

Current accounts							
Date	Details	Smith	Jamil	Date	Details	Smith	Jamil
2018		\$	\$	Date		\$	\$
Sept 1	Balance b/d		100	Sept 1	Balance b/d	800	
2019				2019			
Aug 31	Drawings	2 400	1 500	Aug 31	Int. on capital	3 000	2 000
	Balance c/d	6 150	5 150		Profit share	<u>4 750</u>	<u>4 750</u>
		<u>8 550</u>	<u>6 750</u>			<u>8 550</u>	<u>6 750</u>
				Sept 1	Balance b/d	6 150	5 150

d Students may use either of the following methods:

Method 1 (showing only the balances on the capital and current accounts):

Smith and Jamil			
Statement of financial position as at 31 August 2019 (extract)			
	\$	\$	\$
	Smith	Jamil	Total
Capital accounts	30 000	20 000	50 000
Current accounts	6 150	5 150	<u>11 300</u>
			<u>61 300</u>

Method 2 (showing the current account in detail):

Smith and Jamil			
Statement of financial position as at 31 August 2019 (extract)			
	\$	\$	\$
	Smith	Jamil	Total
Capital accounts	<u>30 000</u>	<u>20 000</u>	50 000
Current accounts:			
Opening balance	800	(100)	
Interest on capital	3 000	2 000	
Share of profits	<u>4 750</u>	<u>4 750</u>	
	8 550	6 650	
<i>Less:</i>			
Drawings	<u>2 400</u>	<u>1 500</u>	
	<u>6 150</u>	<u>5 150</u>	<u>11 300</u>
			<u>61 300</u>

8 Any five of the following reasons:

- Partnerships are simple and cheap to set up.
- It is easier to raise capital as each partner will contribute finance.
- Partners may have skills which work well together and enable the business to benefit from them. Partners also contribute to the pool of knowledge and contacts that a business can use.
- Partners with their own area of expertise will make the business more productive. For example, a firm of lawyers could have a partner who specialises in family law, and another in corporate law. This means that the business can have a wider customer base.
- Partnerships can provide for more creative ideas that contribute to good decisions.
- Responsibilities and risks are now shared between the partners.
- Losses are shared.

9 Any three of the following disadvantages:

- Profits must be shared.
- Disagreements can occur.
- As decisions are jointly made, they take longer.
- All partners are liable for errors made by one of the partners on behalf of the partnership.
- Partners of ordinary partnerships have unlimited liability, like sole traders. This makes partnerships risky.

10

- a To avoid disagreements between partners.
- b Any three of:
 - Amount of capital contributed by each partner
 - Profit sharing ratio
 - Partners' salaries
 - Limits to partners' drawings
 - Rate of interest on capital
 - Rate of interest on drawings
 - Rate of interest on partners' loans

11 To show how the profit for the year is to be distributed in accordance with the requirements of the partnership agreement

12

	Capital/Current
It shows whether a partner had withdrawn more than he has earned.	current
It records the initial capital contribution of a partner.	capital
It records drawings.	current
It has a balance which usually changes every year.	current
It records interest on capital.	current

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

17 Limited companies

1 A

2 A

3 A

4 A

5 B

6

- a Dividend – a portion of a company's earnings distributed to its shareholders.
- b Debentures – non-current liabilities (long-term loans) that carry a fixed rate of interest which must be paid regardless of whether the company has made a profit or loss.
- c Total equity – the sum of the ordinary share capital and the reserves.
- d Called-up capital – the amount of share capital that the company has asked the shareholders to pay.
- e Issued capital – the amount of share capital that the company has sold

7

- a Any two of the following answers:
 - Ordinary shareholders are usually entitled to vote at annual general meetings on the basis of one vote for each share.
 - Ordinary shareholders are only paid dividends after the dividends of the preference shareholders have been paid.
 - When a company is closing down, assets remaining after all the creditors, debenture holders and preference shareholders are paid, belong to the ordinary shareholders. Therefore, the ordinary shareholders may receive more, or less, than their original investment in the company.
- b Any two of the following answers:
 - Preference shareholders receive a dividend at a fixed rate which is expressed as a percentage of the nominal value of the share.
 - Preference share dividends are paid before the ordinary shareholders get paid their dividend.
 - In the event of a company being wound up, preference shareholders are entitled to have their capital repaid before ordinary shareholders receive their capital.
 - Preference shareholders are not entitled to vote at annual general meetings.

