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IGCSE Accounting Short Answer Questions

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1 Explain the meaning of the following terms.

Bad debts

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.....

.....

Bad debts recovered

.....

.....

.....

Provision for doubtful debts

.....

.....

.....

Answer: *Bad debts*
Amounts owing to a business which will not be paid by the credit customer.

Bad debts recovered
Amounts received from a credit customer after the amount was written off as a bad debt

Provision for doubtful debts
An estimate of the amount which a business will lose because of bad debts

2 Suggest two ways in which the risk of bad debts may be reduced.

1 .....

.....

2 .....

.....

Answer: *Reduce credit sales/sell on a cash basis*
Obtain references from new credit customers
Fix a credit limit for each customer
Improve credit control
Issue invoices and monthly statements promptly
Refuse further supplies until outstanding balance is paid

3 Explain why maintaining a provision for doubtful debts is an application of the principle of prudence.

.....

.....

.....

Answer: *A provision for doubtful debts ensures that the profit for the year is not overstated the trade receivables are not overstated.*

4 Complete the following sentences, using these phrases:

assets and liabilities
at a particular date
for a period of time
incomes and expenses

An income statement shows ..... and is

prepared .....

A statement of financial position shows ..... and is

prepared .....

Answer: *An income statement shows <u>incomes and expenses</u> and is prepared <u>for a period of time</u>.*
A statement of financial position shows <u>assets and liabilities</u> and is prepared <u>at a particular date</u>.

5 Complete the following table indicating with a tick (✓) whether each item is an asset, liability, income or expense.

	asset	liability	income	expense
bank loan				
insurance				
equipment				
depreciation charge				

Answer:

	asset	liability	income	expense
bank loan		✓		
insurance				✓
equipment	✓			
depreciation charge				✓

6 On 1 March 2017, Arundhati paid rent, $6000, for the four-month period ending 30 June 2017. She prepared her financial statements on 31 March 2017.

REQUIRED

State the amounts for rent which were included in the financial statements.

Income statement $.....

Statement of financial position $.....

Answer: *Income statement $1500*
Statement of financial position $4500

7 Arundhati maintains a sales ledger, a purchases ledger and a nominal (general) ledger.

REQUIRED

State **one** reason why Arundhati maintains these three divisions of her ledger.

.....

.....

Answer: *accounts of the same type can be kept together*
helps to locate errors
allows tasks to be divided between different people
deters fraud
allows checking procedures to be introduced

8 **(i)** State which type of accounts are maintained in the sales ledger and purchases ledger.

Sales ledger.....

Purchases ledger .....

(ii) Give **one** example of an account which might be found in the nominal (general) ledger.

.....

Answer: *(i) Sales ledger – accounts of individual credit customers*
Purchases ledger – accounts of individual credit suppliers

(ii) any suitable example for e.g. sales, purchases, insurance

9 Name **two** books of prime (original) entry which Arundhati may keep.

1.....

2.....

Answer: *cash book*
petty cash book
sales journal
sales returns journal
purchases journal
purchases returns journal
general (nominal) journal
(any two)

10 State whether the following sentence is true or false.

	true or false
The recording of financial transactions is called accounting.	.....

Answer: *False*

11 Pich sold goods, $5000, on credit to Roger.

REQUIRED

(a) State the double entry needed to record this transaction

(i) in the books of Pich

debit account	$	credit account	$
.....	.....	.....	.....

(ii) in the books of Roger.

debit account	$	credit account	$
.....	.....	.....	.....

(b) Name the document issued when this transaction took place and the person who issued it.

Document .....

Answer: *(a) (i)*

in the books of Pich

debit account	*$*	*credit account*	*$*
Roger	*5000*	*sales*	*5000*

(ii)

in the books of Roger

debit account	*$*	*credit account*	*$*
purchases	*5000*	*Pich*	*5000*

(b) Invoice
Pich (1)

Roger paid by credit transfer, taking 2½% cash discount, on 1 April 2017.

REQUIRED

(c) State the double entry needed to record the transaction on 1 April 2017 in Pich's books of account.

debit account(s)	$	credit account(s)	$

(d) (i) Name the account in which this discount was recorded in Roger's books.

