

MyStudyBro - Revision Exercise Tool

This Revision Handout includes the Questions and Answers of a total of 5 exercises!

Chapters:

Correction of Errors - Unit 1 (Pearson Edexcel)

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Page 3	(WAC01 or WAC11) 2019 Winter - Answer
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SECTION B

Answer THREE questions from this section.

- 3 The following draft Statement of Profit or Loss and Other Comprehensive Income was prepared from the books of Cassia for the year ended 31 December 2018.

	£
Revenue	84 000
Cost of sales	(47 000)
Gross profit	37 000
General expenses	(8 000)
Motor vehicle expenses (including depreciation)	(18 000)
Advertising	(12 000)
Loss for the year	<u>(1 000)</u>

After completion of the statement above, Cassia found that the following errors had been made.

- (1) A sale of goods had been made to Johns for £2 800. Johns had returned £600 of the goods as defective. No entries have been recorded in the books for the sale or the return.
- (2) The closing inventory had been overvalued by £1 300
- (3) General expenses included £800 for insurance on the motor vehicles.
- (4) A full year's depreciation, £3 000, had been charged on a new motor vehicle purchased on 1 August 2018. Cassia has the policy that depreciation is charged on non-current assets in proportion to the months of ownership in a year.
- (5) The advertising figure of £12 000 in the Statement of Profit or Loss and Other Comprehensive Income included £4 500 for a campaign from 1 September 2018 to 31 May 2019.

Required

- (a) Explain the difference between an **error of compensation** and an **error of reversal**.
(4)
 - (b) Prepare the journal entries to record the correction of errors (1) to (5) in the books. Narratives are **not** required.
(12)
 - (c) Complete the table in the question paper showing the revised profit for the year ended 31 December 2018 after the correction of all errors. **You should show all workings**.
(8)
- Cassia has been advised that the use of information communication technology (ICT) would remove all chance of errors occurring in her books.
- (d) Evaluate this advice.
(6)

(Total for Question 3 = 30 marks)

- (c) Complete the table showing the revised profit for the year ended 31 December 2018 after the correction of all errors. **You should show all workings.**

(8)

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

	Draft	Workings	Revised
	£	£	£
Revenue	84 000		
Cost of sales	<u>(47 000)</u>		
Gross profit	37 000		
General expenses	(8 000)		
Motor vehicle expenses (including depreciation)	(18 000)		
Advertising	<u>(12 000)</u>		
Profit/(Loss) for the year	(1 000)		



Question Number	Answer	Mark
3 (a)	AO1 (4) AO1: Four marks for describing the difference. Error of compensation More than one error (1) AO1 which cancel each other out (1) AO1 Error of reversal A single error (1) AO1 where the debiting and crediting are reversed (1) AO1	(4)

Question Number	Answer	Mark
3 (b)	AO1 (4), AO2 (8) AO1: Four marks for correct description of account. AO2: Eight marks for correct description of account and numeric entry.	(12)

General Journal

	Debit	Credit
	£	£
Johns (1) AO1	2 800	
Revenue/Sales		2 800 (1) AO2
Sales returns	600 (1) AO2	
Johns		600 (1) AO2
Income statement (1) AO1	1 300	
Inventory		1 300 (1) AO2
Motor vehicle expenses (1) AO1	800	
General expenses		800 (1) AO2
Provision for depreciation (1) AO1	1 750	
Income statement		1 750 (1) AO2
Advertising	2 500 (1) AO2	
Income statement		2 500 (1) AO2

Question Number	Answer	Mark
3 (c)	AO1 (3), AO2 (3), AO3 (2) AO1: Three marks for arriving at profits. AO2: Three marks for calculating adjusted balances. AO3: Two marks for arriving at adjusted balances where two errors have occurred.	(8)

**Statement of Profit or Loss and Other Comprehensive Income for the year ended
31 December 2018**

	Draft	Workings	Revised
	£	£	£
Revenue	84 000	+ 2 800 - 600	86 200 (1) AO3
Cost of sales	(47 000)	+1 300	(48 300) (1) AO2
Gross profit	37 000		37 900 (1of) AO1
General expenses	(8 000)	-800	(7 200) (1) AO2
Motor vehicle expenses (including depreciation)	(18 000)	-1 750 +800	(17 050) (1) AO3
Advertising	(12 000)	- 2 500	(9 500) (1) AO2
Profit/(loss) for the year	(1 000)		4 150 (2/1of) AO1

Question Number	Indicative Content		Mark
3 (d)	AO2 (1), AO3 (2), AO4 (3) Positive points for ICT Errors will be reduced because many of the functions of the software are automated. The software will ensure that for every debit there is a credit so single entry errors will not occur. Regular reconciliations are available to minimise errors. Negative points ICT Requires professional input. Expenses and incomes can still be incorrectly categorised. Decision Candidates may conclude that errors would be significantly reduced but not eliminated. Candidates should support that decision with an appropriate rationale.		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.	
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.	
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.	

