Why keep records of the amounts taken out as drawings? (2018):

- If drawings are not treated correctly they may be entered in error as a business expense with the result that the profit figure will be reduced/understated. It is also essential to control/monitor how much is taken from the business in the form of drawings.

Explain the importance of double entry book-keeping. (2018):

- It provides a more accurate look at the financial position of a business than single entry bookkeeping due to the matching principle which uses accrual accounting rules to record revenue and expenses.
- It reduces errors by providing checks and balances.
- It reduces fraud because it allows transactions to be traced/audited.
- It can be used in the preparation of financial statements.

Explain what goodwill is and why it might arise. (2019 Examcraft mock):

- Goodwill is an intangible asset in the balance sheet of a firm. It arises when one business pays more for another business than it appears to be worth as per the net asset value in its balance sheet.
  It is an asset that you cannot see or touch but it does have a value for the business.
- This may be due to a firm’s good reputation, excellent staff, good customer base, good industrial relations, etc.

What additional information would be available in a sole traders a/c if they were prepared using the double entry system?

- A double entry system would also produce a trial balance and this would give the users of accounts greater assurance as to the accuracy and reliability of the figures in question.

Why are the records kept by the business unsatisfactory?

- They’re unsatisfactory because the accountant is relying on rough estimates to calculate profit.
- It is totally unsuitable to calculate profit by means of a missing figure in the balance sheet.

• Keep books of first entry, cash books and enable proper postings to ledger.
• Purchase accounting packages to computerise book-keeping and keep accountants fees as low as possible.

What advice would you give to the book-keeper?

• Keep all invoices, receipts and documents for the files.
• Prepare an analysed cash book and books of first entry.
• Post all entries to the ledger and extract a trial balance.
• Purchase accounting packages in order to minimise accountants fees.

Outline what is meant by the Net Worth method for incomplete records:

• The net worth of a business is equal to the total assets less outside liabilities.
• Taking capital introduced and drawings into account, changes in net worth from one date to another can be associated with the profit or loss for that period.

State 2 disadvantages of using the net wort method when preparing a/c’s.

• A full T,P&L a/c is not prepared.
• It’s unreliable as it uses lots of estimates.
• Detailed figures for analysis purposes are not provided.

Explain the term “Accounting concept”. (2007):

• Accounting concepts are the accounting practices or rules that are applied in the preparation of financial statements.

What are the four fundamental accounting concepts in accounting?

1. **Accruals concept:** All expenses and gains are recorded in the period in which they were incurred, not necessarily when the payment/receipt was made.
2. **Consistency concept:** Accounting treatment of items should be the same from period to period.
3. **Prudence concept:** Caution should be exercised when preparing accounts. One should anticipate no gains until realised and also provide for all losses.
4. **Going concern concept**: Accounts should be prepared on the basis that the business will continue for the foreseeable future.