OCR

RECOGNISING ACHIEVEMENT

14-19 CHANGES

A LEVEL

Additional Support Materials

AS Level Accounting H011:

Unit F012

OCR examination questions and mark scheme extracts

This booklet contains the following additional support materials:

- **OCR examination questions**
- **Mark scheme extracts**

AS/A Level Accounting

Contents

Introduction

Background

A new structure of assessment for A Level has been introduced, for first teaching from September 2008. Some of the changes include:

- The introduction of stretch and challenge (including the new A* grade at A2) – to ensure that every young person has the opportunity to reach their full potential
- The reduction or removal of coursework components for many qualifications – to lessen the volume of marking for teachers
- A reduction in the number of units for many qualifications – to lessen the amount of assessment for learners
- Amendments to the content of specifications – to ensure that content is up-to-date and relevant.

OCR has produced an overview document, which summarises the changes to Accounting. This can be found at **www.ocr.org.uk**, along with the new specification.

In order to help you plan effectively for the implementation of the new specification OCR has produced a Scheme of Work and Sample Lesson Plans for the AS Level Accounting H011 Unit F012. The Support Materials are contained within the booklet *Support Materials AS Level Accounting H011: Unit F012.*

http://www.ocr.org.uk/qualifications/asa_levelgceforfirstteachingin2008/accounting/documents.html#Support_materials

These Support Materials are designed for guidance only and play a secondary role to the Specification.

This booklet contains additional Support Materials designed to accompany and complement the Unit F012 Scheme of Work. It contains the OCR examination questions referenced within the Scheme of Work Unit together with relevant mark scheme extracts.

The Specification is the document on which assessment is based and specifies what content and skills need to be covered in delivering the course. At all times, therefore, this Support Material booklet should be read in conjunction with the Specification. If clarification on a particular point is sought then that clarification should be found in the Specification itself.

Sole Trader: Final Accounts of Sole Traders

Sole Trader: Final Accounts of Sole Trader

2502 June 2007 David and Jenny Question 1

1 David and Jenny are in partnership as accountants and share profits and losses in the ratio 3:2. Salaries of £10 000 are paid to David and £15 000 to Jenny. Interest on capital is payable at the rate of 5% per annum on balances at the end of the year. No interest is charged on drawings.

The following balances have been extracted from the books at 30 April 2007.

	£	
Fees received from clients	117 600	
Administrative expenses	28 770	
Staff salaries	62 000	
Drawings:		
David	17 000	
Jenny	18 000	
Interest received	5 200	
Marketing expenses	8 900	
Office equipment at cost	26 000	
Provision for depreciation - office equipment	8 500	
Capital Accounts:		
David	10 000	
Jenny	20 000	
Current Accounts:		
David	420	Cr
Jenny	1 130	Dr
Debtors	16 400	

The following additional information is available at 30 April 2007.

(i) Staff salaries include in error £8 000 salary paid to David and £10 000 salary paid to Jenny.

(ii) Marketing expenses of £750 are prepaid.

(iii) Depreciation is provided on office equipment at 20% per annum by the reducing balance method.

(iv) Debtors contains a debt of £800 which is considered to be a bad debt. A provision of 5% is to be made against other outstanding debts.

REQUIRED

(a) The Profit and Loss and Appropriation Account for the year ended 30 April 2007. [16]

(b) The partners' Current Accounts for the year ended 30 April 2007. [6]

(c) **(i)** Explain the going concern concept. [2]

(ii) Explain why the charging of annual depreciation is an application of this concept. [4]

Total marks [28]

Sole Trader: Final Accounts of Sole Trader

2502 June 2007 David and Jenny Question 1 Mark scheme

1 (a)

David and Jenny
Profit and Loss and Appropriation Account for the year ended 30 April 2007 **(1)**

Fees received from clients			117,600	**(1)**
Interest received			5,200	**(1)**
			122,800	
Administration expenses	28,770	**(1)**		
Staff salaries	44,000	**(2)**		
Marketing expenses	8,150	**(1)**		
Depreciation on office equipment	3,500	**(1)**		
Bad debt	800	**(1)**		
Provision for doubtful debts	780	**(1)**		
			86,000	
Net profit			36,800	
Interest on capital				
David	500	**(1)**		
Jenny	1,000	**(1)**		
			1,500	
			35,300	
Salary				
David	10,000	**(1)**		
Jenny	15,000	**(1)**		
			25,000	
			10,300	
Share of profit				
David	6,180	**(1of)**		
Jenny	4,120	**(1of)**	10,300	

[16]

(b)

Current Accounts

	David	Jenny			David	Jenny	
Balance b/d **(1)**		1,130		Balance b/d	420		
Drawings	17,000	18,000	**(1)**	Int on cap	500	1,000	**(1of)**
Balance c/d	100	990	**(1of)**	Salaries	10,000	15,000	**(1)**
				Profit	6,180	4,120	**(1of)**
	17,100	20,120			17,100	20,120	

*Balance b/d Narrative plus both balances **[6]**

* Balance c/d Must be on debit side

2502 June 2007 David and Jenny Question 1 Mark scheme cont

(c)

(i) Unless the business is going to be sold or closed down, **(1)** accounting always assumes that the business will continue to operate for an indefinitely long period of time. **(1)**

[2]

(ii) Points
If the business is assumed to have indefinite life, it is reasonable to allocate the total reduction in the value of fixed asset over its' assumed life within the business.
A method such as straight line or diminishing balance will allocate depreciation to different accounting years.
The cost of the fixed asset, can be matched to the revenues gained over a number of accounting years.
If the business were to be subject to sale, depreciation would be obtained from reference to the actual market value of the fixed asset.

(2 x 2 marks)
(1 for point plus 1 for development)

[4]

Total marks [28]

Sole Trader: Final Accounts of Sole Trader

2502 June 2006 Fidel and Grant Question 2

2 Fidel and Grant are in partnership as estate agents sharing profits and losses in the ratio 5:4. Interest is paid on capital at the rate of 4% per annum and charged on drawings at the rate of 6% per annum. Interest on capital and drawings are calculated on the closing balance. Salaries are paid at the rate of Fidel £8000 per annum and Grant £6000 per annum.

On 31 May 2006 the following balances were extracted from the partnership books:

	£
Commission received	112000
Rent paid	11550
Rent received	5000
Debtors	9200
Creditors	6390
Heat and light	4990
Fixtures and fittings at cost	48000
Administration salaries	38000
Insurance	1150
Provision for depreciation on fixtures and fittings	15500
Provision for doubtful debts	650
Advertising expenses	23100
Wages	8600
Capital Accounts	
Fidel	20000
Grant	16000
Drawings	
Fidel	15000
Grant	12500

Additional information:

(i) Administration salaries of £38000 include in error £3000 salary paid to Fidel and £2000 salary paid to Grant.

(ii) Insurance includes a prepayment of £600.

(iii) Advertising expenses due amounted to £1300.

(iv) Wages include an interest free loan of £500 made to an employee repayable on 31 December 2006.

(v) Depreciation is provided on fixtures and fittings at 20% per annum using the reducing balance method.

(vi) Provision for doubtful debts is to be maintained at 5% of debtors.