2 Roshan's bookkeeper extracted the following trial balance on 30 April 2018.

	Dr	Cr
	£	£
Capital		60 000
Drawings	11 900	
Revenue		205 000
Purchases	125 000	
Returns inwards		800
Inventory – 1 May 2017	31 000	
Non-current assets (cost)	64 000	
Provision for depreciation – non-current assets		36 000
Discount allowed		1 680
Discount received	3 100	
Trade receivables		19 000
Trade payables		15 650
Allowance for doubtful debts	400	
Wages	27 000	
Rent and rates	8 500	
Electricity and gas	4 600	
General expenses	23 500	
Cash in hand		3 170
Suspense	<u>42 300</u>	<u> </u>
	<u>341 300</u>	<u>341 300</u>

Roshan was aware that the bookkeeper had made some errors in drafting the trial balance.

Required

(a) Complete the trial balance in your question paper, **correcting all errors**.

(8)

After the correction of the trial balance, the bookkeeper completed the financial statements, which showed a profit for the year of £30 700. Roshan then identified that there had been some errors in the year-end adjustments.

- (1) The inventory at 30 April 2018 was recorded in the financial statements as £35 500. There was an error in the inventory count, which should have shown the total as £32 700
- (2) No adjustment had been made for discount receivable owing. £3 100 had been recorded in the financial statements when this should have been £3 450
- (3) No adjustments had been made for general expenses prepaid £1 200 and owing £550
- (4) Annual depreciation on non-current assets had been charged at the rate of 25% on cost, when this should have been 15% on cost.
- (5) No adjustment had been made to the allowance for doubtful debts, which should have been maintained at 4%.
- (6) A provision should have been made for an injury claim from one of Roshan's employees. The injury claim would be for 7 weeks' loss of earnings at £180 per week plus a total loss of bonus of £120. No entry had been made in the financial statements.

Required

- (b) Complete the table in the question paper, to calculate the revised profit/loss after the corrections of (1) to (6).

(14)

The following information related to three of Roshan's ledger accounts.

	Balance 1 May 2017	Payments by cheque	Balance 1 May 2018	Transfer to statement of profit or loss and other comprehensive income
	£	£	£	£
Allowance for doubtful debts	400	Nil	To be calculated	To be calculated
Wages	650 Cr	27 650	175 Cr	To be calculated
Electricity and gas	250 Dr	4 350	360 Cr	To be calculated

Required

(c) Prepare the following ledger accounts for the year ended 30 April 2018, showing the balance brought down at 1 May 2018:

- Allowance for Doubtful Debts Account
- Wages Account
- Electricity and Gas Account.

(9)

(d) Explain the difference between:

- (i) the accounting concepts of accruals and money measurement

(4)

- (ii) bad debts and allowance for doubtful debts

(4)

- (iii) social accounting and ethical accounting.

(4)

Roshan is considering computerising his accounts using information and communication technology (ICT). He believes that this will eliminate the errors in his financial statements.

(e) Evaluate the proposal that information and communication technology (ICT) will **eliminate the errors** made by his bookkeeper in recording transactions and preparing the trial balance and the financial statements.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Source material for Question 2 is on pages 5 to 7 of the source booklet.

- 2 (a) Complete the trial balance, **correcting all errors**.

(8)

Roshan
Trial balance at 30 April 2018

	Dr	Cr
	£	£
Capital		
Drawings		
Revenue		
Purchases		
Returns inwards		
Inventory – 1 May 2017		
Non-current assets (cost)		
Provision for depreciation – non-current assets		
Discount allowed		
Discount received		
Trade receivables		
Trade payables		
Allowance for doubtful debts		
Wages		
Rent and rates		
Electricity and gas		
General expenses		
Cash in hand		
Suspense		



- (b) Complete the table, to calculate the revised profit/loss after the corrections of (1) to (6).

(14)

Corrected profit/(loss) for the year ended 30 April 2018

			£
Draft profit for the year			30 700
	Increase	Decrease	
	£	£	
(1) The inventory at 30 April 2018 was recorded in the financial statements as £35 500. There was an error in the inventory count, which should have shown the total as £32 700			
(2) No adjustment had been made for discount receivable owing. £3 100 had been recorded in the financial statements when this should have been £3 450			
(3) No adjustments had been made for general expenses prepaid £1 200 and owing £550			
(4) Annual depreciation on non-current assets had been charged at the rate of 25% on cost, when this should have been 15% on cost.			
(5) No adjustment had been made to the allowance for doubtful debts, which should have been maintained at 4%.			
(6) A provision should have been made for an injury claim from one of Roshan's employees. The injury claim would be for 7 weeks' loss of earnings at £180 per week plus a total loss of bonus £120. No entry had been made in the financial statements.			
Total			
Revised profit/(loss) for the year			



Question Number	Answer	Mark
2 (a)	AO1 (5), AO2 (3) AO1: Five marks for correcting trial balance. AO2: Three marks for matching trial balance totals.	(8)