.....

(ii) Name the financial statement in which Roger would record this discount.

.....

Answer: *(c)*

debit account	$	credit account	$
bank	4875	Roger	5000
discount allowed	125		

(d) (i) discount received account
(ii) income statement

12 Complete the following sentences.

A ..... is issued by the supplier when goods are returned.

A ..... may be issued by the customer when goods are returned.

Answer: *A <u>credit note</u> is issued by the supplier when goods are returned.*
A <u>debit note</u> may be issued by the customer when goods are returned.

13 G Limited is a manufacturing business.

REQUIRED

Complete the following table, indicating with a tick (✓) in which section of G Limited's financial statements **each** item is included. The first has been completed as an example.

	factory overheads	distribution costs	administrative expenses
factory rent	✓		
carriage outwards			
depreciation of office equipment			
factory supervisor's salary			
repairs of delivery vehicles			

Answer:

	factory overheads	distribution costs	administrative expenses
factory rent	✓		
carriage outwards		✓	
depreciation of office equipment			✓
factory supervisor's salary	✓		
repairs of delivery vehicles		✓	

14 Shiromi is hoping to increase her working capital and is considering four courses of action.

REQUIRED

Complete the table by placing a tick (✓) in the correct column to show how **each** course of action would affect Shiromi's working capital.

	Increase	Decrease	No effect
Take out a short-term bank loan			
Repay a long-term bank loan			
Sell goods on credit terms instead of for cash			
Obtain a higher rate of cash discount			

Answer:

	increase	decrease	no effect
Take out a short-term bank loan			✓
Repay a long-term bank loan		✓	
Sell goods on credit terms instead of for cash			✓
Obtain a higher rate of cash discount	✓		

15 Waheed's financial year ends on 31 March. He provided the following information.

All goods are bought and sold on credit terms. A cash discount is received from credit suppliers if payment is made within 45 days. A cash discount is allowed to credit customers if payment is made within 30 days.

	At 31 March 2016	At 31 March 2017
Trade receivables collection period	33 days	29 days
Trade payables payment period	44 days	46 days

REQUIRED

State whether Waheed would be satisfied with the change in the collection period for trade receivables. Give a reason for your answer.

Satisfied? .....

Reason .....

.....

Answer: *Satisfied*
Credit customers are now paying earlier/within credit period allowed/other valid answer.

16 State **one** advantage to Waheed's suppliers of the change in the payment period.

.....

.....

.....

State **one** disadvantage to Waheed's suppliers of the change in the payment period.

.....

.....

.....

Comment on how a collection period of 29 days and a payment period of 46 days may affect Waheed's liquidity position.

.....

.....

.....

.....

Answer: *Advantage - Do not have to allow Waheed cash discount*
May charge interest on overdue account

Disadvantage - Have to wait longer for payment/Adversely affects liquidity position
Increase risk of bad debt

Comment - Waheed has the use of the funds for other purposes for 17 days
Waheed does not need to use his existing liquid funds to pay suppliers
Improved liquidity position
Or other suitable comment

17 Amitav sells goods on credit to Barry. An invoice is issued.

REQUIRED

(a) Name the person who issues the invoice and the person who receives it.

Person issuing .....

Person receiving .....

Answer: *Person issuing - Amitav*
Person receiving - Barry

(b) State why a credit note may later be issued.

.....

.....

Answer: *If goods are returned*
If goods are reported faulty
If there has been an overcharge on an invoice

(c) Name the book of prime entry in which Barry would record a credit note from Amitav.

.....

Answer: *Purchases returns journal*

(d) State **one** reason why both Amitav and Barry would keep books of account.

.....

.....

Answer: *To record business transactions*
To be able to prepare financial statements
To know balances of credit customers and suppliers or bank

(e) State the meaning of the accounting principle of duality.

.....

.....

Answer: *Every transaction has a two-fold aspect*

(f) Complete the following sentences using the words and phrases 'credit', 'debit', 'income statement' and 'statement of financial position'.

An expense account usually has a..... balance.