8

Josh Limited	
Statement of financial position as at 31 May 2019 (extract)	
	\$
Equity and liabilities:	
Equity:	
200 000 ordinary shares of \$0.50 each	100 000
100 000 preference shares of \$1 each	100 000
Retained earnings (18 000 +7 000)	<u>25 000</u>
	<u><u>225 000</u></u>

9

Gilchrest Limited				
Statement of changes in equity for the year ended 31 December 2019				
	Share capital	General reserve	Retained earnings	Total
	\$	\$	\$	\$
Balance at 1 Jan 2019	50 000	15 000	5 000	70 000
Share issue	50 000			50 000
Profit for the year			60 000	60 000
Dividend paid (final)			(2 000)	(2 000)
Dividend paid (interim)			(5 000)	(5 000)
Transfer to general reserve		10 000	(10 000)	-
Balance at 31 Dec 2019	100 000	25 000	48 000	173 000

10

- Enrique would have to comply with a number of legal requirements.
- Formation could be expensive.
- He could no longer be the sole owner.
- Financial statements would have to be published.
- It would be easier to take out loans.
- It would be easier to raise finance by issuing shares.
- Enrique would benefit from limited liability.

Decision to be backed by appropriate reasons as outlined above.

11

- Limited liability means that the liability of a shareholder for the debts of a business is limited to the amount which he/she has invested in the business.
- Limited liability is a disadvantage to Vikram. If the company does not have funds available to pay him the private assets of the shareholders cannot be used to pay business debts, which limits the total amount available to pay debts. Limited liability reduces Vikram's chances of receiving his money.

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

18 Clubs and societies

1 D

2 C

3 C

4

a A subscription is a fee paid regularly by the members of a non-profit making organisation in order to belong to it and have the right to use the facilities of the club.

b An opening debit balance would indicate subscriptions owing by members brought forward from the previous year, whereas an opening credit balance would indicate subscriptions paid in advance by members for the current financial year.

c

The Torbay Activity Club Subscriptions account

Date	Details	\$	Date	Details	\$
			2018		
			Nov 1	Balance b/d	2 000
2019			2019		
Oct 31	Income and expenditure	42 000	Oct 31	Cash/bank	37 500
			31	Balance c/d	<u>2 500</u>
		<u>42 000</u>			<u>42 000</u>
Nov 1	Balance b/d	2 500			

5

Sole trader	Club or society
Loss for the year	Deficit (excess of expenditure over income)
Income statement	Income and expenditure account
Owner's equity	Accumulated fund
Profit for the year	Surplus of income over expenditure
Cash book	Receipts and payments account

6	Income and expenditure account	Receipts and payments account
Profit from competition	✓	
Profit from sale of furniture	✓	
Purchase of furniture by bank transfer		✓
Proceeds from sale of furniture		✓

Subscriptions owing written off	✓	
Depreciation of furniture	✓	

7 a

Plucky Recreation Club Trading account for the year ended 31 August 2019		
	\$	\$
Revenue		8 500
Inventory – 1 September 2018	410	
Purchases	<u>3 530</u>	
	3 940	
Inventory – 31 August 2019	<u>1 940</u>	
Cost of sales		<u>2 000</u>
Gross profit		<u>6 500</u>

Purchases = 3 500 + 180 – 150 = \$3 530

b

Plucky Recreation Club Income and expenditure account for the year ended 31 August 2019		
	\$	\$
Income:		
Profit from trading account		6 500
Profit from fund raiser		500
Subscriptions (2 400 + 140)		2 540
Rent		350
Receipts from spectators		<u>2 000</u>
		11 890
Expenditure:		
Fees	40	
Sundry expenses	2 300	
Insurance (320 + 50 – 30)	340	
Depreciation	500	
Traveling expenses (400 – 20)	<u>380</u>	<u>3 560</u>
Surplus of income over expenditure		<u>8 330</u>

c

Plucky Recreation Club Statement of financial position as at 31 August 2019 (extract)	
	\$
Accumulated fund:	
Balance at 1 Sept. 2018	15 560
Add: surplus of income over expenditure	<u>8 330</u>
Balance at 31 August 2019	<u>23 890</u>