2502 June 2006 Fidel and Grant Question 2 continued

REQUIRED

(a) The Profit and Loss and Appropriation Account for the year ended 31 May 2006. [19]

(b) Fidel and Grant are considering increasing the number of partners in the business. Explain **three** advantages to Fidel and Grant of increasing the number of partners in the business. [6]

Total marks [25]

Sole Trader: Final Accounts of Sole Trader

2502 June 2006 Fidel and Grant Question 2 Mark scheme

2

(a) Fidel and Grant
Profit and Loss and Appropriation Account for the year ended 31 May 2006

Commission received		112,000	**(1)**		
Rent received		5,000	**(1)**		
Decrease in provision for doubtful debts		190	**(1)**		
				117,190	
Rent		11,550	**(1)**		
Heat and light		4,990	**(1)**		
Salaries (38,000 - 5,000)		33,000	**(2)**		
Insurance		550	**(1)**		
Advertising		24,400	**(1)**		
Wages		8,100	**(1)**		
Depreciation on fixtures and fittings		6,500	**(1)**		
				89,090	
Net profit				28,100	
Add Interest on drawings	Fidel	900	**(1)**		
	Grant	750	**(1)**		
				1,650	
				29,750	
Less					
Interest on capital	Fidel	800	**(1)**		
	Grant	640	**(1)**		
				1,440	
				28,310	
Salaries	Fidel	8,000	**(1)**		
	Grant	6,000	**(1)**		
				14,000	
				14,310	
Balance of profit shared	Fidel	7,950	**(1of)**		
	Grant	6,360	**(1of)**		
				14,310	
					[19]

2502 June 2006 Fidel and Grant Question 2 Mark scheme cont

(b) Advantages:
Greater capital available.
Risk shared in wider group.
Wider range of skills and abilities with partners specialising.
Greater cover for absence, sickness, holidays etc.
Issues can be discussed with more partners.
More management capacity.

[6]

(3 x 2 marks)
(1 for point plus 1 for development)

Total marks [25]

Sole Trader: Final Accounts of Sole Trader

2502 June 2005 Nasser, Laura and Brendan Question 1

1 Nasser, Laura and Brendan are partners in a firm of accountants. The partners share profits and losses in the ratio 2:2:1 respectively. Nasser is entitled to a salary of £15 000 per annum, Laura and Brendan are each entitled to a salary of £10 000 per annum. Interest is allowed on capital at the rate of 4% per annum but is not charged on drawings.

The following balances were extracted from the books at 30 April 2005.

	£	£
Capital Accounts:		
Nasser		30 000
Laura		30 000
Brendan		20 000
Current Accounts:		
Nasser		1 200
Laura		850
Brendan	400	
Drawings:		
Nasser	20 000	
Laura	20 000	
Brendan	14 000	
Fees charged to customers		142 000
Rent and rates	5 100	
Staff salaries	57 000	
Administration expenses	14 700	
Light and heat	4 600	
Office equipment	24 000	
Provision for depreciation – Office equipment		12 000
Debtors	46 500	
Creditors		9 500
Bank	39 250	
	245 550	245 550

The following additional information is available at 30 April 2005.

(i) Rent and rates include a prepayment of £300.

(ii) Administration expenses owing of £400.

(iii) Depreciation is provided on office equipment at 25% per annum using the reducing balance method.

(iv) One debt of £1 500 is to be treated as a bad debt. A provision should also be created for doubtful debts at 4% of the remaining debtors.

2502 June 2005 Nasser, Laura and Brendan Question 1 continued

REQUIRED

(a) The Profit and Loss and Appropriation Account for the year ended 30 April 2005. [14]

(b) The Balance Sheet of the partnership as at 30 April 2005. [13]

(c) State **three** advantages of a partnership as a form of business entity. [3]

Total marks [30]

Sole Trader: Final Accounts of Sole Trader

2502 June 2005 Nasser, Laura and Brendan Q1 Mark scheme

1 (a)

Nasser, Laura and Brendan

Profit and Loss and Appropriation Account for the year ended 30 April 2005 **(1)**

Fees charged to customers		142,000	**(1)**
less			
Rent and rates	4,800 **(1)**		
Salaries	57,000 **(1)**		
Administrative expenses	15,100 **(1)**		
Light and heat	4,600 **(1)**		
Depreciation on office equipment	3,000 **(1)**		
Bad debt	1,500 **(1)**		
Provision for doubtful debts	1,800 **(1)**		
		87,800	
Net profit		54,200	
less			
Salaries			
Nasser	15,000		
Laura	10,000 **(1)**		
Brendan	10,000		
		35,000	
		19,200	
Interest on Capital			
Nasser	1,200		
Laura	1,200 **(1)**		
Brendan	800 **(1)**		
		3,200	
		16,000	
Share of Profit			
Nasser	6,400		
Laura	6,400 **(1of)**		
Brendan	3,200 **(1of)**		
		16,000	

[14]

2502 June 2005 Nasser, Laura and Brendan Q1 Mark scheme cont

(b)

Balance Sheet as at 30 April 2005

Fixed Assets						
Office equipment						9,000 **(1of)**
Current Assets						
Debtors (45 000 - 1 800)				43,200 **(2)**		
Prepaid expenses				300		
Bank				39,250		
				82,750 **(1of)**		
Current Liabilities						
Creditors				9,500		
Accrued expenses				400		
				9,900 **(1)**		
Working capital						72,850 **(1of)**
						81,850
Financed by:						
	Nasser	Laura	Brendan			
Capital	30,000	30,000	20,000			80,000 **(1)**
Current Accounts						
Opening balance	1,200	850	(400)	**(1)**		
Salaries	15,000	10,000	10,000	**(1)**		
Interest on capital	1,200	1,200	800	**(1)**		
Share of profit	6,400	6,400	3,200	**(1of)**		
	23,800	18,450	13,600			
Drawings	20,000	20,000	14,000	**(1)**		
Closing balance	3,800	(1,550)	(400)			1,850 **(1of)**
						81,850

[13]

(c)
Increased capital available.
Wider expertise.
Cover for illness or holidays.
Risk and losses shared.

(3 x 1 mark)

[3]
Total marks [30]

Sole Trader: Final Accounts of Sole Trader

2502 June 2002 Asif and Brenda Question 2

2 Asif and Brenda have been in partnership as travel agents since 1 January 1996 and share profits and losses in the ratio 3:2. Salaries of £8000 per annum are paid to each of the partners and interest on capital is payable at the rate of 10% per annum. On 1 July 2001, Asif and Brenda both introduced £5000 cash of new capital into the partnership.

The following balances have been extracted from the books at 31 December 2001:

	£	
Capital Accounts:		
Asif	30 000	
Brenda	20 000	
Current Accounts:		
Asif	1 600	Debit
Brenda	500	Credit
Drawings:		
Asif	16 000	
Brenda	13 000	
Equipment at cost	30 000	
Provision for depreciation – equipment	6 000	
Sales commission received	98 000	
Selling expenses	18 400	
Rent and rates	9 800	
Administrative expenses	8 600	
Staff salaries	29 300	
Discount received	2 300	

The following additional information is also available at 31 December 2001:

(i) Depreciation is provided on equipment at 20% per annum by the reducing balance method.

(ii) Administrative expenses include a prepayment of £350.

(iii) Discount receivable of £250 is owing to the partnership.

REQUIRED

(a) The Profit and Loss Account and Appropriation Account for the year ended 31 December 2001. [11]

(b) The partners' Current Accounts for the year ended 31 December 2001. [10]

(c) Explain the provisions of the Partnership Act 1890 which would apply in the absence of a Partnership Agreement. [5]

Total marks [26]

Sole Trader: Final Accounts of Sole Trader

2502 June 2002 Asif and Brenda Question 2 Mark scheme

2 (a)

Asif and Brenda
Profit and Loss Account for the year ended 31 December 2001 **(1)**

Sales commission received			98,000	**(1)**
Discount received			2,550	**(1)**
			100,550	
Rent and rates	9,800			
Depreciation on equipment	4,800	**(1)**		
Administration expenses	8,250	**(1)**		
Selling expenses	18,400			
Staff salaries	29,300			
			70,550	
Net Profit			30,000	**(1)**
Interest on capital:				
Asif	2,750	**(1)**		
Brenda	1,750	**(1)**		
			4,500	
			25,500	
Salaries:				
Asif	8,000			
Brenda	8,000	**(1)**		
			16,000	
			9,500	
Share of Profits:				
Asif	5,700	**(1 of)**		
Brenda	3,800	**(1 of)**		
			9,500	

[11]

2502 June 2002 Asif and Brenda Question 2 Mark scheme cont

(b)

Current Account – Asif

Balance b/d	1,600	**(1)**	Interest on Capital	2,750	**(1 of)**
Drawings	16,000	**(1)**	Salary	8,000	**(1)**
			Share of Profit	5,700	**(1 of)**
			Balance c/d	1,150	
	17,600			17,600	

Current Account – Brenda

Drawings	13,000	**(1)**	Balance b/d	500	**(1)**
Balance c/d	1,050		Interest on capital	1,750	**(1 of)**
			Salary	8,000	**(1)**
			Share of profit	3,800	**(1 of)**
	14,050			14,050	

[10]

(c)

- Profits and losses shared equally.
- No entitlement to salaries.
- No charge for interest on drawings.
- No entitlement to interest on capital.
- Entitled to interest on loans at the rate of 5%.

