**Question 18**

1. Using the information given below, make the necessary entries in the ledger accounts of Fraser Forbes.

**Ledger balances at 1 April**

|  |  |
| --- | --- |
| Bank | £3,500 |
| Sales Revenue | £8,450 |
| Trade Receivable — D Allan | £420 |
| Inventory | £1,275 |

|  |  |
| --- | --- |
| April 8 | S Hardie purchased goods on credit costing £270 plus VAT. |
| April 12 | Goods worth £305 were taken from the business by Fraser Forbes for his own use. |
| April 15 | D Allan has been declared bankrupt and can only pay 45p in the £. This amount was received by cheque and the remainder is to be written off. |
| April 21 | S Hardie returned goods worth £50 plus VAT as they were damaged. |
| April 26 | Purchased equipment worth £650 plus VAT from Offices For U Ltd. This was paid by cheque. |

**25**

1. Fraser uses ratio analysis to assess the performance of his business and is unhappy with his performance in 3 key ratios. Suggest a way to **improve** each of the following ratios:

**(i)** Gross Profit Ratio **1**

**(ii)** Rate of Inventory Turnover **1**

**(iii)** Working Equity Ratio **1**

**NOTE** — Working Equity Ratio is too low

1. Describe the following errors which are not detected by a trial balance:
2. error of omission **1**
3. error of original entry **1**

**Total marks (30)**

| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| --- | --- | --- | --- |
| **18 (a)** | **Bank Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  |  | **Dr** |  | **Cr** |  | **Balance** | | Apr 1 | Balance | 3,500 | **(1)** |  |  | 3,500 | | Apr 15 | D Allan | 189 | **(1)** |  |  | 3,689 | | Apr 26 | Equipment & VAT |  |  | 780 | **(1)** | 2,909 |   **Trade Receivable — D Allan**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Apr 1 | Balance | 420 | **(1)** |  |  | 420 | | Apr 15 | Bank |  |  | 189 | **(2)** | 231 | | Apr 15 | Bad Debts |  |  | 231 | **(1)** |  |   **Sales Revenue**   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Apr 1 | Balance |  |  | 8,450 | **(1)** | 8,450 | Cr | | Apr 8 | S Hardie |  |  | 270 | **(1)** | 8,720 | Cr |   **Inventory Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Apr 1 | Balance | 1,275 | **(1)** |  |  | 1,275 | | Apr 12 | Drawings |  |  | 305 | **(1)** | 970 |   **Trade Receivable — S Hardie**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Apr 8 | Sales Rev & VAT | 324 | **(1)** |  |  | 324 | | Apr 21 | Sales Ret & VAT |  |  | 60 | **(1)** | 264 |   **VAT Account**   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Apr 8 | S Hardie |  |  | 54 | **(1)** | 54 | Cr | | Apr 21 | S Hardie | 10 | **(1)** |  |  | 44 | Cr | | Apr 26 | Bank | 130 | **(1)** |  |  | 86 |  | | **25** | There must be double entry to gain marks. Do not award if any extra Dr or Cr entries for a transaction.  Give mark for nameless or wrongly named accounts, if identifiable by its figures.  If accounts completely reversed —  “COMPLETE REVERSAL” and only give half marks (max = 10 for entries).  If one entry correct, mark as per solution.  If opening balances not identified as debit or credit, check subsequent balance before giving mark.  **Bank Account**  15/4 — D Allan may be consequential.  **D Allan Account**  15/4 — if bank amount wrong, accept consequential bad debts figure. |
| **18 (a)**  **cont.** | **Bad Debts Account**  **Dr Cr Balance**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Apr 15 | D Allan | 231 | **(1)** |  |  | 231 |   **Drawings Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Apr 12 | Inventory | 305 | **(1)** |  |  | 305 |   **Sales Returns Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Apr 21 | S Hardie | 50 | **(1)** |  |  | 50 |   **Equipment Account**   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Apr 26 | Bank | 650 | **(1)** |  |  | 650 |  |   All dates correct **(1)**  All account names correct **(2)**  All nomenclature correct **(2)** |  | **Sales Revenue Account**  If transaction for 8 April is treated as purchases, no marks for purchases, VAT and S Hardie accounts, and accept transaction on 21 Apr as purchase returns.  **Inventory Account** Accept drawings credited to purchases account instead of inventory account.  **Bad Debts Account** May be consequential — check D Allan account.  **Sales Returns Account**  If 8/4 treated as purchases, accept consequential entries in purchases returns, VAT and S Hardie accounts.  **PLUS** additional marks for the following:  **1 mark** for all dates are correct.  **2 marks** if all account names are correct, **1 mark** if at least half of the account names are correct, **0 marks** if less than half of the account names are correct.  **2 marks** if all nomenclature is correct,  **1 mark** if at least half of the nomenclature is correct, **0 marks** if less than half of the nomenclature is correct. |
| **18 (a)**  **cont.** |  |  | Do not penalise nomenclature if consequential on transaction. |
| **18**  **(b) (i)** | Response could include:   * Increase the selling price * Lower the cost of sales * Find a cheaper supplier | **1** | Any one for **1 mark**.  Accept any other relevant answer. |
| **18**  **(b) (ii)** | Response could include:   * Lower the selling price * Carry less inventory * Carried out more on advertising * Have a better buying policy * Have better inventory control | **1** | Any one for **1 mark**.  Accept any other relevant answer. |
| **18**  **(b) (iii)** | Response could include:   * Increase current assets * Reduce current liabilities * Put in more equity * Obtain a loan * Reduce drawings * Sell non-current assets **no longer required** (must have underlined part for mark) | **1** | Any one for **1 mark**.  Accept any other relevant answer. |
| **18**  **(c) (i)** | When no entries have been made for a transaction either in Dr or Cr. **(1)**  An invoice falling down the back of the filing cabinet and being forgotten about. **(1)** | **1** | Answer can be a description or an example. |
| **18**  **(c) (ii)** | When the wrong figure is used in all entries for a transaction. **(1)**  For example, payment of an expense of £624 is recorded in the expense and money accounts as £642. **(1)** | **1** | Answer can be a description or an example. |