- 8 There are no drawings in a club or society because a non-profit making organisation does not have any owners who have invested in the organisation and are entitled to withdraw money in the form of drawings.
- 9 Any four of the following answers:
- Hold a profit-generating one-off activity such as a competition.
 - Run a profit-making activity on a regular basis, such as a restaurant or a café.
 - Rent out equipment or other facilities such as fields, halls, etc., to increase income.
 - Increase income by way of subscriptions by either increasing existing subscriptions or recruiting more members.
 - Hold charity events.
 - Ask for donations.

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

19 Manufacturing accounts

1 A

2 A

3 D

4

a A trader is in the business of buying and selling finished goods. A manufacturer buys raw materials and converts them into finished goods before selling them on.

b A direct cost is a cost that can be directly attributed to the production of a specific good, e.g. direct labour. Indirect costs are those that are not directly linked to the production of a product, e.g. rent.

5 a

Tom Li		
Manufacturing account for the year ended 30 June 2018		
	\$	\$
Opening inventory of raw materials		12 000
Add: Purchases of raw materials		<u>55 000</u>
		67 000
Less: Closing inventory of raw material		<u>10 000</u>
		57 000
Add: Carriage inwards		<u>3 700</u>
Cost of raw materials consumed		60 700
Add direct costs:		
Direct wages		<u>16 000</u>
PRIME COST		76 700
Add factory overheads		
Indirect factory wages	10 000	
Factory fuel and power	8 000	
Factory rent	15 000	
Depreciation of factory machinery	<u>4 000</u>	<u>37 000</u>
		113 700
Add: opening work in progress		<u>3 500</u>
		117 200
Less: closing work in progress		<u>3 900</u>
Production cost of goods completed		<u><u>113 300</u></u>

b

Tom Li		
Trading account for the year ended 30 June 2018		
	\$	\$
Revenue		360 000
<i>Less</i> cost of sales:		
Opening inventory of finished goods	6 700	
<i>Add</i> production cost of goods completed	<u>113 300</u>	
	120 000	
<i>Less</i> closing inventory of finished goods	<u>4 500</u>	<u>115 500</u>
Gross profit		<u>244 500</u>

- 6 Raw materials
- Work in progress
- Finished goods

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20 Incomplete records

1 C

2 B

3 B

4 D

5 A

6 Any two of the following advantages:

- Every business transaction is recorded and classified as assets, liabilities, expenses, revenue and capital. Information about these transactions therefore, will always be available for the business to use.
- Trial balances and financial statements can be easily and quickly prepared.
- Businesses can therefore determine their annual profit or loss or their net worth. Hence, distribution of profit to business owners, shareholders and partners can be a quick and easy process.
- Checks can be easily put in place to prevent fraud and monitor expenses, trade payables and trade receivables.
- Comparisons are possible between similar business and between two different years in the same business. This helps businesses to detect reasons for possible change and help with decision making.
- Managers can use recorded data to identify the strengths and weaknesses of their businesses.
- Accounting records can also help managers plan ahead to meet financial commitments such as paying creditors (trade payables) on time.
- A good set of accounting records strengthens a business' negotiating power with banks and investors at the time of raising additional finance.
- Important information and documents can be quickly traced, in the case of a dispute, for instance.

7

a

Depreciation of non-current assets for the year ended 31 May 2019 = $10\% \times 30\,000 = \$3\,000$.