(5 x 1 mark)

[5]

Total [26]

Correction of Errors

Correction of Errors

F002 Jun 2007 J Savill Question 3

3 J. Savill's financial year end occurs on 30 April each year. He produced a trial balance as at 30 April 2007 and from this calculated his net profit for the year as £17 000. However, the trial balance showed debits exceeding credits by £4 200 and subsequent investigations revealed the following.

(i) A cheque for £3 000 received from J. Mander, a debtor, had been correctly recorded in the cash book but posted as a credit to T. Maunder.

(ii) Goods purchased on credit for £2 400 from JD Supplies had been correctly recorded in the purchases account but the corresponding double entry had not been made.

(iii) A payment of £760 for motor vehicle repairs was entered in error as a debit in the motor vehicles account. No entries have been made to record depreciations in relation to this payment. The correct depreciation has been made for motor vehicles held by the business.

(iv) Discounts allowed of £850 had been entered as a credit entry in the discounts received account.

(v) A cheque received for £6 300 from R. Grant, a debtor, had been processed for the correct amount in the cash book but entered as £3 600 in R. Grant's account.

(vi) Sales for the year ending 30 April 2007 had been undercast by £800.

REQUIRED

(a) Journal entries to correct the above errors (narratives are not required). [14]

(b) The Suspense Account. [4]

(c) A statement showing the corrected net profit for the year ended 30 April 2007. [5]

(d) Using an appropriate example from the above, explain what is meant by an error of principle. [2]

(e)* Considering both advantages and disadvantages, evaluate the usefulness of ICT in accounting to a business. [10]

Total marks [35]

Correction of Errors

F002 Jun 2007 J Savill Question 3 Mark scheme

3

(a)

The Journal

		Dr		Cr	
(i)	T Maunder	3,000	**(1)**		
	J Mander			3,000	**(1)**
(ii)	Suspense	2,400	**(1)**		
	J D Supplies			2,400	**(1)**
(iii)	Motor vehicle repairs	760	**(1)**		
	Motor vehicles			760	**(1)**
(iv)	Discounts received	850	**(1)**		
	Suspense			850	**(1)**
	Discounts allowed	850	**(1)**		
	Suspense			850	**(1)**
(v)	Suspense	2,700	**(1)**		
	R Grant			2,700	**(1)**
(vi)	Suspense	800	**(1)**		
	Sales			800	**(1)**

[14]

(b)

Suspense Account

J D Supplies	2,400	**(1)**	Bal b/d	4,200	**(1)**
R Grant	2,700	**(1)**	Discounts received	850	**(1)**
Sales	800		Discounts allowed	850	
	5,900			5,900	

[4]

(c)

Original net profit			17,000	
Motor vehicle repair	(760)	**(1)**		
Discounts allowed	(850)	**(2)**		
Discounts received	(850)			
Sales undercast	800	**(1)**		
			1,660	
Corrected net profit			15,340	**(1of)**

[5]

F002 Jun 2007 J Savill Question 3 Mark scheme continued

(d)

An error of principle occurs when an entry has been made in the wrong class of account. **(1)**
Example: item (iii) above **(1)**

[2]

(e) *

Advantages:
speed
accuracy
volume of data processing
storage
security.

Disadvantages:
cost
training
technical problems
operator error
security.

Judgement as to whether advantages outweigh disadvantages.

To achieve maximum marks a maximum 4 marks for analysis and maximum 4 marks for evaluation.
Minimum of 3 points must be considered (must include ***both*** *advantages and disadvantages).* **[8]**

QWC **[2]**

[10]

Total Marks [35]

Correction of Errors

2501 Jun 2007 Viktoria Question 2

2 A manual trial balance was extracted from the accounts of Viktoria's Handbags for the year ended 30 April 2007. The trial balance did not agree, with the debits exceeding the credits by £1 305.

The following errors have now been found.

(i) The purchases account had been overcast by £2 300.

(ii) A sale on credit to Jones Ltd of £650 had been entered in the account of Johan Ltd.

(iii) A cheque for £425 paid for motor expenses had been entered in the motor vehicles account.

(iv) Sales returns of £385 had been posted as a credit to the purchase returns account.

(v) Bank charges of £250 had been correctly entered in the cash book, but had been recorded as £25 in the bank charges account.

REQUIRED

(a) Journal entries to correct each of the above errors (narratives are not required). [20]

(b) The Suspense Account showing the original balance and the correcting entries. [5]

(c) Advise Viktoria as to the benefits of changing from a manual book-keeping system to a computerised system. [6]

Total marks [31]

Correction of Errors

2501 Jun 2007 Viktoria Question 2 Mark scheme

2 (a)

		Dr		Cr	
(i)	Suspense	2,300	**(2)**		
	Purchases			2,300	**(2)**
(ii)	Jones Ltd	650	**(1)**		
	Johan Ltd			650	**(1)**
(iii)	Motor expenses	425	**(1)**		
	Motor vehicles			425	**(1)**
(iv)	Purchase returns	385	**(2)**		
	Suspense			385	**(2)**
	Sales returns	385	**(2)**		
	Suspense			385	**(2)**
(v)	Bank charges	225	**(2)**		
	Suspense			225	**(2)**

[20]

(b)

Suspense Account

Purchases	2,300	**(1)**	Balance b/d	1,305	**(1)**
			Purchase returns	385	**(1)**
			Sales returns	385	**(1)**
			Bank charges	225	**(1)**
	2,300			2,300	

[5]

(c)

Computerised systems are more accurate than manual systems when processing large numbers of transactions, as it reduces the risk of human error. This would, therefore, help reduce errors.
Saves time as data can be processed quicker and, therefore, eliminate the element of re keying data.
Accurate and timely reports on debtors and stock levels can be produced.
Automatic reminders on outstanding debtors and stock levels can be produced.
Tasks can be handled by fewer people, therefore, reducing accounting costs.
Automatic printing of documentation on customised stationery.

(3 points x 2 marks)
(1 for point plus 1 for development)

[6]
Total marks [31]

Correction of Errors

2501 Jan 2006 Paul Okan Question 1

1 Paul Okan has found the following errors in his accounts for the year ended 31 December 2005.

(i) The Purchases Account had been undercast by £300.

(ii) A new machine which cost £4 000 was entered in the Purchases Account as £400. No depreciation is charged in the year of purchase.

(iii) Discount allowed of £250 had been credited to discount received.

(iv) A cheque of £3 000 paid to P. Day had been entered correctly in the account of P. Day but had been entered as £1 500 in the Bank Account.

(v) A sale on credit to Alan Brown of £700 had been entered in the Sales Journal as £70 and had also been posted to the Sales Ledger as this amount.

REQUIRED

(a) Journal entries to correct each of the above the errors (narratives are not required). [16]

(b) The Suspense Account showing the opening balance and the entries to close the account. [7]

(c) Identify and explain **three** types of error not disclosed by a Trial Balance. [6]

Total marks [29]

Correction of Errors

2501 Jan 2006 Paul Okan Question 1 Mark scheme

1 (a)

		Dr		Cr	
(i)	Purchases	300	(1)		
	Suspense			300	(1)
(ii)	Suspense	400	(1)		
	Purchases			400	(1)
	Machinery	4,000	(1)		
	Suspense			4,000	(1)
(iii)	Discount received	250	(1)		
	Suspense			250	(1)
	Discount allowed	250	(1)		
	Suspense			250	(1)
(iv)	Suspense	1,500	(1)		
	Bank			1,500	(1)
(v)	A Brown	630	(2)		
	Sales			630	(2)

[16]

(b)

Suspense Account

Bal b/d	2,900	(1)	Purchases	300	(1)
Bank	1,500	(1)	Machinery	4,000	(1)
Purchases	400	(1)	Discount allowed	250	(1)
			Discount received	250	(1)
	4,800			4,800	

[7]

2501 Jan 2006 Paul Okan Question 1 Mark scheme continued

(c) Omission – The transaction is not recorded in the ledger.

