

## SAGELINE 50

### TUTORIAL EXAMPLE 3

#### **Scenario**

On 5 October 2009, Richard's Retail commenced business, manufacturing ready assembled and flat-pack furniture.

Because of the differences in profitability, sales are to be analysed into these two categories. To analyse quality and wastage, purchases are analysed as 'timber' or 'trim and fittings'.

A number of other policy decisions were taken:

The business will operate an accrual accounting system (i.e. utilising accruals and prepayments where they are appropriate) to ensure a fair and true picture of profitability is maintained.

Depreciation will be as follows:

1. Manufacturing equipment is to be depreciated by straight line method over 10 years, with zero residual value.
2. Computerised process control equipment is to be depreciated by the reducing balance method using a rate of 30% per annum.

The business will be registered for VAT.

#### **Summary of Events**

| <i>Date</i> | <i>Narrative</i>                                                                                                                                                                                                                                                                         |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5 Oct       | Richard introduced £10,000 capital into the business' current account.                                                                                                                                                                                                                   |
| 5 Oct       | Arranged standing order to pay rent to Jackson Properties, Lincoln Drive, Wigan, WA6 8ED. Monthly amount is £680.85 + £119.15 VAT, paid on 10 <sup>th</sup> , beginning October.                                                                                                         |
| 6 Oct       | Arrangements made to buy materials from: <ul style="list-style-type: none"><li>• Clarkson Timber, 55 Meridian way, Middlewich, WA7 6PQ and</li><li>• Dawson Decorative Products Ltd, of 52 Church Lane, Heywood, M23 8YS.</li></ul>                                                      |
| 9 Oct       | Electricity cost is expected to be significant because of power needed by production machinery. Anticipated quarterly amount is £3,600 + VAT at 8%. Electricity supplier is Highlight Utilities, of Highlight House, Chester, CH5 5DF. First quarterly payment will be in December 2009. |
| 12 Oct      | Sold goods to new customer Rudman Retail Limited, of 77 Great Moor Road, Bradford, West Yorkshire, LS67 8YH and raised invoice number 9811. Invoice comprises £2,500 + VAT of assembled units and £2,000 + VAT of flat-pack units, total value £5,287.50 including VAT.                  |
| 12 Oct      | Received invoice PZ9126 from J Foster & Sons Ltd, of 123 Dean Road, Oldham, OL3 7YC for machinery purchased on 5 Oct, value £12,000 + VAT.                                                                                                                                               |
| 14 Oct      | Sold goods to new customer Shannon Stores plc, of 22 Malton Road, Leeds, West Yorkshire, LS8 5RF and raised invoice number 9812. Invoice comprises £4,000 + VAT of assembled units and £3,000 + VAT of flat-pack units, total value £8,225 including VAT.                                |
| 15 Oct      | Obtained loan of £20,000 from bank, paying it into current account.                                                                                                                                                                                                                      |

|        |                                                                                                                                                                                                                                                          |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 15 Oct | Arranged standing order of £650 per month, for loan repayments to be paid on the 28 <sup>th</sup> of each month, beginning Oct.                                                                                                                          |
| 16 Oct | Sold goods to new customer Turner & Taylor Ltd, 29 Tile Way, Ramsbottom, Lancashire, BB4 3WN and raised invoice number 9813. Invoice comprises £1,500 + VAT of assembled units and £1,800 + VAT of flat-pack units, total value £3,877.50 including VAT. |
| 19 Oct | Received invoice 2926 from Clarkson Timber, for timber value £8,000 + VAT, total value £9,400 including VAT.                                                                                                                                             |
| 19 Oct | Received invoice 126A from Bill Gardner Associates, of 56 Anson road, Salford, M12 7PN for process control system purchased on 6 Oct, value £4,500 + Vat.                                                                                                |
| 19 Oct | Received invoice AX101 from Dawson Decorative Products Ltd for trim and fittings, value £1,250 + VAT, total value £1,468.75 including VAT.                                                                                                               |
| 21 Oct | Issued credit note 9899 for faulty assembled units value £450 + VAT and flat-pack units value £350 + VAT to Rudman Retail Limited, total value £940 including VAT.                                                                                       |
| 27 Oct | Sold goods to Shannon Stores plc, and raised invoice number 9814. Invoice comprises £5,000 + VAT of assembled units and £4,000 + VAT of flat-pack units, total value £10,575 including VAT.                                                              |
| 29 Oct | Sent cheque 101041 to Hamlin Payroll Services for Oct wages, value £7,000.                                                                                                                                                                               |
| 30 Oct | Received invoice AX216 from Dawson Decorative Products Ltd for trim and fittings, value £850 + VAT, total value £998.75 including VAT.                                                                                                                   |
| 9 Nov  | Received invoice 2926 from Clarkson Timber, for timber value £2,000 + VAT, total value £2,350 including VAT.                                                                                                                                             |
| 13 Nov | Received cheque 163294 payment from Shannon Stores plc, value £8,225.                                                                                                                                                                                    |
| 16 Nov | Received cheque 312006 payment from Rudman Retail Limited, value £4,347.50.                                                                                                                                                                              |
| 16 Nov | Sold goods to Shannon Stores plc, and raised invoice number 9815. Invoice comprises £2,500 + VAT of assembled units and £3,000 + VAT of flat-pack units, total value £6,462.50 including VAT.                                                            |
| 20 Nov | Paid Clarkson timber, by cheque 101043, value £9,400.                                                                                                                                                                                                    |
| 20 Nov | Paid Dawson Decorative Products Ltd by cheque 101044, value £1,365.94 (amount of invoice dated 21 Oct, less 7%)                                                                                                                                          |
| 24 Nov | Sold goods to turner & Taylor Ltd, and raised invoice number 9816. Invoice comprises £750 + VAT of assembled units and £900 + VAT of flat-pack units, total value £1,938.75 including VAT.                                                               |
| 25 Nov | Paid J Foster & Sons Ltd, by cheque 101045, value £14,100.                                                                                                                                                                                               |
| 25 Nov | Paid Bill Gardner Associates, by cheque 101046, value £5,287.50.                                                                                                                                                                                         |
| 26 Nov | Sent cheque 101047 to Hamlin Payroll Services for Nov wages, value £7,200.                                                                                                                                                                               |

### Required

1. Process the provide customer, supplier and nominal account data for the months of October and November, dealing appropriately with recurring payments, depreciation and accruals/pre-payments.
2. Print the following for the 2-month period:
  - (a). Trial balance
  - (b). Summary audit trail.