At the end of the financial year the expense for the year is transferred to the..... This transfer is recorded with an entry on the..... side of the expense account. Any balance remaining on the account is included in the .....

Answer: *An expense account usually has a **DEBIT** balance. At the end of the financial year the expense for the year is transferred to the **INCOME STATEMENT**. This transfer is recorded with an entry on the **CREDIT** side of the expense account. Any balance remaining on the account is included in the **STATEMENT OF FINANCIAL POSITION**.*

(g) State what is meant by the accounting objective of understandability.

.....

.....

Answer: *A financial report must be capable of being understood by the users of that report.*

(h) State how International Accounting Standards help to achieve understandability.

.....

.....

Answer: *By narrowing areas of difference in financial statements*

(i) Name **two** interested parties who might wish to look at the financial statements of a business. Give a reason in **each** case.

	Interested party	Reason
1		
2		

Answer:

Interested party	Reason
Owner	*To see progress of business*
Government department	*To check on tax payable*
Trade payables	*To check on likelihood of receiving money*
Bank manager	*To decide on whether to give/continue overdraft*
Customer	*To check on viability of business for continued supply of goods*
Potential partner	*To see potential rewards for investment*
Manager	*To see progress of business*

Reasonable alternatives may be rewarded

18 Vinita's accountant prepared a set of financial statements at the end of her first year of trading on 31 December 2016.

Vinita was not familiar with some of the terms used in these statements.

REQUIRED

(a) State the meaning of **each** of the following terms.

(i) Income statement

.....

.....

(ii) Statement of financial position

.....

.....

(iii) Non-current assets

.....

.....

.....

(iv) Non-current liabilities

.....

.....

(v) Capital

.....

.....

(b) Give **one** example of an intangible asset.

.....

Answer: *(a) (i) A statement in which the profit or loss for the year is calculated*

(ii) A statement showing the assets and liabilities of a business on a certain date

(iii) Assets which are purchased for use not for resale
Assets whose values do not fluctuate frequently
Assets which will be kept by the business for more than 12 months
Assets which are acquired to aid the business earn revenue

(iv) Liabilities which are not due for repayment within 12 months

(v) Either The amount the business owes the owner of that business
Or Any resources provided for a business by the owner of that business

(b) Goodwill/patents/trademarks/other suitable example

19 **(a)** State the meaning of owner's equity.

.....

.....

(b) Name the accounting principle applied in **each** of the following situations.

	Principle
A trader withdraws goods for his own use and records this in the drawings account.	
A book-keeper writes off debts which will not be paid to the business.	
An accountant does not include staff morale as an asset in the statement of financial position.	
A business uses the double entry system of book-keeping to record transactions.	

(c) Name the ledger in which the purchases account is found.

.....

(d) Name the type of organisation which would prepare a statement of changes in equity.

.....

(e) Complete the following sentence.

Items which a business owns or which are owed to the business are known as

..... .

Answer: *(a) The amount owed by the business to the owner.*
The funds put into the business/contributed by the owner (plus profits net of drawings).

(b)

	Principle
A trader withdraws goods for his own use and records this in the drawings account.	*Business entity*
A book-keeper writes off debts which will not be paid to the business.	*Prudence/accruals (matching)*
An accountant does not include staff morale as an asset in the statement of financial position.	*Money measurement*
A business uses the double entry system of book-keeping to record transactions.	*Duality*

(c) Nominal (general) ledger
(d) (Limited) company
(e) Items which a business owns or which are owed to the business are known as ***ASSETS.***

20 Jake manufactures CD players. He has a credit customer, Rashida. They have exchanged an invoice, a debit note, a credit note and a statement of account.

REQUIRED

Complete the following table for the documents exchanged between Jake and Rashida. The first item has been completed as an example.

document	reason for issue	name of person issuing document
invoice	*to record goods sold on credit*	*Jake*
debit note		
credit note		
statement of account		

Answer:

document	reason for issue	name of person issuing document
invoice	to record goods sold on credit	Jake
debit note	*to ask for reduction in invoice*	*Rashida*
credit note	*to accept request for reduction in invoice*	*Jake*
statement of account	*to summarise transactions for the month*	*Jake*

21 Complete the following table by writing True or False against **each** statement.

	True or False
Work in progress may appear in Jake's manufacturing account.	
Prime cost appears in Jake's income statement.	
Jake's business is a service business.	