Commission – An entry is made in the wrong personal account.

Principle – The entry has been made in the wrong type of account. A fundamental error of accounting.

Original entry – A transaction is recorded as incorrect in the journal and then posted to the ledger for the incorrect amount.

Compensating – Errors are made in the ledger which cancel out and debits will still be equal to credits.

Complete reversal – The debit and credit entries are reversed in the ledger.

(3 x 2 marks)
(1 for point plus 1 for development) **[6]**

Total marks [29]

Correction of Errors

2501 Jan 2005 Meyer Question 2

2 Meyer Retail operates a manual set of accounts. A trial balance was extracted for the year ended 31 December 2004. The trial balance did not agree, with the debits exceeding the credits by £2 200. The following errors have now been found.

(i) The sales account had been undercast by £3 600.

(ii) Loan interest of £600 had not been entered in the loan interest account. The correct entry had been made in the cash book.

(iii) A new machine costing £10 000 bought during the year had been debited to the purchases account. No depreciation had been provided on this machine. The policy on depreciation is 20% on cost for the year, regardless of the date of purchase.

(iv) A payment to P Walton for £800 had been correctly entered in the cash book but no entry had been made in the account of P Walton.

REQUIRED

(a) Journal entries to correct the errors (narratives are not required). [20]

(b) The Suspense Account. [4]

(c) Meyer Ltd is considering introducing a system of control accounts. Evaluate how control accounts would assist in each of the following:

(i) detection of errors; [3]

(ii) prevention of fraud. [3]

Total marks [30]

Correction of Errors

2501 Jan 2005 Meyer Question 2 Mark scheme

Question 2

(a)

Journal

	Dr	Cr
Suspense	3 600 **(2)**	
Sales		3 600 **(2)**
Loan Interest	600 **(2)**	
Suspense		600 **(2)**
Machinery	10 000**(2)**	
Purchases		10 000 **(2)**
Profit and Loss	2 000**(2)**	
Provision for dep Machinery		2 000 **(2)**
P Walton	800 **(2)**	
Suspense		800 **(2)**

[20]

(b)

Suspense Account

Sales	3 600 **(1)**	Bal b/d	2 200 **(1)**
		Loan Interest	600 **(1)**
		P Walton	800 **(1)**
	3 600		3 600

2501 Jan 2005 Meyer Question 2 Mark scheme continued

(c)
(i)

- Balance on the control account should equal the balance on the schedule of debtors.
- The possibility of errors in the sales ledger and purchase ledger can be discounted since they have been reconciled before inclusion in the trial balance.
- If no controls were used and the trial balance did not agree all the accounts would need to be checked. Control accounts save time in finding errors.

(1 x 3 marks)
(1 for point plus up to 2 for development) **[3]**

(ii)

- Division of duties will mean control accounts are the responsibility of more than one person.
- This makes it difficult for employees to undertake in fraud. The account acts as an independent check on the work of ledger clerks.

(1 x 3 marks) **[3]**
(1 for point plus up to 2 for development)

Total marks [30]

Correction of Errors

2501 Jan 2004 Petra Fox Question 3

3 Petra Fox has produced a trial balance and drawn up the final accounts for the year ended 31 December 2003. The debit side of the trial balance exceeded the credit side by £1570. A Suspense Account was opened for this amount. The following errors have now been discovered.

(i) The Purchase Journal had been overcast by £300.

(ii) Discount received of £500 had been debited to Discount allowed.

(iii) A sale on credit to R Alihan of £320 had been correctly entered in the account of R Alihan but no entry had been made in the Sales Account.

(iv) Bank charges of £50 entered correctly in the Cash Book had not been entered in the General Ledger.

REQUIRED

(a) Explain how the opening Suspense Account balance would be treated in the draft final accounts of Petra Fox. [2]

(b) Journal entries to correct each of the above errors. (Narratives are not required.) [11]

(c) The Suspense Account to correct the above errors. [6]

(d) The net profit figure originally calculated for the year ended 31 December 2003 was £12 000. Calculate the revised net profit figure. [5]

Total marks [24]

Correction of Errors

2501 Jan 2004 Petra Fox Question 3 Mark scheme

3 **(a)** Shown as a current liability in the Balance Sheet **or** written off as an expense in the Profit and Loss Account.

(2 x 1 mark) **[2]**

(b) Journal

	Dr	Cr
Suspense	300 **(1)**	
Purchases		300 **(1)**
Suspense	500 **(1)**	
Discount allowed		500 **(1)**
Suspense	500 **(1)**	
Discount received		500 **(1)**
Suspense	320 **(1)**	
Sales		320 **(1)**
Bank charges **(1)**	50 **(1)**	
Suspense		50 **(1)**

[11]

(c)

Suspense Account					
Purchases	300	**(1)**	Bal b/d	1,570	**(1)**
Discount allowed	500	**(1)**	Bank charges	50	**(1)**
Discount received	500	**(1)**			
Sales	320	**(1)**			
	1,620			1,620	

[6]

(d)

Original net profit	12,000	
+	300	**(1)**
+	1,000	**(1)**
+	320	**(1)**
–	50	**(1)**
	13,570	**(1)**

[5]

Total marks [24]

Correction of Errors

2501 Jan 2004 Focus Question 2

2 A trial balance was extracted from the manually prepared accounts of Focus Fashions. The trial balance did not agree and the following errors were discovered.

(i) A cheque for £360 paid to S Fowler, a creditor, had been correctly posted to his personal account but no entry had been made in the Cash Book.

(ii) Purchase of goods from H King, amounting to £500, had been omitted from the books.

(iii) A cheque for £345 paid for motor expenses was recorded in the Cash Book and the Motor Expenses Account as £375.

(iv) Discount Allowed of £400 had been posted as a credit to Discount Received.

REQUIRED

(a) Identify the following types of error from the list above:

(I) error of original entry; [1]

(II) error of omission. [1]

(b) Journal entries to correct each of the above errors (narratives are not required). [16]

(c) Explain the use of a Suspense Account. [6]

Total marks [24]

Correction of Errors

2501 Jan 2004 Focus Question 2 Mark scheme

2 **(a)** **(i)** Error (iii) **(1)**

(ii) Error (ii) **(1)** **[2]**

(b)

Journal

		DR		CR	
(i)	Suspense	360	**(2)**		
	Bank			360	**(2)**
(ii)	Purchases	500	**(2)**		
	H King			500	**(2)**
(iii)	Bank	30	**(2)**		
	Motor expenses			30	**(2)**
(iv)	Discount allowed	400	**(1)**		
	Suspense			400	**(1)**
	Discount received	400	**(1)**		
	Suspense			400	**(1)**

[16]

(c) Used when errors have made the trial balance totals disagree.
Suspense account opened for the difference between the debit and credit sides.
The balance on the suspense account cleared by making relevant adjustments in the ledger.
Allows the business to continue to produce final accounts.
(3 x 2 marks)
(1 for point plus 1 for development) **[6]**

Total marks [24]

Correction of Errors

2501 Jan 2003 Mary Brooke Question 1

1 Mary Brooke has prepared her draft Final Accounts; her Balance Sheet is shown below:

Balance Sheet as at 31 December 2002

	£	£
Fixed Assets (net)		80 000
Current Assets		
Stock	15 000	
Debtors	8 000	
Bank	10 000	
Suspense Account	4 000	
	37 000	
Current Liabilities		
Creditors	7 000	
Working Capital		30 000
		110 000
Financed by		
Capital		130 000
Add Net Profit		20 000
		150 000
Less Drawings		40 000
		110 000

Further examination reveals:

(i) The Sales Account has been undercast by £2 000.

