

- 1 The following is the draft balance sheet of Marshall Klingsman, a sole trader, at 30 April 2011.

Balance Sheet at 30 April 2011			
	\$	\$	\$
Non-current assets			
Buildings at valuation			300 000
Equipment at book value			540 000
Motor vehicles at book value			<u>330 000</u>
			1 170 000
Current assets			
Inventories		70 000	
Trade receivables		19 000	
Other receivables		2 000	
Cash and cash equivalents		<u>4 000</u>	
		95 000	
Current liabilities			
Trade payables	57 000		
Other payables	<u>3 000</u>	60 000	
Net current assets			<u>35 000</u>
			1 205 000
Non-current liabilities			
Loan			<u>200 000</u>
Net assets			<u>1 005 000</u>
Financed by:			
Capital at start			1 000 000
Add Profit for the year (net profit)			<u>80 000</u>
			1 080 000
Less Drawings			<u>75 000</u>
Capital at end			<u>1 005 000</u>

Additional information:

After preparation of the draft balance sheet the following errors were found.

- 1 Goods in inventory at 30 April 2011, valued at cost \$15 000, were found to be damaged. The estimated net realisable value is \$8 000.
- 2 Loan interest of 4% per annum had been omitted from the accounts.
- 3 No provision for depreciation on equipment had been made for the year. Depreciation should have been provided at 5% per annum using the reducing balance method.
- 4 Motor vehicles are depreciated by 10% per annum. During the year vehicle repairs of \$10 000 had been incorrectly debited to the motor vehicles account.
- 5 On 28 April 2011 a credit customer, who owed \$3600, was declared bankrupt. It was decided to write off this amount in full. No record of this has been made in the accounts.

REQUIRED

- (a)** Prepare a statement to show the corrected profit for the year (net profit) ended 30 April 2011.

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(c) (i) Explain **two** differences between cost and net realisable value.

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(ii) Discuss the accounting treatment of the damaged inventory in item 1.

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(d) Using your answers to (a) and (b) calculate the following ratios to **two** decimal places:

(i) current ratio

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(ii) liquid ratio (acid test).

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(e) State **four** ways in which Klingsman could improve his working capital.

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(f) Explain why the liquid ratio (acid test) is a more reliable indicator of liquidity than the current ratio.

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At 30 April 2011 Robbie and Liza had a debit balance in the bank column of their cash book of \$12 000. Their bank statement, however, showed that the partnership had \$9 000 in the bank at that date.

On comparing the cash book with the bank statement the following differences were found:

- 1 Bank charges of \$250 appeared in the bank statement but had not been entered in the cash book.
- 2 Cheques received from customers amounting to \$3 750 had been entered in the cash book but had not been credited by the bank.
- 3 A cheque for \$600 received from a debtor had been entered in the cash book but had been returned by the bank marked 'insufficient funds for payment'.
- 4 Cheques issued by the business amounting to \$1 600, recorded in the cash book, did not appear in April's bank statement.

REQUIRED

- (c) (i) Update Robbie and Liza's cash book for the month of April 2011.

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- (ii) Prepare a bank reconciliation statement at 30 April 2011 to reconcile the bank statement balance with the updated cash book balance.

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(d) Give **three** reasons why the bank column balance in the cash book does not always agree with the balance shown in the bank statement at the same date.

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