Answer:

	True or False
Work in progress may appear in Jake's manufacturing account.	*True*
Prime cost appears in Jake's income statement.	*False*
Jake's business is a service business.	*False*

22 **(a)** Name the accounting principle applied when using the double entry system of book-keeping.

.....

(b) Complete the following table by writing **either** True or False against **each** statement.

	True or False
Carriage inwards appears on the debit side of a trial balance.	
Inventory is included in current assets.	
A suspense account represents the difference between the cash book balance and the balance on the bank statement.	
A sole trader has limited liability.	
The sales account appears in the nominal (general) ledger.	

(c) Complete the following sentence using the words 'increases' and 'reduces'.

An adjustment for a prepaid cost ..... expenses and ..... profit.

(d) State **one** purpose of accounting.

.....

.....

(e) Complete the following table. State **one** type of organisation to which **each** of the accounting terms relates. The first has been completed as an example.

term	organisation
prime cost	*manufacturing business*
accumulated fund	
dividend paid	
interest on capital	
work in progress	
drawings	

(f) Name the financial statement where discount received is recorded. State how it is shown there.

.....

.....

(g) State **one** difference between an income statement and a statement of financial position.

.....

.....

.....

.....

(h) Name **one** user who might be interested in the financial statements of a club or society.

.....

(i) Name **one** factor which might limit the usefulness of the financial statements.

.....

.....

Answer: *(a) duality*

(b)

	True or False
Carriage inwards appears on the debit side of a trial balance.	*True*
Inventory is included in current assets.	*True*
A suspense account represents the difference between the cash book balance and the balance on the bank statement.	*False*
A sole trader enjoys limited liability.	*False*
The sales account appears in the nominal/general ledger.	*True*

*(c) An adjustment for a prepayment **reduces** expenses and **increases** profit.*

(d) To monitor progress
To prepare financial statements
For decision making

(e)

term	organisation
prime cost	*manufacturing business*
accumulated fund	*club/society*
dividend	*limited company*
interest on capital	*partnership*
work in progress	*manufacturing business*
drawings	*sole trader **OR** partnership*

(f) *In the income statement as an addition to gross profit / as an item of income/credit.*

(g) *An income statement deals with revenues and costs, whilst a statement of financial position deals with assets and liabilities.*
OR
An income statement covers a period of time, whilst a statement of financial position is for a specified date.

(h) *Trade payable*
Club member
Committee member
Bank
Accept other valid answers

(i) *Historic cost*
Difficulties of definition
Non-financial aspects

23 **(a)** State **one** reason why a trader maintains books of prime entry.

.....

.....

(b) Name the book of prime entry which also functions as a ledger account.

.....

Answer: *(a)* *To reduce the number of entries in the ledger*
To allow book-keeping duties to be shared
As an aid for posting to the ledger
To summarise accounting information
To help in the preparation of control accounts
To group together similar types of transactions
To make it easier to check for errors
Accept other valid answers.

(b) *Cash book*

24 Mahendra's financial year ends on 31 August. He buys and sells on both cash and credit terms and maintains a full set of accounting records.

Mahendra prepares control accounts at the end of each month.

REQUIRED

(a) Complete the following table. Use a tick (✓) to show where **each** of the following items would appear in Mahendra's sales ledger control account. If the item does **not** appear place a tick in the "no entry" column.

	debit	credit	no entry
opening balance owed by credit customers			
credit sales			
cash sales			
provision for doubtful debts			
bad debts written off			
cash discount allowed to credit customers			
trade discount allowed to credit customers			
contra between sales and purchases ledgers			
cash received from credit customers			

(b) Name the book of prime (original) entry which Mahendra would use to obtain the following information when preparing his purchases ledger control account.

	book of prime (original) entry
returns to credit suppliers	
discount received	
interest charged by credit supplier	
contra entry to sales ledger control account	

(c) **(i)** State the meaning of a contra entry in connection with control accounts.