(ii) The wages total for the year of £80 000 has been entered as £75 000

(iii) A cheque for £3 000 from Davey Builders, a debtor, has been entered correctly in the account of Davey Builders but has been entered as £1 500 in the Bank Account.

(iv) Discount received of £250 has been entered as a debit to the Discount Allowed Account.

2501 Jan 2003 Mary Brooke Question 1 continued

REQUIRED

(a) Journal entries to correct the errors. (Narratives are not required.) [20]

(b) The Suspense Account showing the opening balance and correcting entries. [7]

(c) Calculate the revised net profit for the year ended 31 December 2002. [4]

(d) Identify and explain **three** types of error which would not affect the balancing of a trial balance. [9]

Total marks [40]

Correction of Errors

2501 Jan 2003 Mary Brooke Question 1 Mark scheme

1 (a)

Suspense **(1)**	2,000	**(1)**		
Sales **(1)**			2,000	**(1)**
Wages **(1)**	5,000	**(1)**		
Suspense **(1)**			5,000	**(1)**
Bank **(1)**	1,500	**(1)**		
Suspense **(1)**			1,500	**(1)**
Suspense **(1)**	250	**(1)**		
Discount Allowed **(1)**			250	**(1)**
Suspense **(1)**	250	**(1)**		
Discount Received **(1)**			250	**(1)**

[20]

(b)

Suspense Account

Bal b/d	4,000	**(1)**	Wages	5,000	**(1)**
Sales	2,000	**(1)**	Bank	1,500	**(1)**
Disc Allowed	250	**(1)**			
Disc Received	250	**(1)**			
	6,500			6,500	**(1 of)**

[7]

(c)

Original net profit	20,000	
+ sales	2,000	**(1)**
- wages	(5,000)	**(1)**
+ discounts (250+250)	500	**(2)**
Revised net profit	17,500	

[4]

2501 Jan 2003 Mary Brooke Question 1 Mark scheme continued

(c)

Original net profit	20,000	
+ sales	2,000	**(1)**
- wages	(5,000)	**(1)**
+ discounts (250+250)	500	**(2)**
Revised net profit	17,500	

[4]

(d) Omission – both debit and credit entries are omitted.
Commission – the correct amount is entered in the wrong account.
Principle – the correct amount is entered in the wrong class of account.
Compensating – errors cancel each other out.
Original entry – the original entry is incorrect.
Reversal – the correct amounts but on the wrong side.
(3 x 3 marks)
(1 for identification plus up to 2 for development) **[9]**

Total marks [40]

Correction of Errors

2501 Jan 2002 Blakelock Question 1

1 A trial balance was extracted from the manually prepared accounts of Blakelock Ltd at 31 December 2001. The trial balance did not agree and investigation revealed the following errors:

(i) Sales of goods on credit to K Dev, amounting to £900, had been omitted from the books.

(ii) A cheque for £789 paid for general expenses was recorded in the Cash Book and the General Expenses Account as £798.

(iii) A cheque for £250 paid to S Dalton, a creditor, had been correctly posted to the Cash Book but omitted from the creditor's account.

(iv) A credit note of £90 received from M Paver Ltd for goods returned had been posted as a credit to the account of M Paver Ltd. The correct entry had been made in the Purchase Returns Account.

(v) A delivery vehicle purchased on 1 July 2001 for £6000 had been debited to the Purchases Account. The company policy is to charge depreciation on all vehicles using the straight line method at 25% per annum. The depreciation will accrue evenly throughout the year. No entries have been made in the ledger to record the depreciation of the motor vehicle.

REQUIRED

(a) Journal entries to correct each of the above errors (narratives are not required). [24]

(b) The Suspense Account showing the opening balance and the entries to clear the account. [6]

(c) Identify and briefly explain **two** errors not disclosed by a trial balance. [6]

Total marks [36]

Correction of Errors

2501 Jan 2002 Blakelock Question 1 Mark scheme

1 (a)

		Dr	Cr	
(i)	K Dev	900		**(2)**
	Sales		900	**(2)**
(ii)	Cash Book/Bank	9		**(2)**
	General Expenses		9	**(2)**
(iii)	S Dalton	250		**(2)**
	Suspense		250	**(2)**
(iv)	M Paver Ltd	180		**(2)**
	Suspense		180	**(2)**
(v)	Delivery vehicle	6000		**(2)**
	Purchases		6000	**(2)**
	Profit and loss account / depreciation expense	750		**(2)**
	Provision for depreciation vehicles		750	**(2)**

(1 mark for description and 1 mark for correct figure). **[24]**

(b)

Suspense Account

Bal b/d	430	(2)	S Dalton (1)	250	(1)
			M Paver (1)	180	(1)
	430			430	

[6]

2501 Jan 2002 Blakelock Question 1 Mark scheme continued

(c) Omission – No entry recorded in double entry accounts.

Commission – Entry made in wrong personal account.

Error of principle – Fundamental error of accounting regarding fixed assets as an expense

Complete reversal – Double entry recorded the wrong way round

Compensation – One error will cancel out another error.

Original entry – Error made in recording transaction in book of prime entry.

1 mark for identification of error plus maximum 2 marks for development.

[6]

Correction of Errors

2501 Jun 2001 Singh Question 1

1 Singh Ltd operates a manual set of accounts. A trial balance was extracted for the year ended 31 March 2001. The trial balance did not agree. Singh Ltd does not operate a system of control accounts. The following errors have now been discovered.

(a) A payment to W Simmons, a trade creditor, of £360 had been correctly posted to the cash book but omitted from her account.

(b) M Price, a trade debtor, paid a cheque of £200 to clear his account. His account had been credited for this amount and no entry had been made in the cash book.

(c) The purchase of machinery for £2500 had been debited to machinery repairs.

(d) Discount allowed of £700 had been posted to the credit of discount received.

(e) The purchase of goods on credit from S Ridley for £800 had been omitted from the books.

(f) A credit note of £600 received from A Taylor for returned trade supplies had been posted as a credit to the account of A Taylor. The correct entry had been made in the purchase returns account.

REQUIRED:

(a) Journal entries to correct each of the errors. (Narratives are not required.) [26]

(b) The Suspense Account showing the opening balance and correcting entries. [12]

(c) Explain the following types of error:

- **(i)** Original Entry
- **(ii)** Principle
- **(iii)** Commission. [6]

Total [44 marks]

Correction of Errors

2501 Jun 2001 Singh Question 1 Mark scheme

1 (a) **Journal**

	Dr	Cr
W Simmons	360 **(2)**	
Suspense		360 **(2)**
Bank	200 **(2)**	
Suspense		200 **(2)**
Machinery	2500 **(2)**	
Machinery repairs		2500 **(2)**
Discount received **(1)**	700 **(1)**	
Suspense		700 **(1)**
Discount allowed **(1)**	700 **(1)**	
Suspense		700 **(1)**
Purchases	800 **(2)**	
S Ridley		800 **(2)**
A Taylor	1200 **(2)**	
Suspense		1200 **(2)**

[26]

(b)

Suspense Account

Balance b/d	3160 **(2)**	W Simmons	360 **(2)**
		Bank	200 **(2)**
		Discount Received	700 **(2)**
		Discount Allowed	700 **(2)**
		A Taylor	1200 **(2)**
	3160		3160

[12]

(c) Original entry – incorrect recording in a book of prime entry. Sales on credit recorded as £50 and not £500.

Principle – Fundamental error of accounting: the recording of the purchase of a fixed asset as revenue expenditure.

Commission – An entry in the wrong personal account, e.g. R Taylor instead of A Taylor .