Roshan		
Trial balance at 30 April 2018		
	Dr	Cr
	£	£
Capital		60 000
Drawings	11 900	
Revenue		205 000
Purchases	125 000	
Returns inwards	800 (1)AO1	
Inventory -1 May 2017	31 000	
Non-current assets (cost)	64 000	
Provision for depreciation – non-current assets		36 000
Discount allowed	1 680 (1)AO1	
Discount received		3 100 (1)AO1
Trade receivables	19 000 (1)AO1	
Trade payables		15 650
Allowance for doubtful debts		400 (1)AO1
Wages	27 000	
Rent and rates	8 500	
Electricity and gas	4 600	
General expenses	23 500	
Cash in hand	3 170 (1)AO2	
Suspense	-	-
	<u>320 150</u>	<u>320 150</u> (2/1of)AO2
The same		

Question Number	Answer	Mark
2 (b)	AO2 (12), AO3 (2) AO2: Twelve marks for adjusting profit. AO3: Two marks for calculating depreciation.	(14)

Corrected profit/(loss) for the year ended 30 April 2018

			£
Draft profit for the year			30 700
	Increase £	Decrease £	
(1) The inventory at 30 April 2018 was recorded in the financial statements as £35 500. There was an error in the inventory count which should have been £32 700.		2 800 (1) AO2 correct number (1) AO2 correct treatment	
(2) No adjustment had been made for discount receivable owing. £3 100 had been recorded in the financial statements when this should have been £3 450.	350 (1) AO2 correct number (1) AO2 correct treatment		
(3) No adjustment had been made for general expenses prepaid £1 200 and owing £550.	1 200 (1) AO2	550 (1) AO2	
(4) Annual depreciation on non-current assets had been charged at the rate of 25% on cost, when this should have been 15%.	6 400 (1) AO3 correct number (1) AO2 correct treatment		
(5) No adjustment had been made to the allowance for doubtful debts which should have been maintained at 4%.		360 (1) AO2 correct number (1) AO2 correct treatment	

(6) A provision was to be made for an injury claim from one of Roshan's employees. The injury claim would be for 7 weeks loss of earnings at £180 per week plus a total loss of bonus £120.		1 380 (1) AO3 correct number (1) AO2 correct treatment	
Total	7 950	(5 090)	2 860
Revised profit/(loss) for the year			33 560 (2/1of) AO2

Question Number	Answer	Mark
2 (c)	AO1 (6), AO3 (3) AO1: Six marks for transferring entries to the accounts correctly and balancing off accounts. AO3: Three marks for deriving bank or income statement figures.	(9)

Allowance for Doubtful Debts Account

		£			£
			2017		
			1 May	Balance b/d	400 (1) AO1
2018			2018		
30 April	Balance c/d	<u>760</u>	30 April	Income statement	<u>360 (1of)</u> AO3
		<u>760</u>			<u>760</u>
			1 May	Balance b/d	760 (1of) AO1

Wages Account

		£			£
2017/18	Bank/cheque	27 650 (1) AO3	2017		
2018			1 May	Balance b/d	650
30 April	Balance c/d	175	2018		
		—	30 April	Income statement	<u>27 175</u> (1) AO1
		<u>27 825</u>			<u>27 825</u>
			1 May	Balance b/d	175 (1) AO1

Electricity and Gas Account

		£			£
2017					
1 May	Balance b/d	250			
2017/18	Bank/cheque	4 350 (1) AO1			
2018			2018		
30 April	Balance c/d	<u>360</u>	30 April	Income statement	<u>4 960 (1)</u> AO3
		<u>4 960</u>			<u>4 960</u>
			1 May	Balance b/d	360 (1) AO1

Question Number	Answer	Mark
2 (d)(i)	AO1 (4) AO1: Four marks for explaining the distinction.	(4)

Accruals	Money measurement
Matches income to expenditure for a period	Recognises that some assets cannot be measured in monetary terms in financial statements
Applies to all expenses and incomes	Some assets to the business such as peoples skill cannot be recorded on the SOFP
Ensures not overstating profits	All assets liabilities which can be measured in monetary terms should be included

Marks awarded only if two points are distinguished, one from each concept (1)

AO1 x 4

Question Number	Answer	Mark
2 (d) (ii)	AO1 (4) AO1: Four marks for explaining the distinction.	(4)

Bad debts	Allowance for doubtful debts
Actual bad debts from the last period	Estimate of possible debts in the next period
Actual figure	Estimate only
Expense of the period entered in the income statement	Application of prudence concept to value trade receivables accurately
These have occurred in the current period	This is for a debt which might occur in a future period

Two marks awarded for first category and two marks for second category **(1)**

AO1 x 4

Question Number	Answer	Mark
2 (d) (iii)	AO1 (4) AO1: Four marks for explaining the distinction.	(4)

Social accounting	Ethical accounting
Business should consider their actions in a social context not just profit	Businesses should report with honesty
Considers impact on workers, community, environment etc	Not misleading by issuing incorrect statements or financial statements
Long term benefit for business and society	Not withholding relevant information