$\$3\,000 + \$8\,000 = \$11\,000$

b

Kiran	
Statement of affairs as at 1 June 2018	
Assets:	\$
Non-current assets at cost	20 000
Less: Accumulated depreciation	<u>8 000</u>
	12 000
Current assets	<u>10 000</u>
Total assets	<u>22 000</u>
Capital and liabilities:	
Capital	20 500
Non-current liabilities	<u>1 500</u>
Total capital and liabilities	<u>22 000</u>

Kiran	
Statement of affairs as at 31 May 2019	
Assets:	\$
Non-current assets at cost	30 000
Less: Accumulated depreciation	<u>11 000</u>
	19 000
Current assets	<u>12 000</u>
Total assets	<u>31 000</u>
Capital and liabilities:	
Opening capital	20 500
Add profit	15 500
Less drawings	<u>(7 500)</u>
Closing capital	28 500
Non-current liabilities	<u>2 500</u>
Total capital and liabilities	<u>31 000</u>

- c Closing capital = \$31 000 – \$2 500 = \$28 500
 Profit = \$28 500 + \$7 500 – 20 500 = \$15 500

- 8 a Cost of sales = 540 + 7100 – 620 = \$7 020
 Sales = 7 020 ÷ 0.4 = \$17 550
 b Gross profit = \$19 200 x 0.6 = \$11 520
 c

Total trade payables account			
Details	\$	Details	\$
Purchases returns	40	Balance b/d	692
Bank	6 770	Purchases	6 852
Discount received	30		
Balance c/d	<u>704</u>		
	<u>7 544</u>		<u>7 544</u>

- d Closing trade receivables = $1620 + 20\,000 - 130 - 19\,910 = \1580
- e i) Cost of sales = $\$492 + \$6920 - \$60 - \$388 = \$6964$
 Expected sales = $\$6964 \div 0.4 = 17\,410$
 Difference between actual sales and expected sales = inventory stolen at selling price = $\$17\,410 - 17\,000 = \410
 ii) $\$410 \times 0.4 = \164

9

a

Total trade receivables account

Details	\$	Details	\$
Sales	96 400	Irrecoverable debts	200
		Cash	8 100
		Bank	73 990
		Balance c/d	<u>14 110</u>
	<u>96 400</u>		<u>96 400</u>

b

Zahra			
Income statement for the year ended 31 December 2018			
	\$		\$
Sales revenue			96 400
Purchases	52 600		
Inventory – 31 December 2018	<u>(1 200)</u>		
Cost of sales			<u>51 400</u>
Rent	6 000		45 000
Wages	3 220		
Irrecoverable debt	200		
Depreciation of fixtures and fittings	900		
Operating expenses W1	<u>9 910</u>		
			<u>20 230</u>
Profit for the year			<u>24 770</u>

W1 $\$9100 + \$770 + \$110 - \$70 = \$9910$

c

Statement of financial position at 31 December 2018			
	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Non-current assets			
Fixtures and fittings	<u>9 000</u>	<u>900</u>	8 100
Current assets			
Inventory		1 200	
Trade receivables		14 110	
Other receivables		70	
Bank W1		9 410	
Cash W2		<u>730</u>	<u>25 520</u>
Total assets			<u>33 620</u>
Capital and liabilities			
Capital at 1 January 2018			6 000
Profit for the year			<u>24 770</u>
			30 770
Drawings			<u>(6 600)</u>
Capital at 31 December 2018			24 170
Current liabilities			
Trade payables W3		9 340	
Other payables		<u>110</u>	<u>9 450</u>
Total capital and liabilities			<u>33 620</u>

W1 $\$6\,000 + 73\,990 - (43\,260 + 6\,000 + 3\,220 + 9\,000 + 9\,100) = \$9\,410$

W2 $8\,100 - 6\,600 - 770 = \730

W3 $52\,600 - 43\,260 = \$9\,340$

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

21 Calculation and understanding of accounting ratios

1 D

2 A

3 B

4 B

5 D

6

a Two of the following drawbacks:

- The suppliers may stop selling goods to the business on credit.
- The relationship with the suppliers will be damaged.
- The business will lose cash discounts for early payment

b Two of the following:

- By sending reminders such as a statement of account.
- By offering cash discounts for early payment.
- Charging interest on overdue amounts
- Stop supplying customers with outstanding debts

c Two of the following:

- Money, that could be used elsewhere, is tied up in inventory.
- Inventory could become unfashionable, damaged or stolen
- It could mean that sales are slowing down due to a fall in demand

d One of the following:

- So that it can take steps to avoid a liquidity problem, if there is one.
- To know that it can pay its immediate liabilities with its liquid assets

e Two of the following:

- By selling off non-current assets that are not being used.
- By taking a long-term loan.
- Introduction of more capital by the owner
- Reduction in drawings

7

a Capital employed: the total funds being used (employed) by the business on a given day. Therefore, it is the sum of the capital invested in the business *and* the non-current liabilities. It could also be calculated by adding non-current assets to working capital.

b Working capital is the difference between current assets and current liabilities. It is the capital used in the day-to-day running of the business.