(1 mark for recognition plus 1 for development)
(3 x 2 marks) **[6]**

Total: [44]

Control Accounts

Control Accounts

F002 Jun 2007 RW Question 1

1 RW Ltd uses control accounts to check the accuracy of its debtors and creditors as shown by its double entry book keeping system. The Sales Ledger Control Account and the Purchases Ledger Control Account for the financial year ended 31 December 2006 have been prepared from the following information.

1 January 2006 balances b/d:		£
	Sales Ledger Control Account	262 000 Dr
	Purchases Ledger Control Account	307 000 Cr

Totals for the year 1 January 2006 to 31 December 2006:

Credit sales	376 000
Credit purchases	287 500
Sales returns	12 700
Purchases returns	13 700
Cheques received from debtors	327 800
Cash received from debtors	18 200
Cheques paid to creditors	212 700
Discounts received	7 600
Discounts allowed	8 800
Dishonoured cheques from debtors	4 500

At the financial year end 31 December 2006, RW Ltd's Schedule of Debtors had a total of £267 000, which differed from its Sales Ledger Control Account balance at that date.

At the same date, RW Ltd's Schedule of Creditors had a total of £324 000, which differed from its Purchases Ledger Control Account balance at that date.

F002 Jun 2007 RW Question 1 continued

Subsequent investigation revealed the following.

(i) The total of sales in the Sales Journal had been undercast by £66 500.

(ii) A cheque received from a debtor for £2 500, correctly processed through the books, had subsequently been dishonoured. The books have not yet been adjusted to reflect this.

(iii) £4 000 purchases made on 30 December 2006 were correctly entered in the Purchases Journal but had not been posted to the individual supplier's account in the Purchases Ledger.

(iv) A credit sale to T. Cook for £45 200 had been correctly entered in the Sales Journal but had not been posted to T. Cook's account.

(v) D. Hubbard is both a customer and a supplier to RW Ltd. He purchased goods to the value of £62 500 from RW Ltd and supplied RW Ltd with goods to the value of £32 500. The correct entries have been made in the Sales Ledger and the Purchases Ledger but no contra entries have been made in the control accounts.

(vi) Purchases of £15 300 from a supplier had been found to be unsuitable and were returned on 14 December 2006. This transaction to record the return had not been processed through the books.

(vii) A cheque for £6 200 sent to a supplier, for goods received, had been returned to RW Ltd as it had not been signed. As at 31 December 2006 a replacement cheque had not been issued and the return of the original cheque had not been recorded in RW Ltd's books.

(viii) Sales returns of £3 200 had been correctly entered in the Sales Returns Journal but had not been posted to the individual debtor's account.

REQUIRED

(a) A corrected Sales Ledger Control Account for the year ended 31 December 2006. [11]

(b) A corrected Purchases Ledger Control Account for the year ended 31 December 2006. [10]

(c) Statements reconciling:

- **(i)** The Schedule of Debtors total with the corrected balance in the Sales Ledger Control Account. [5]
- **(ii)** The Schedule of Creditors total with the corrected balance in the Purchases Ledger Control Account. [5]

(d) Explain why books of prime (original) entry are important in the production of control accounts. [4]

Total marks [35]

F002 Jun 2007 RW Question 1 Mark scheme

1 (a)

Corrected Sales Ledger Control

Balance bid	262,000	**(1)**	Sales returns	12,700	**(1)**	
Credit sales	442,500	**(1)**	Cheques received	327,800	**(1)**	
Bank/Dishonoured cheques **(1)**	7,000	**(1)**	Cash received	18,200	**(1)**	
			Discounts allowed	8,800	**(1)**	
			Contra Purchase ledger **(1)**	32,500	**(1)**	
			Balance c/d	311,500	**(1)**	
	711,500			711,500		**[11]**

(b)

Corrected Purchases Ledger Control

Purchases returns **(1)**	29,000	**(1)**	Balance b/d	307,000	**(1)**	
Cheques paid	212,700	**(1)**	Credit purchases	287,500	**(1)**	
Discounts Received	7,600	**(1)**	Bank/Dishonoured cheque **(1)**	6,200	**(1)**	
Contra	32,500	**(1)**				
Balance c/d	318,900	**(1)**				
	600,700			600,700		**[10]**

(c) (i) Reconciliation Statement

Original total	267,000		
Sales returns	(3,200)	**(2)**	
T. Cook	45,200	**(1)**	
Dishonoured cheque	2,500	**(1)**	
Revised total	311,500	**(1)**	**[5]**

(c) (ii) Reconciliation Statement

Original total	324,000		
Purchases returns	(15,300)	**(1)**	
Dishonoured cheque	6,200	**(2)**	
Purchases	4,000	**(1)**	
	318,900	**(1)**	
			[5]

(d)
The control accounts provide an independent check on the accuracy of the double entry bookkeeping for debtors and creditors.
Information for the control accounts has to come from outside the double entry system if it is to form an independent check.
The control accounts draw most of their information from the books of prime entry which are outside the double entry system.

Max 4 marks for quality of explanation. Min 2 points made **[4]**

Total marks **[35]**

Control Accounts

2501 Jun 2006 Kettlewell Question 2

2 The sales ledger control account of Kettlewell Limited for the year ended 28 February 2006 has been prepared from the following information:

	£
Debit balance b/d 1 March 2005	51 000
Totals for the year 1 March 2005 to 28 February 2006:	
Credit sales	620 000
Cheques received from debtors	584 000
Cash received from debtors	6 000
Discount allowed	24 200
Bad debts	4 000
Dishonoured cheques	5 100
Sales returns from debtors	6 500
Contra purchase ledger	8 000

The Sales Ledger Control Account balance failed to agree with the total debtors of £43 600 shown by the schedule of debtors. The following errors were subsequently discovered.

(i) No contra entry had been made in a debtors account in the sales ledger in respect of purchases by Kettlewell Limited of goods list price £1 000, trade discount 10%. This item had been correctly dealt with in the Sales Ledger Control Account.

(ii) The discount allowed total shown in the cash book had been undercast by £700.

(iii) A customer had returned goods to Kettlewell Limited at the selling price of £1 700. The goods had been bought on credit. No entries had been made to record the return of the goods in the accounts of Kettlewell Limited.

REQUIRED

(a) A corrected Sales Ledger Control Account for the year ended 28 February 2006. [14]

(b) A statement showing the correct total for the schedule of debtors for the year ended 28 February 2006. [5]

(c) Discuss the advantages that a system of control accounts would bring to a business. [6]

Total marks [25]

Control Accounts

2501 Jun 2006 Kettlewell Question 2 Mark scheme

(a)

Sales Ledger Control Account

Balance b/d	51,000 **(1)**	Bank	584,000 **(1)**
Sales	620,000 **(1)**	Cash	6,000 **(1)**
Dishonoured cheques	5,100 **(1)**	Discount allowed	24,900 **(2)**
		Bad debts	4,000 **(1)**
		Sales returns	8,200 **(2)**
		Contra purchase ledger**(1)**	8,000 **(1)**
		Balance c/d	41,000 **(1)**
	676,100 **(1)**		676,100

[14]

(b)

Revised schedule of debtors

Original balance	43,600
Less contra	900 **(2)**
Less sales returns	1,700 **(2)**
Corrected schedule of debtors	41,000 **(1)**

[5]

(c)

Easier detection of errors.
Errors can be identified quicker.
Division of duties helps in the prevention of fraud.
Control accounts totals can be used in the trial balance.

(3 x 2 marks)
(1 for point plus 1 for development) **[6]**

Total Marks [25]

Control Accounts

2501 Jun 2005 Lucy Ball Question 1

1 Lucy Ball uses control accounts as part of her double entry system. She has identified the following information in the accounts of her business at 1 April 2005.

		£
Purchase Ledger Control Account	– debit balance b/d	400
	– credit balance b/d	12 800

During the month ended 30 April 2005 the following transactions took place.

	£
Payments by cheque to trade creditors	26 000
Purchases on credit from trade creditors	53 000
Purchase returns	3 000
Discount received	1 300
Set off with sales ledger	1 800

At 30 April 2005, the Purchase Ledger Control Account had a credit balance c/d of £350. All discounts have been recorded correctly in the Cash Book but no entries have been made to the accounts of the trade creditors.