.....

.....

(ii) State why such an entry may be necessary.

.....

.....

(d) Suggest **two** reasons why it is possible to have a debit balance on a purchases ledger control account.

1 .....

.....

2 .....

.....

Answer: *(a)*

	debit	credit	no entry
opening balance owed by credit customers	✓		
credit sales	✓		
cash sales			✓
provision for doubtful debts			✓
bad debts written off		✓	
cash discount allowed to credit customers		✓	
trade discount allowed to credit customers			✓
contra between sales and purchases ledger		✓	
cash received from credit customers		✓	

(b)

	book of prime (original) entry
returns to credit suppliers	*purchases returns journal*
discount received	*cash book*
interest charged by credit supplier	*journal*
contra entry to sales ledger control account	*journal*

(c) (i) An entry which appears on the debit side of the purchases ledger control account and the credit of the sales ledger control account.

(ii) It is made when a sales ledger account is set off against a purchases ledger account of the same person/business.

(d) Overpayment of the amount owing
Failure to deduct cash discount due
Goods returned after account settled
Payment made in advance

25 Kumar supplies goods to Simran on credit. Some documents were exchanged between them during August 2017.

REQUIRED

(a) Complete the table to name the person who issued **each** document. The first item has been completed as an example.

document	name of person issuing the document
invoice	*Kumar*
debit note	
credit note	
statement of account	
cheque	

(b) State the purpose of a debit note.

.....

.....

(c) State the book of prime (original) entry in which Kumar would record the credit note.

.....

(d) Name the ledger in which Kumar maintains Simran's account.

.....

Simran is a regular customer. Kumar allows Simran a discount for buying in bulk.

REQUIRED

(e) Name the type of discount offered by Kumar.

.....

(f) State where Kumar would record this discount.

.....

The following are details of the credit notes issued by Kumar in December 2017.

Date	Customer	Credit note number	$
2017 Dec 3	Sam	C1015	295
12	Saira	C1016	103
31	Total for December		398

REQUIRED

(g) State where Kumar will post

(i) the total of the credit notes for December

.....

(ii) the individual credit notes

.....

Kumar has received positive feedback about his customer service. No entry has been made in the accounting records to reflect this success.

REQUIRED

(h) Name and explain the accounting principle Kumar has applied.

Name.....

Explanation.....

.....

.....

(i) Complete the following to show the accounting equation.

	equals	assets	minus	

(j) Complete the table by placing a tick (3) to indicate how **each** item affects the owner's capital. The first one has been completed as an example.

item	increase	decrease
capital introduced	3	
drawings		
profit for the year		

Answer: *(a)*

document	name of person issuing document
invoice	Kumar
debit note	*Simran*
credit note	*Kumar*
Statement of account	*Kumar*
cheque	*Simran*

(b) Issued by the customer to request a reduction in an invoice.

(c) Sales returns journal

(d) Sales ledger

(e) Trade discount

(f) Recorded on the invoice to the customer or in sales journal
No entry made in ledger

(g) (i) Sales returns account
(ii) Individual debtor accounts

(h) Money measurement
An accounting transaction should only be recorded if it can be expressed in terms of money.

(i) ***CAPITAL*** *equals assets minus* ***LIABILITIES***

(j)

item	increase	decrease
capital introduced	✓	
drawings		✓
profit for the year	✓	

26 Kamika is a clothing wholesaler who buys and sells on both cash and credit terms. She maintains a full set of accounting records and prepares monthly control accounts.

REQUIRED

(a) State **two** advantages to Kamika of preparing a monthly sales ledger control account.

1.....

.....

2 .....

.....

(b) State **two** reasons why it is possible for Kamika to have a credit balance on her sales ledger control account.

1 .....

.....

2 .....

.....

(c) Complete the following table. Place a tick (3) to show where **each** item would appear in Kamika's **purchases ledger control account**. If the item would not appear, place a tick (3) in the no entry column.

	debit	credit	no entry
opening balance owed to credit suppliers			
credit purchases			
cash purchases			
cash discount received			
trade discount received			
cheques paid to credit suppliers			
interest charged by credit suppliers			
returns to credit suppliers			
contra between sales and purchases ledgers			

Kamika applies all the accounting principles when maintaining accounting records and preparing financial statements.