- c Return on capital employed: This ratio measures a business' efficiency with which money invested in it is used. It is used to gauge the value gained by the business from its use of the assets and liabilities it has.
- d Rate of inventory turnover: This ratio measures the number of times a business sells its inventory and replaces it in a year. The ratio is measured in times. If a business has a high rate of inventory turnover, it follows that it is selling a lot of products.
- 8 Any two of the following disadvantages:
- The business cannot take advantage of cash discounts for prompt payment.
 - The business cannot take advantage of any new opportunities that may require immediate liquidity.
 - The business not be able to pay off its liabilities on time and thus lose its standing and relationships with its trade payables.
 - The business could end up in a liquidity crisis which may result in insolvency.

9

$$\text{Return on capital employed} = \frac{\text{Profit before interest}}{(\text{Owner's equity} + \text{Non current liabilities})} \times 100$$

$$\frac{(\$3\,450 + \$600)}{(\$23\,800 + \$10\,000)} \times 100 = 11.98\%$$

10

a

$$\text{Trade receivables turnover} = \frac{\text{Trade receivables}}{\text{Credit sales}} \times 365 \text{ (in days)}$$

$$= \frac{\$3\,600}{\$36\,000} \times 365 = 37 \text{ days}$$

b

$$\text{Trade payables turnover} = \frac{\text{Trade payables}}{\text{Credit purchases}} = 365 \text{ (in days)}$$

$$= \frac{\$5\,900}{\$60\,000} \times 365 = 36 \text{ days}$$

c

$$\text{Rate of inventory turnover} = \frac{\text{Cost of sales}}{(\text{Opening inventory} + \text{Closing inventory}) \div 2}$$

$$13 = \frac{\text{Cost of sales}}{(\$6\,000 + \$4\,000) \div 2}$$

$$\text{Cost of sales} = \$65\,000$$

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

22 Interpretation of accounting ratios

- 1 B
- 2 B
- 3 D
- 4 Ratios can be used in the following ways:
 - Ratios of a business for the current year can be compared with those of a previous year.
 - Ratios of a business can be compared with those of another similar business in the same industry.
 - Ratios of a business for the current year can be compared with ratios derived from budgets and forecasts to decide whether the targets in them were achieved.

5

a

Ratio	Year ended 31 December	
	2018	2019
Gross margin	25%	32%
Profit margin	11%	12.40%
Current ratio	2.5:1	1.51:1
Liquid (acid test) ratio	0.9:1	1.03:1

b

- i) Gross margin for 2019 at 32% is better than that for 2018 at 25%.
 - ii) Profit margin for 2019 at 12.40% is better than that for 2018 at 11%.
 - iii) The current ratio for 2019 at 1.51:1 is better than that for 2018 at 2.5:1 as the ideal is between 1.5:1 and 2:1.
 - iv) The liquid (acid test) ratio for 2019 is better than that for 2018 as it has moved closer to the ideal of 1:1.
- c Kareena's profitability has improved in 2019. She made \$32 gross profit in 2019 compared to \$25 in 2018, for every \$100 of sales. Her profit margin has also improved, though not by much. She made \$12.40 profit for the year 2019 compared to \$11 in 2018, for every \$100 of sales.
- d The reasons are: i) She may have increased her selling price. ii) She may have reduced her cost of sales.
- e Year ended 31 December 2018
- Reason: Kareena's expenses as a percentage of sales were:
- 2018: 14% (25% – 11%)
- 2019: 19.6% (32% – 12.40%)

Therefore, for every \$100 of sales her expenses for 2018 were \$18 compared to \$19.6 in 2019.

f

	Decrease	Increase	No effect
Kareena took inventory for her own use	✓		
Kareena purchased some furniture on credit	✓		
Kareen receives long-term loan		✓	

g

Satisfied? Yes.