REQUIRED

(a) Prepare the Purchase Ledger Control Account for the month ended 30 April 2005. [10]

(b) Discuss whether or not the discount error would have any effect on each of the following:

(i) The Trial Balance;

(ii) The schedule of creditors.

[8]

Total marks [18]

Control Accounts

2501 Jun 2005 Lucy Ball Question 1 Mark scheme

1 (a)

Purchase Ledger Control Account

Bal b/d	400	**(1)**	Bal b/d	12,800	**(1)**
Bank	26,000	**(1)**	Purchases	53,000	**(1)**
Purchase Returns	3,000	**(1)**	Bal c/d	350	**(1)**
Discount received	1,300	**(1)**			
Set off Sales Ledger **(1)**	1,800	**(1)**			
Bal c/d	33,650	**(1)**			
	66,150			66,150	

[10]

(b) (i) No effect on the trial balance.
Control accounts are part of the double entry and the correct figures would have been entered from the cash book.
(2 x 2 marks)
(1 for point plus 1 for development)

(ii) The total of the supplier accounts would be overstated.
The supplier accounts in the purchase ledger not part of the double entry but used as memorandum accounts.
(2 x 2 marks)
(1 for point plus 1 for development)

[8]

Total marks [18]

Control Accounts

2501 Jun 2004 Andrew Gaze Question 1

1 Andrew Gaze identified the following information in his accounts as at 1 December 2003:

	£
Purchase ledger control account (credit balance)	72 000
Purchase ledger control account (debit balance)	700

During the month ended 31 December 2003 the following summarised transactions took place:

	£
Payments to trade creditors by cheque	52 000
Discount received	1200
Credit purchases	145 000
Purchase returns	2000
Contra sales ledger	5000
Cash purchases	7000

At 31 December 2003 £1800 was owed to Andrew Gaze by trade creditors.

Andrew Gaze uses control accounts as part of the double entry system.

REQUIRED

(a) The Purchase Ledger Control Account for Andrew Gaze for the month ended 31 December 2003. [11]

(b) Explain each of the following:

(i) a contra sales ledger entry; [4]

(ii) the reason for a debit balance brought down on a Purchase Ledger Control Account. [4]

Total marks [19]

Control Accounts

2501 Jun 2004 Andrew Gaze Question 1 Mark scheme

1 **(a)**

Purchase Ledger Control Account

Balance b/d	700	**(1)**	Balance b/d	72,000	**(1)**
Discount received	1,200	**(1)**	Purchases	145,000	**(1)**
Purchase returns	2,000	**(1)**	Balance c/d**(1)**	1,800	**(1)**
Contra sales ledger	5,000	**(1)**			
Bank	52,000	**(1)**			
Balance c/d	157,900	**(2)**			
	218,800			218,800	

[11]

(b) Buy and sell from the same business on credit. The amount owed as a customer is reduced by setting off the amount owed as a supplier of goods.
(2 x 2 marks)
(1 for point plus 1 for development) **[4]**

An over payment to the trade supplier.
The supplier owes a refund for goods due to returns.
(2 x 2 marks)
(1 for point plus 1 for development) **[4]**

Total marks [19]

Control Accounts

2501 Jun 2003 Hope Question 1

1 The Sales Ledger Control Account for Hope plc for the year ended 31 March 2003 has been prepared from the following information.

	£
Debit balance b/d 1 April 2002	82 000

Totals for the year 1 April 2002 to 31 March 2003:

Credit sales	720 000
Cheques received from debtors	630 000
Cash received from debtors	5 000
Sales returns from debtors	8 300
Discount allowed	25 000
Dishonoured cheques	4 200
Contra purchase ledger	7 400

The Sales Ledger Control Account balance did not agree with the total shown in the schedule of debtors of £128 300. The following errors were discovered:

(i) No contra entry had been made in a debtor's account in the Sales Ledger in respect of purchases by Hope plc of goods at a list price of £1000, trade discount 10%. This entry had been correctly dealt with in the Sales Ledger Control Account.

(ii) The discount allowed column in the Cash Book had been undercast by £600.

(iii) A credit sale of £2500 to Peter Jones was recorded in the Sales Journal and recorded correctly in the Sales Ledger Control Account but no posting had been made in the Sales Ledger.

REQUIRED

(a) A corrected Sales Ledger Control Account for the year ended 31 March 2003. [12]

(b) Prepare a statement reconciling the total of the schedule of debtors with the corrected balance in the Sales Ledger Control Account. [4]

(c) Explain **three** advantages of using control accounts. [6]

Total marks [22]

Control Accounts

2501 Jun 2003 Hope Question 1 Mark scheme

1 (a)

Sales Ledger Control Account

Bal b/d	82,000	**(1)**	Bank	630,000	**(1)**
Sales	720,000	**(1)**	Cash	5,000	**(1)**
Dishonoured cheques	4,200	**(2)**	Returns	8,300	**(1)**
			Discount allowed	25,600	**(2)**
			Contra-purchase ledger	7,400	**(1)**
			Bal c/d **(1)**	129,900	**(1)**
	806,200			806,200	

[12]

(b)

Original balance	128,300	
Contra entry	(900)	**(2)**
Credit sale	2,500	**(1)**
	129,900	**(1)**

[4]

(c) Control accounts can be used as part of the double-entry system and the personal accounts as memorandum accounts.

Used to prevent and detect errors. If sales ledger control account does not agree with debtors schedule then time and effort can be concentrated on correcting errors.

Prevents fraud by acting as an independent check on the ledger.

The totals from the control accounts can be used for trial balance totals for debtors and creditors.

(3 x 2 marks)
(1 for point plus 1 for development) **[6]**

Total marks [22]

Control Accounts

2501 Jun 2002 Vicky Davey Question 1

1 Vicky Davey identified the following information in her accounts as at 1 April 2002:

	£
Sales Ledger Control Account (debit balance)	62 000
Sales Ledger Control Account (credit balance)	300

During the month ended 30 April 2002 the following summarised transactions took place:

	£
Receipts by cheque from debtors	120 000
Discount allowed	2 000
Credit sales	185 000
Sales returns from debtors	6 000
Bad debts	3 000
Dishonoured cheques	1 000
Contra Purchase ledger	5 000

At 30 April 2002 £2800 was owing to debtors.

Vicky uses control accounts as part of her double entry system.

REQUIRED

(a) Prepare the Sales Ledger Control Account for Vicky Davey for the month ended 30 April 2002. [15]

(b) Explain **three** advantages of using a control account system. [6]

Total marks [21]

Control Accounts

2501 Jun 2002 Vicky Davey Question 1 Mark scheme

1 (a)

Sales Ledger Control Account

Bal b/d	62,000 **(1)**	Bal b/d	300 **(1)**
Sales	185,000 **(1)**	Bank	120,000 **(1)**
Dishonoured cheques (1)	1,000 **(1)**	Discount allowed	2,000 **(1)**
Bal c/d	2,800 **(2)**	Sales returns	6,000 **(1)**
		Bad debts	3,000 **(1)**
		Contra Purchase Ledger (1)	5,000 **(1)**
		Bal c/d	114,500 **(2)**
	250,800		250,800

[15]

(b)

- Helps prevent fraud by employees. Control account and sales ledger prepared by different employees.
- Different balance on control account and schedule of debtors/creditors helps locate errors.
- Totals from the control accounts can be used for the trial balance.
- Control accounts can be part of the double entry system and personal accounts memorandum accounts.

(3 x 2 marks)
(1 for point plus 1 for development) **[6]**

Total [21]

Accounting Adjustments and Statements: Incomplete Records

Accounting Adjustments and Statements: Incomplete Records

F012 Specimen Peter Green Question 2

2 Peter Green commenced business several years ago selling jewellery. He prepared the following receipts and payments details for the year ended 31 December 2006:

	£		£
Balance b/d	3,000	Trade creditors	29,000
Receipts from debtors	83,000	Motor expenses	4,200
Capital	3,000	Rent	4,000
Loan: M Mint	8,000	Rates	2,000
		General expenses	12,000
		Wages	15,000
		Drawings	18,000

Additional information:

(i) The receipts and payments details have been prepared from the business bank account through which all receipts and payments have passed.