REQUIRED

(d) Name the accounting principle applied in **each** of the following situations.

	principle
Kamika uses the double entry system of book-keeping when recording transactions in her ledgers.	
Kamika adjusted the charge for insurance in the income statement for an amount prepaid at the year-end.	
Kamika adjusts her provision for doubtful debts at the end of each year so it is always 3% of her trade receivables.	
Kamika intends to trade for several years and values her premises at net book value, not expected sales value, in her statement of financial position.	
Kamika did not make any entry in her accounting records when a competitor reduced his prices even though it may affect her sales.	
Kamika did not make any entry in her accounting records when a customer asked for goods to be put aside for him to collect sometime in the future.	

Answer: *(a)* *Assist in the location of errors*
Provide an instant total of trade receivables
Prove the arithmetical accuracy of the sales ledger
Enable a statement of financial position to be prepared quickly
Provide a summary of transactions relating to trade receivables
Help reduce fraud

(b) *Overpayment by a credit customer of the amount owing*
Credit customer failing to deduct available cash discount
Credit customer returning goods after settling account
Credit customer making payment in advance

(c)

	debit	credit	no entry
opening balance owed to credit suppliers		✓	
credit purchases		✓	
cash purchases			✓
cash discount received	✓		
trade discount received			✓
cheques paid to credit suppliers	✓		
interest charged by credit suppliers		✓	
returns to credit suppliers	✓		
contra between sales and purchases ledgers	✓		

(d)

	principle
Kamika uses the double entry system of book-keeping when recording transactions in her ledgers	*Duality*
Kamika adjusted the charge for insurance in the income statement for an amount prepaid at the year-end	*Accruals (matching)*
Kamika adjusts her provision for doubtful debts at the end of each year so it is always 3% of her trade receivables	*Prudence* **Or** *Consistency*
Kamika intends to trade for several years and values her premises at net book value not expected sales value in her statement of financial position	*Going concern*
Kamika did not make any entry in her accounting records when a competitor reduced his prices even though it may affect her sales	*Money measurement*
Kamika did not make any entry in her accounting records when a customer asked for goods to be put aside for him to collect sometime in the future	*Realisation*

27 J Smith is a wholesaler. He provided the following incomplete document on 28 February 2018.

J Smith
Wholesale Supplier
112 Long Road
Westown

W Jones
High Street
Eastford

28 February 2018

Date	Reference	Debit $	Credit $	Balance $
2018				
Feb 1	Balance due			700
11	Goods	450		?
19	Returns		115	?
28	Payment		686	?
	Discount		14	?

REQUIRED

(a) (i) State the name of the document.

.....

(ii) Calculate the balance on the document at the end of February 2018.

.....

.....

(iii) Calculate the percentage of the discount on 28 February.

.....

.....

.....

(iv) Name the type of discount on 28 February.

.....

Answer: *(a)(i) Statement of account*

(ii) $335

(iii) $\frac{14}{(686 + 14)} \times 100 = 2\%$

(iv) Cash discount

(b) Complete the following table by placing a tick (3) in the correct column to indicate how J Smith would record the issue of this document in his accounting records.

debit entry in ledger account of W Jones	credit entry in ledger account of W Jones	no entry would be made

(c) Complete the following table relating to the transaction of 11 February.

document issued	name of person issuing document	entries made by W Jones	
		account debited	account credited
.....	.....	.....	.....

(d) Name the book of prime (original) entry in which **each** trader would record the transaction of 19 February.

book of prime (original) entry used by J Smith	.....
book of prime (original) entry used by W Jones	.....

Answer: *(b)*

debit entry in ledger account of W Jones	credit entry in ledger account of W Jones	no entry would be made
		✓

(c)

document issued	name of person issuing document	entries made by W Jones	
		account debited	account credited
Invoice	*J Smith*	*Purchases*	*J Smith*

(d)

book of prime (original) entry used by J Smith	*sales returns journal*
book of prime (original) entry used by W Jones	*purchases returns journal*