Marks awarded only if two points are distinguished, one from each concept **(1)**

AO1 x 4

Question Number	Indicative Content	Mark
2 (e)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Positive points for the proposal</p> <p>Errors may be reduced because the software package will complete the double entry so the correct corresponding account will receive the entry. The software package will produce financial reports/statements on as regular a basis as is required. Therefore the construction and base data used will be correctly applied. The computer will ensure no arithmetical/calculation errors.</p> <p>Negative points for the proposal</p> <p>Although the double entry will be completed with the debit and credit the computer can only apply the figures supplied by the inputter. An error in inputting from the source documents will not be detected by the computer. Regular financial reports/statements will require period end financial adjustments. If these are not accurately applied the outcome will be inaccurate. If poorly programmed errors may occur. Repetitive input can lead to errors. Lack of training can lead to input errors. Some of the errors which do not affect the trial balance will still not be detected if using ICT e.g. error of omission or error of original entry.</p> <p>Decision</p> <p>Candidates may conclude that errors will be reduced but there is no guarantee of elimination of errors. Candidates should support that decision with an appropriate rationale.</p> <p>NOT</p> <p>General advantages and disadvantages of using ICT. ALL errors not revealed by the trial balance will still not be detected.</p>	(12)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

Question Number	Answer	Mark
3 (a)	<p>AO1 (4) AO1: Four marks for identifying possible reasons for the fall.</p> <p>Sales will probably be falling If sales for cash, smaller cash inflow If for sales on credit, fewer trade receivables to convert into cash Inventory may rise unless purchases are restrained May require bank overdraft to pay expenses Difficulty in paying trade payables</p> <p>MAX 4 x (1) AO1</p>	(4)

SECTION B

Answer three questions from this section.

- 3** Argit extracted a trial balance on 31 August 2018 and prepared a **draft** Statement of Profit or Loss and Other Comprehensive Income that showed a profit for the year of £7 100

On the 31 August 2018 **after** completion of the draft Statement of Profit or Loss and Other Comprehensive Income, the following balances remained in the ledger.

	£
Inventory	3 800
Wages and salaries	1 900 Dr
Rent and rates	1 100 Dr
Bank interest and charges	500 Cr
Non-current assets (cost)	30 000
Provision for depreciation	
Non-current assets	8 000
General expenses	200 Cr
Trade receivables	9 800
Allowance for doubtful debts	400

Argit was aware that the trial balance contained several errors and the **draft** Statement of Profit or Loss and Other Comprehensive Income required adjustments.

The following errors were found:

- (1) Cash sales of £3 600 had **not** been recorded in the books.
- (2) Cash sales of £4 500 had been posted to the ledger as £5 400
- (3) Inventory at 31 August was valued incorrectly. The value should have been £4 350
- (4) Wages at 31 August 2018 of £1 900 were recorded incorrectly as they were accrued not prepaid.
- (5) A salary bonus payment of £250 had not been recorded in the books.
- (6) Rent and rates had been calculated incorrectly. The rent was prepaid £800 and the rates were accrued £300 at the 31 August 2018.
- (7) A provision of £3 000 for bank interest and charges had been made in the financial statements. The actual sums were bank charges £1 750 and bank charges £90
- (8) Depreciation on non-current assets had been calculated at the rate of 25% using the straight line method instead of 25% using the reducing balance method.
- (9) General expenses included a payment of £600 interest on a loan for Argit's personal use. Business expenses of £75 paid by Argit, had not been recorded in the books.
- (10) The allowance for doubtful debts was to be maintained at 5% of trade receivables.

Required

- (a) Complete the table showing adjustments and the corrected Statement of Profit or Loss and Other Comprehensive Income. (20)
- (b) Explain the use of the following in correcting errors in the ledger:
- Suspense Account
 - the Journal. (4)
- (c) Evaluate the preparation of a draft Statement of Profit or Loss and Other Comprehensive Income when it is known that there are errors in the ledger. (6)

(Total for Question 3 = 30 marks)

SECTION B**Answer THREE questions in this section.**

Indicate which question you are answering by marking a cross in the box ☐. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☐.

If you answer Question 3 put a cross in the box ☒.

Source material for Question 3 is on pages 10 and 11 of the source booklet.

- 3 (a) Complete the table showing adjustments and the corrected Statement of Profit or Loss and Other Comprehensive Income.

