**Question 19**

The following balances were taken from the ledgers of Frank Ruthven for the year ended   
31 December Year 4:

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|  | **Dr** | **Cr** |
|  | **£000** | **£000** |
| Equipment (at Cost) | 430 |  |
| Sales Revenue |  | 980 |
| Purchases | 615 |  |
| Discount Received |  | 14 |
| Purchase Returns |  | 15 |
| Provision for Depreciation of Equipment at 1 Jan Yr 4 |  | 106 |
| Inventory at 1 Jan Yr 4 | 135 |  |
| Trade Receivables | 225 |  |
| Trade Payables |  | 65 |
| Rent | 60 |  |
| Wages and Salaries | 105 |  |
| VAT |  | 85 |
| Cash and Cash Equivalents | 75 |  |
| Bank Loan |  | 80 |
| Equity |  | 300 |
|  | **1,645** | **1,645** |

Notes:

(1) Inventory at 31 December Year 4 was valued at £125,000.

(2) Finance cost of 10% has still to be paid.

(3) A provision for bad debts is to be created of 4% of trade receivables.

(4) Depreciation of equipment is to be provided at 20% on cost.

**(a)** Using the above information, prepare the following for Frank Ruthven:

1. An Income Statement for the year ended 31 December Year 4.
2. A Statement of Financial Position as at that date. **26**

**(b)** Name and describe two errors which would not be detected by the preparation of  
a trial balance. **4**

**Total marks (30)**

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| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **19**   1. **(i)** | |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | Income Statement of Frank Ruthven for year ended 31 December Yr 4 | | | | | | |  | |  | **£000** | **£000** |  | | Sales Revenue | |  |  | 980 | **(1)** | | Cost of Sales: | |  |  |  |  | | Opening Inventory | |  | 135 |  | **(1)** | | Purchases  Purchase Returns | | 615  15 | 600 |  | **(1)**  **(1)** | |  | |  | 735 |  |  | | Closing Inventory | |  | 125 |  | **(1)** | |  | |  |  | 610 |  | | **Gross profit** | |  |  | **370** |  | | Expenses: | |  |  |  |  | | Depreciation: Equipment | |  | 86 |  | **(1)** | | Rent | |  | 60 |  | **(1)** | | Wages and Salaries | |  | 105 |  | **(1)** | | Provision for Bad Debts | |  | 9 |  | **(1)** | | Finance Costs | |  | 8 |  | **(1)** | |  | |  |  | 268 |  | |  | |  |  | 102 |  | | Add Other Income: | |  |  |  |  | | Discount Received | |  |  | 14 | **(1)** | | **Profit for the Year** | |  |  | **116** |  | |  | |  |  |  |  | |  | |  |  |  |  | |  | |  |  |  |  | |  | |  |  |  |  | | **26** | **+ / − rule for (a) (i) and (ii)**  For a mark to be given for correct entry of trial balance items, they must appear **only once**. It is therefore advisable to check both accounts before giving marks.  The trial balance figures for provision for depreciation (£106,000) and equipment cost (£430,000) should not be treated as + / − or extraneous in the **expenses** section of the income statement, unless (in the case of extraneous) there are non-current assets in the SOFP.  If new **and** existing depreciation for van appear in the expenses section of the income statement, do not give mark for new depreciation. If depreciation figures appear outside the expenses section, or appear in a third place, normal + / − and extraneous rules apply.  For discount received to gain mark, must be correct effect. |

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| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **19**  **(a) (ii)** | |  |  |  |  |  | | --- | --- | --- | --- | --- | | Statement of Financial Position of F Ruthven as at 31 Dec Yr 4 | | | | | |  | **£000** | **£000** | **£000** |  | | **Non-current Assets** |  |  |  |  | | Equipment | 430 | 192 | 238 | **(2)** | |  |  |  |  |  | | **Current Assets:** |  |  |  |  | | Inventory |  | 125 |  | **(1)** | | Trade Receivables (225 − 9) |  | 216 |  | **(2)** | | Cash and Cash Equivalents |  | 75 |  | **(1)** | |  |  | 416 |  |  | | **Current Liabilities:** |  |  |  |  | | Trade Payables | 65 |  |  | **(1)** | | Finance Costs Payable | 8 |  |  | **(1)** | | VAT | 85 |  |  | **(1)** | |  |  | (158) |  |  | | Working Equity |  |  | 258 |  | | Net Assets Employed |  |  | 496 |  | |  |  |  |  |  | | **Non-current Liabilities** |  |  |  |  | | 10% Loan |  |  | (80) | **(1)** | |  |  |  |  |  | | **Net Assets** |  |  | **416** |  | |  |  |  |  |  | | **Equity** |  |  |  |  | | Opening Equity |  |  | 300 | **(1)** | | Profit for the Year |  |  | 116 | **(1)** | | **Closing Equity** |  |  | **416** |  | |  |  |  |  |  | | Arithmetic  Layout |  |  |  | **(1)**  **(1)** | | No extraneous |  |  |  | **(1)** | |  | Equipment — if only this year’s depreciation used or only existing provision used, **1 mark**.  Needs whole line for full marks. Only NBV shown — **max 1 mark**.  Equity can be in any order. Has to be correct treatment to get marks.  **Layout mark**  For this mark, candidates need:   * correct account names (must have date and year, no need for Frank Ruthven) * the following headings:   —Gross Profit —Profit for the Year —Non-current Assets  —Current Assets  —Current Liabilities  —Non-current Liabilities  —Equity   * an acceptable layout |

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| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **19**  **(b)** | **Error of principle**  Entry made into the wrong class of account.  Example — payment for petrol for the delivery van was mistakenly entered in the delivery vans account.  **Error of commission**  An item is entered to the correct side of the wrong account.  Example — credit purchases from Jack Green recorded in Jim Green account.  **Error of omission**  When no entries have been made for a transaction either in dr or cr.  Example — an invoice falling down the back of the filing cabinet and being forgotten about.  **Error of original entry**  When the wrong figure is used in all entries for a transaction.  Example — payment of an expense of £624 is recorded in the expense and money accounts as £642.    **Compensating errors**  When one or more errors cancel each other out.  Example — wrong dr of £50 cancelled out by wrong cr of £23 and £27.  **Complete reversal**  When the entries for a transaction are completely reversed.  The account that should have been dr is cr whilst the account that should have been cr is dr.  Example — payment of expense is cr to expense account and dr to money account. | **4** | Naming two errors — **1 mark** each  (max 2 marks).  Description of two errors — **1 mark** each (max 2 marks).  Description can be in the form of an example.  Description/example must relate to the error that candidate has named. |