Reason: Kareena's current ratio has moved closer to the ideal. This means she has enough liquidity to pay her current liabilities and some surplus to take care of emergencies and take advantage of opportunities.

Kareena's quick ratio has improved as well. In 2018, she was facing a liquidity crisis if all her creditors asked for immediate payment, as she did not have enough liquidity to pay all her debts at once.

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

23 Inter-firm comparison

1 B

2 D

3 C

4 a 18.36 times

b 19.20%

c i) Better; ii) Better

d i) Any one of:

Hassan has a good marketing strategy that ensures quicker sales compared to the rest of the industry.

Hassan only purchases inventory when it is required

Hassan has more efficient inventory control

ii) Any one of:

Hassan has a higher selling price compared to the rest of the industry

Hassan has a lower cost of sales compared to the rest of the industry.

5 Any two of the following answers:

- The business should be the same size.
- The business should have the same accounting policies.
- The business should have the same financial years.
- The business should have the same pricing strategies.
- The business should have the same operating policies (e.g. rent or purchase of property, methods of production, methods of financing)

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

24 Interested parties

1 B

2 D

3

a The owner would be interested to see what the profitability of the business was. A prospective investor would also be interested in the profitability of the business.

b They would use the following ratios: profit margin and ROCE.

4

a Tax authorities: so that they can check whether taxes have been accurately calculated and paid.

b Employees: (either of the following)

to ascertain whether they can ask for salary raises or bonuses if the business has been very profitable.

to work out their job security and opportunities for future job promotions.

c Trade payables (creditors) would primarily be interested in the business' liquidity position and its ability to pay debts in the short term.

d Club members will want to know whether there are enough funds for facilities to be maintained in a good state of repair and whether they can be expanded in the future

e The general public (any one of the following): students, researchers, job seekers and financial analysts will make use of a business' financial statements to help them with data for their particular need.

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

25 Limitations of accounting statements

- 1 B
- 2 B
- 3 D
- 4 Limitations due to:
 - i) Historic cost – is based on the original cost paid for an asset and therefore it does not reflect the true market value of the asset. Therefore, the use of historic cost is a limitation as it does not account for changes in the price level of the asset over the period of its economic life.
 - ii) Definitions of accounting principles and concepts used worldwide can differ from country to country. Therefore, if there were no global standard to follow, difficulties would arise when businesses try to make comparisons with other businesses in different countries. Due to globalisation, some businesses have now established branches in many different countries and comparisons are essential to discover the financial health and performance of the businesses.
 - iii) Non-financial aspects: financial statements normally do not include resources that cannot be valued in money terms (e.g. customer loyalty, efficiency of staff). Therefore the net worth of a business, measured by the net assets that it owns, is underestimated.

5

Information	✓
The business has suppliers that deliver quality goods on time	
Improved public roads to the business premises	
The business owns premises in the centre of the city	
Increase in efficiency following staff training	
The business owns a motor vehicle	✓

- 6 The use of accounting frameworks such as IAS (International Accounting Standards) have enabled globalised businesses to use one reporting language throughout. Definitions of concepts and principles are now standardised so that financial statements can be transparent and consistent from one business organisation to the next.

Answers to Cambridge IGCSE™ and O Level Accounting Workbook

Chapter 26 Accounting principles

- 1 A
- 2 A
- 3 B
- 4 C
- 5 B
- 6 D
- 7 The historic cost of an asset is reliable as it is a known fact and can be verified.
- 8 Materiality
- 9 Money measurement
- 10 Historic cost
- 11
 - a Matching: the matching principle requires a business to record in their financial statements, revenues and any related expenses in the same accounting period.
 - b Prudence: the prudence principle ensures that liabilities and expenses are not understated and assets and income are not overstated in the financial statements of a business.
 - c Realisation: the realisation principle states that revenue can only be recognised when it is earned.