(20)

	Draft	Adjustment	Corrected
	£		£
Revenue	85 000		
Cost of sales	<u>39 000</u>		
Gross profit	46 000		
Less			
Wages and salaries	18 400		
Rent and rates	4 000		
Bank interest and charges	3 000		
Depreciation	7 500		
General expenses	5 900		
Allowance for doubtful debts increase	<u>100</u>		
	<u>38 900</u>		
Profit for the year	<u>7 100</u>		



Question Number	Answer	Mark
3 (a)	AO1 (5), AO2 (12), AO3(3) AO1: Five marks for calculating balances. AO2: Twelve marks for correct adjustment figure or final balance. AO3: Three marks for depreciation and allowance for doubtful debts.	(20)

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 August 2018

	Draft	Adjustment	Corrected
	£		£
Revenue	85 000	+3 600 (1) AO2 -900 (1) AO2	87 700 (1of) AO3
Cost of sales	(39 000)	-550 (1) AO2	(38 450) (1of) AO1
Gross profit	46 000		49 250
Less			
Wages and salaries	18 400	+3 800 (1) AO2 +250 (1) AO2	22 450 (1of) AO2
Rent and rates	4 000	+600 (1) AO2	4 600 (1of) AO1
Bank interest and charges	3 000	-1 160 (1) AO2	1 840(1of) AO1
Depreciation	7 500	-2 000 (1) AO3	5 500 (1of) AO1
General expenses	5 900	-600 (1) AO2 +75 (1) AO2	5 375 (1of) AO2
Allowance for doubtful debts increase	<u>100</u>	-10 (1) AO3	<u>90 (1of) AO2</u>
	<u>38 900</u>		<u>39 855</u>
Profit for the year	<u>7 100</u>		<u>9 395 (1) AO1</u>

Adjustment (1) mark for correct figure

Corrected balance (1of) mark for correct adjustment, figure and orientation.

Question Number	Answer	Mark
3 (b)	<p>AO1 (4) AO1: Four marks for explaining the terms.</p> <p>The Suspense Account will be opened with the difference in the value of the debits and credits in the trial balance/because not all transactions have a debit and credit entry of equal value (1) AO1 as errors are located the Suspense Account will be debited or credited with the individual differences found. (1) AO1</p> <p>The Journal is a book of prime entry (1) AO1 which will be used for the authorisation of the entries to be made to correct the double entry/record the correction. (1) AO1</p>	(4)

Question Number	Indicative Content	Mark
3 (c)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Points in favour of preparation with errors</p> <p>Gives an indication of the profit that has been achieved.</p> <p>This may assist decision making, but there is the danger that important decisions may be made on incorrect information.</p> <p>Points against preparation with errors</p> <p>The results will not be accurate which may impact upon decision making.</p> <p>The work will need to be repeated when the errors are located which will be expensive in time and cost.</p> <p>Decision</p> <p>Candidates may be in favour or against the preparation of the income statement with known errors. Candidate's conclusion should be supported with an appropriate rationale.</p> <p>NOT</p> <p>A discussion about errors.</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	<p>Isolated elements of knowledge and understanding which are recall based.</p> <p>Generic assertions may be present.</p> <p>Weak or no relevant application to the scenario set.</p>

Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

- 4 Sanith prepared a trial balance on 30 November 2016 that failed to agree. In checking his transactions for the month of November, he found that the account of one of his suppliers, Kamila, contained errors. The account was recorded as follows:

Kamila Account

2016			£	2016			£
8 November	Purchases		1 400	1 November	Balance b/d		8 000
15 November	Bank		5 600	15 November	Discount		400
30 November	Balance c/d		<u>1 930</u>	20 November	Returns		<u>530</u>
			<u>8 930</u>				<u>8 930</u>
				1 December	Balance b/d		1 930

On inspection of the books Sanith found the following errors:

- (1) Purchases of £1 400 had been correctly entered in the Purchases Account but debited to the account of Kamila.
- (2) Discount received of £400 on 15 November had been credited to the account of Kamila. Other entries for this transaction were correct.
- (3) A credit purchase of goods from Kamila on 18 November, £2 100, had been posted to the account of Robson.
- (4) A return of goods, £350, to Kamila on 20 November had been correctly recorded in the book of prime entry. This had been recorded in Kamila's account as £530
- (5) A payment of £1 500 made by cheque to Kamila on 25 November was omitted from the books.

Required

- (a) Prepare the journal entries to correct the errors (1) to (5) in the books.
Narratives are **not** required. (10)
- (b) Complete the account of Kamila in your question paper, showing the additional entries required to correct the errors. (10)
- (c) Explain the difference between an:
 - (i) error of compensation and an error of reversal (2)
 - (ii) error of principle and an error of commission. (2)
- (d) Evaluate the use of the trial balance. (6)

(Total for Question 4 = 30 marks)

Question Number	Answer	Mark																																				
4(a)	<p>AO2 (8), AO3 (2) AO2: Eight marks for carrying out the adjustment correctly. AO3: Two marks for calculating and carrying out the adjustment correctly.</p> <p style="text-align: center;">Journal</p> <table> <tr> <th></th><th>Dr</th><th>Cr</th></tr> <tr> <th></th><th>£</th><th>£</th></tr> <tr> <td>Suspense</td><td>2 800</td><td>(1) AO2</td></tr> <tr> <td>Kamila</td><td></td><td>2 800(1) AO2</td></tr> <tr> <td>Kamila</td><td>800</td><td>(1) AO2</td></tr> <tr> <td>Suspense</td><td></td><td>800(1) AO3</td></tr> <tr> <td>Robson</td><td>2 100</td><td>(1) AO2</td></tr> <tr> <td>Kamila</td><td></td><td>2 100(1) AO2</td></tr> <tr> <td>Kamila</td><td>880</td><td>(1) AO2</td></tr> <tr> <td>Suspense</td><td></td><td>880(1) AO3</td></tr> <tr> <td>Kamila</td><td>1 500</td><td>(1) AO2</td></tr> <tr> <td>Bank</td><td></td><td>1 500(1) AO2</td></tr> </table>		Dr	Cr		£	£	Suspense	2 800	(1) AO2	Kamila		2 800(1) AO2	Kamila	800	(1) AO2	Suspense		800(1) AO3	Robson	2 100	(1) AO2	Kamila		2 100(1) AO2	Kamila	880	(1) AO2	Suspense		880(1) AO3	Kamila	1 500	(1) AO2	Bank		1 500(1) AO2	(10)
	Dr	Cr																																				
	£	£																																				
Suspense	2 800	(1) AO2																																				
Kamila		2 800(1) AO2																																				
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Bank		1 500(1) AO2																																				

Question Number	Answer	Mark
4(b)	<p>AO1 (4), AO2 (4), AO3 (2) AO1: Four marks for identifying the correct narrative. AO2: Four marks for posting the correct value to the correct side of the account. AO3: Two marks for calculating the correct figure and inserting this into the correct side of the account.</p>	(10)

Kamila Account					
2016		£		2016	£
8 November	Purchases	1 400		1 November	Balance b/d 8 000
15 November	Bank	5 600		15 November	Discount 400
30 November	Suspense	800	(1) AO2	20 November	Returns 530
	Suspense (1) AO1	880	(2) AO3	30 November	Suspense 2 800 (1) AO2
	Bank (1) AO1	1 500	(1) AO2		Robson (1) AO1 2 100 (1) AO2
	Balance c/d	<u>3 650</u>			<u>13 830</u>
		<u>13 830</u>		1 December	Balance b/d 3 650(1of) AO1

Note:

Ignore dates

Mark number and narrative separately. If mark for number accept any reasonable narrative.

Note (4) award 350 (1) + 530 (1) = 880

Question Number	Answer	Mark
4(c)	<p>AO1 (4) AO1: Four marks for explaining the differences.</p> <p>(i) Compensation – there is more than one error which collectively cancel each other out (1) AO1</p> <p>Reversal – there has been a debit and a credit entry of equal value (1) AO1 which have been reversed in the books.</p> <p>(2)</p> <p>(ii) Principle is an error of posting to an account of a different class (1) AO1</p> <p>Commission is an error in posting to an account in the same class. (1) AO1</p> <p>(2)</p>	(4)

Question Number	Indicative content	Mark
4(d)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for</p> <ul style="list-style-type: none"> • Gives prima facie evidence of correct posting. It is a checking device for the accuracy of the double entry • Financial statements can be prepared with certainty that the underpinning information is probably accurate. <p>Potential negative points for</p> <ul style="list-style-type: none"> • Errors not affecting the balancing of the trial balance will not be revealed • Time consuming to prepare. <p>NOT</p> <ul style="list-style-type: none"> • Fraud prevention • Eliminates errors • Calculate profit. <p>Decision</p> <p>Candidates will conclude that a trial balance is useful in the accounting system. The decision should be supported by reasoned arguments.</p>	(6)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

- 2 Marvan extracted a trial balance on 31 August 2017. The trial balance failed to balance so Marvan opened a Suspense Account to record the difference.

On inspection of the books and draft financial statements, Marvan discovered the following errors:

- (1) The Sales Day Book had been under-cast by £3 250
- (2) Purchases on credit from Gayesha of £850, had been recorded in the ledger account of Gihan.
- (3) On 31 August 2017, a page from the inventory count (stock-take), for a total of £900, had been omitted.
- (4) Discount allowed of £280 had been credited to the Discount Allowed Account.
- (5) Rent of £6 000 had been paid for the period 1 May - 31 October 2017. The full amount had been charged to the Statement of Profit or Loss and Other Comprehensive Income.
- (6) Telephone expenses of £750 had been correctly recorded in the Bank Account but had been recorded in the Telephone Expenses Account as £570
- (7) The purchase of a new computer, £5 000, had been recorded in the Computer Expenses Account. Depreciation was charged on computers at the rate of 25% per annum using the straight line method.

Required

- (a) Identify which of the above errors could be corrected by using the Suspense Account. (3)
- (b) Prepare the journal entries to record the correction of all errors. Narratives are **not** required. (16)
- (c) Prepare the Suspense Account after the correction of all errors, showing the opening balance. (5)

On the 31 August 2017, the following balances were recorded in the ledger **before** the correction of errors.

Inventory Account	£41 600
Discount Allowed Account	£1 320
Computer Expenses Account	£12 300

Required

(d) Prepare the following corrected ledger accounts:

- (i) Inventory Account (3)
- (ii) Discount Allowed Account (3)
- (iii) Computer Expenses Account. (3)

Although the trial balance had failed to balance, Marvan prepared draft financial statements that showed a draft profit for the year of £23 350

- (e) Calculate the revised profit or loss for the year **after** the correction of all errors by completing the table in your Question Paper. (10)
- (f) Evaluate the usefulness of preparing draft financial statements when it is known that there are errors in the books. (12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Although the trial balance had failed to balance, Marvan prepared draft financial statements that showed a draft profit for the year of £23 350

- (e) Calculate the revised profit or loss for the year **after** the correction of all errors by completing the table.

(10)

			£
Draft profit for the year			23 350
	Increase	Decrease	
	£	£	
(1) The Sales Day Book had been under-cast by £3 250			
(2) Purchases on credit from Gayesha £850, had been recorded in the ledger account of Gihan.			
(3) On 31 August 2017, a page from the inventory count (stock-take), for a total of £900, had been omitted.			
(4) Discount allowed of £280 had been credited to the Discount Allowed Account.			
(5) Rent of £6 000 had been paid for the period 1 May – 31 October 2017. The full sum had been charged to the Statement of Profit or Loss and Other Comprehensive Income.			
(6) Telephone expenses of £750, had been correctly recorded in the Bank Account but had been recorded in the Telephone Expenses Account as £570			
(7) The purchase of a new computer, £5 000, had been recorded in the Computer Expenses Account. Depreciation was charged on computers at the rate of 25% per annum using the straight line method.			
Sub total			
Revised profit for the year			



Question Number	Answer	Mark
2 (a)	AO2 (3) AO2: Three marks for correctly identifying the errors requiring a suspense account. (1) (1) AO2 (4) (1) AO2 (6) (1) AO2	(3)

Question Number	Answer	Mark																																																						
2 (b)	AO1 (3), AO2 (13) AO1: Three marks for correctly identifying the account. AO2: Thirteen marks for correctly identifying the account and the entry and value. <table> <thead> <tr> <th></th><th>Dr £</th><th>Journal Cr £</th></tr> </thead> <tbody> <tr> <td>Suspense</td><td>3 250</td><td>(1) AO2</td></tr> <tr> <td>Revenue</td><td></td><td>3 250 (1) AO2</td></tr> <tr> <td>Gihan</td><td>850</td><td>(1) AO2</td></tr> <tr> <td>Gayesha</td><td></td><td>850 (1) AO2</td></tr> <tr> <td>Inventory (1) AO1</td><td>900</td><td></td></tr> <tr> <td>Income statement</td><td></td><td>900 (1) AO2</td></tr> <tr> <td>Discount Allowed</td><td>560</td><td>(1) AO2</td></tr> <tr> <td>Suspense (1) AO1</td><td></td><td>560</td></tr> <tr> <td>Rent</td><td>2 000</td><td>(1) AO2</td></tr> <tr> <td>Income statement (1) AO1</td><td></td><td>2 000</td></tr> <tr> <td>Telephone Expenses</td><td>180</td><td>(1) AO2</td></tr> <tr> <td>Suspense</td><td></td><td>180 (1) AO2</td></tr> <tr> <td>Computer</td><td>5 000</td><td>(1) AO2</td></tr> <tr> <td>Computer Expenses</td><td></td><td>5 000 (1) AO2</td></tr> <tr> <td>Income statement/</td><td></td><td></td></tr> <tr> <td>Depreciation</td><td>1 250</td><td>(1) AO2</td></tr> <tr> <td>Provision for depreciation</td><td></td><td>1 250 (1) AO2</td></tr> </tbody> </table>		Dr £	Journal Cr £	Suspense	3 250	(1) AO2	Revenue		3 250 (1) AO2	Gihan	850	(1) AO2	Gayesha		850 (1) AO2	Inventory (1) AO1	900		Income statement		900 (1) AO2	Discount Allowed	560	(1) AO2	Suspense (1) AO1		560	Rent	2 000	(1) AO2	Income statement (1) AO1		2 000	Telephone Expenses	180	(1) AO2	Suspense		180 (1) AO2	Computer	5 000	(1) AO2	Computer Expenses		5 000 (1) AO2	Income statement/			Depreciation	1 250	(1) AO2	Provision for depreciation		1 250 (1) AO2	(16)
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Question Number	Answer	Mark																									
2 (c)	<p>AO1 (2), AO2 (3) AO1: Two marks for establishing the opening balance of the account. AO2: Three marks for posting the correct narrative and value.</p> <table><tr><td></td><td>£</td><td></td><td>Suspense Account</td><td>£</td></tr><tr><td>Revenue</td><td>3 250</td><td>(1) AO2</td><td>Balance b/d</td><td>2 510 (2) / (1) of AO1</td></tr><tr><td></td><td></td><td></td><td>Telephone expenses</td><td>180 (1) AO2</td></tr><tr><td></td><td></td><td></td><td>Discount allowed</td><td><u>560</u> (1) AO2</td></tr><tr><td></td><td><u>3 250</u></td><td></td><td></td><td><u>3 250</u></td></tr></table>		£		Suspense Account	£	Revenue	3 250	(1) AO2	Balance b/d	2 510 (2) / (1) of AO1				Telephone expenses	180 (1) AO2				Discount allowed	<u>560</u> (1) AO2		<u>3 250</u>			<u>3 250</u>	(5)
	£		Suspense Account	£																							
Revenue	3 250	(1) AO2	Balance b/d	2 510 (2) / (1) of AO1																							
			Telephone expenses	180 (1) AO2																							
			Discount allowed	<u>560</u> (1) AO2																							
	<u>3 250</u>			<u>3 250</u>																							

Question Number	Answer	Mark
2 (d) (i)	AO1 (3) AO1: Three marks for recording the correction or balancing the account.	(3)

Inventory Account

2017		£	2017		£
31 Aug	Balance b/d	41 600 (1) AO1	31 Aug	Balance c/d	42 500
	Income Statement	900 (1) AO1			
		<u>42 500</u>			<u>42 500</u>
1 Sept	Balance b/d	42 500 (1)of AO1			

(3)

Question Number	Answer	Mark
2 (d) (ii)	AO1 (3) AO1: Three marks for recording the correction or balancing the account.	(3)

Discount Allowed Account

2017		£	2017		£
31 Aug	Balance b/d	1 320 (1) AO1	31 Aug	Balance c/d	1 880
	Suspense	560 (1) AO1			
		<u>1 880</u>			<u>1 880</u>
1 Sept	Balance b/d	1 880 (1)of AO1			

(3)

Question Number	Answer	Mark
2 (d) (iii)	AO1 (3) AO1: Three marks for recording the correction or balancing the account.	(3)

Computer Expenses Account

2017		£	2017		£
31 Aug	Balance b/d	12 300 (1) AO1	31 Aug	Computer Account	5 000 (1) AO1
			31 Aug	Balance c/d	7 300
		<u>12 300</u>			<u>12 300</u>
1 Sept	Balance b/d	7 300 (1)of AO1			

(3)

Question Number	Answer	Mark
2 (e)	AO2 (9), AO3 (1) AO2: Nine marks for identifying the correct effect of the error. AO3: One mark for correctly calculating the depreciation.	(10)

			£
Draft profit for the year			23 350
	Increase	Decrease	
	£	£	
(1) The Sales Day Book had been under-cast by £3 250.	3 250 (1) AO2		
(2) Purchases on credit from Gayesha £850, had been recorded in the ledger account of Gihan.	No effect (1) AO2		
(3) On 31 August 2017, a page from the inventory count (stock-take), for a total of £900, had been omitted.	900 (1) AO2		
(4) Discount allowed of £280 had been credited to the Discount Allowed Account.		560 (1) AO2	
(5) Rent of £6 000 had been paid for the period 1 May - 31 October 2017. The full amount had been charged to the Statement of Profit or Loss and Other Comprehensive Income.	2 000 (1) AO2		
(6) Telephone expenses of £750, had been correctly recorded in the Bank Account but had been recorded in the Telephone Expenses Account as £570.		180 (1) AO2	
(7) The purchase of a new computer, £5 000, had been recorded in the Computer Expenses Account. Depreciation is charged on computers at the rate of 25% per annum using the straight line method.	5 000 (1) AO2	1 250 (1) AO3	
Sub total	11 150	1 990	
Revised profit for the year			32 510 (2)/(1) of AO2

Question Number	Indicative Content	Mark
2 (f)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Potential arguments for</p> <ul style="list-style-type: none"> Prepares draft figures for use. Gives a reasonable estimate of profit. Assists the making of decisions. Easier to adjust draft statements to prepare final statements. <p>Potential arguments against</p> <ul style="list-style-type: none"> Reliance cannot be placed upon the information which is not accurate. Work has to be repeated – time and cost. Can lead to incorrect decisions. <p>NOT</p> <p>Any discussion of errors such as type, location, identification etc.</p> <p>Check accuracy.</p> <p>Decision</p> <p>Candidates may decide that the decision to prepare financial statements when there are errors in the books was a positive or negative move. Candidate's decisions must be supported by a rationale of key points in arriving at that conclusion.</p>	(12)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	<p>Isolated elements of knowledge and understanding recall based.</p> <p>Weak or no relevant application to the scenario set.</p> <p>Generic assertions may be present.</p>
Level 2	4 - 6	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>Chains of reasoning are present, but may be incomplete or invalid.</p> <p>A generic or superficial assessment is present.</p>
Level 3	7 - 9	<p>Accurate and thorough understanding, supported throughout by relevant application to the scenario.</p> <p>Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects.</p> <p>An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.</p>