(ii) The loan from M Mint was received on 1 September 2006 and interest is payable at 12% per annum. The loan is for a four year period.

(iii) Discounts received from suppliers for the year ended 31 December 2006 were £1,500.

In addition to the items mentioned above, the assets and liabilities of Peter Green were as follows:

	31 December 2005	31 December 2006
	£	£
Delivery van at net book value	8,000	6,800
Stock at cost	6,000	5,500
Trade debtors	3,500	8,200
Motor expenses owing	500	900
Rent prepaid	1,000	1,500
Trade creditors	4,300	5,700

REQUIRED

(a)* The Trading and Profit and Loss Account for the year ended 31 December 2006 and the Balance Sheet as at that date. **[29]**

(b) Peter is considering the possibility of forming a partnership with his local business rival Danny Violet. State three advantages and three disadvantages of forming such a partnership. **[6]**

Total Marks [35]

Accounting Adjustments and Statements: Incomplete Records

F012 Specimen Peter Green Question 2 Mark scheme

2(a)*	Peter Green					
	Trading and Profit and Loss Account for the year ended 31 December 2006					
	Sales (83,000 + 8,200 – 3,500)			87,700	**[2]**	
	Opening Stock	6,000				
	Purchases (29,000 + 5,700 + 1,500 – 4,300)	31,900	**[3]**			
		37,900				
	Closing stock	(5,500)				
	Cost of sales			32,400		
	Gross Profit			55,300		
	Discounts received			1,500	**[1]**	
				56,800		
	Interest	320	**[2]**			
	Motor expenses (4,200 + 900 – 500)	4,600	**[2]**			
	Rent (4,000 + 1,000 – 1,500)	3,500	**[2]**			
	Rates	2,000	**[1]**			
	General expenses	12,000				
	Wages	15,000				
	Depreciation on van	1,200	**[1]**			
				38,620		
	Net Profit			18,180	**[1]**	

F012 Specimen Peter Green Question 2 Mark scheme continued

2(a)* cont'd	Balance Sheet as at 31 December 2006				
	Fixed Assets				
	Delivery van			6,800 **[1]**	
	Current Assets				
	Stock		5,500		
	Debtors		8,200		
	Prepaid rent		1,500 **[1]**		
	Bank		12,800 **[1]**		
			28,000		
	Current Liabilities				
	Creditors	5,700			
	Accruals (900 + 320)	1,220 **[2]**			
			6,920		
	Working capital			21,080	
	Long term liabilities				
	Long-term loan			(8,000) **[1]**	
				19,880	
	Financed by				
	Capital			16,700 **[2]**	
	Additional capital			3,000 **[1]**	
				19,700	
	Net Profit			18,180 **[1]**	
				37,880	
	Drawings			(18,000) **[1]**	
				19,880	
	NB Up to an additional three marks can be awarded for the candidate's quality of written communication (numerical responses)				
					[29]

Accounting Adjustments and Statements: Incomplete Records

F012 Specimen Peter Green Question 2 Mark scheme continued

2(b)	Advantages: • Share the risks with the new partners. • Share workloads, flexible working. • Management cover in times of illness. • Introduction of new capital to expand the business. • Make use of any specialist skills the new partners may have. • Consolidate the market share. *3 x 1 marks* Disadvantages: • Cost of setting up new business, legal costs. • Profit sharing agreement. • The decision making process. • What effect it would have on the customers. • Liability for acts of partners. *(3 x 1 marks)* **Total Marks**	**[6]** **[35]**

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2007 Alfonso Question 3

3 Alfonso is a sole trader who owns a local garden centre. He provided his accountant with the following information for the year ended 30 April 2007.

<u>Bank Account summary for the year ended 30 April 2007</u>

	£		£
Balance b/d	6000	General expenses	12000
Cash sales	10500	Wages	6000
Trade debtors	135000	Rent	5000
		Trade creditors	124000
		Motor vehicle	10000

The following information is also available.

	1 May 2006	30 April 2007
	£	£
Trade debtors	7500	9000
Stock at cost	8000	3200
Rent prepaid	200	150
Wages owing	300	350
Trade creditors	6000	4000
Motor vehicles	8000	13500
Premises	60000	60000

(i) Prior to paying cash sales into the bank Alfonso took £250 per week for 52 weeks as drawings.

(ii) Zak Bridges, a debtor, has recently been declared bankrupt. His outstanding debt of £280 needs to be written off.

(iii) Discounts received during the year amounted to £1 200.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 30 April 2007. [19]

(b) The Balance Sheet as at 30 April 2007. [12]

Total marks [31]

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2007 Alfonso Question 3 Mark scheme

3 (a)

Alfonso
Trading and Profit and Loss Account for the year ended 30 April 2007

Sales (135,000+10,500+13,000-7,500+9,000)			160,000	**(4)**
Opening stock	8,000			
Purchases (124,000-6,000+4,000+1,200)	123,200	**(3)**		
	131,200			
Closing stock	3,200	**(1)**		
Cost of sales			128,000	
Gross profit			32,000	
Discounts received			1,200	**(1)**
			33,200	
General expenses	12,000	**(1)**		
Wages	6,050	**(2)**		
Rent	5,050	**(2)**		
Depreciation	4,500	**(2)**		
Bad debts	280	**(2)**		
			27,880	
Net profit			5,320	**(1)**

[19]

2501 Jun 2007 Alfonso Question 3 Mark scheme continued

(b)

Balance Sheet as at 30 April 2007

Fixed Assets				
Premises			60,000	
Motor vehicles			13,500	
			73,500	**(1)**
Current Assets				
Stock	3,200			
Debtors	8,720	**(2)**		
Prepayments	150	**(1)**		
	12,070			
Current Liabilities				
Creditors	4,000	**(1)**		
Bank overdraft	5,500	**(2)**		
Accruals	350	**(1)**		
	9,850			
Working capital			2,220	
			75,720	
Financed by				
Capital			83,400	**(2)**
Net profit			5,320	**(1of)**
			88,720	
Drawings			13,000	**(1)**
			75,720	

[12]

Total marks [31]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2007 Michelle Musa Question 3

3 Michelle Musa commenced business several years ago selling furniture. Michelle pays all her business takings into the business bank account. She has prepared the following bank account summary for the year ended 31 December 2006.

	£		£
Balance b/d	5400	Trade creditors	23000
Trade debtors	71000	Rent	5200
Cash sales	4600	Insurance	600
		Wages	24300
		Drawings	20000

The following information is also available.

	1 January 2006 £	31 December 2006 £
Stock at cost	5500	4800
Office equipment	6000	4500
Motor vehicles	10000	7500
Insurance prepaid	80	120
Rent owing	450	650
Trade debtors	7500	8300
Trade creditors	3000	3500

(I) Discounts received from suppliers amounted to £560 for the year ended 31 December 2006.

(II) Michelle Musa allowed her customers discounts of £860 during the year ended 31 December 2006.

(III) A specific provision for doubtful debts of £440 is to be created.

(IV) There were no purchases or disposals of fixed assets during the year.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2006. [19]

(b) The Balance Sheet as at 31 December 2006. [12]

Total marks [31]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2007 Michelle Musa Question 3 Mark scheme

3 **(a)**

Michelle Musa

Trading and Profit and Loss Account for the year ended 31 December 2006

Sales (71,000+4,600-7,500+8,300+860)			77,260	**(4)**
Opening stock	5,500			
Purchases (23,000-3,000+3,500+560)	24,060	**(3)**		
	29,560			
Closing stock	4,800			
Cost of sales **(1)**			24,760	
Gross Profit			52,060	
Discounts received			560	**(1)**
			52,620	
Rent (5,200- 450+650)	5,400	**(2)**		
Insurance (600+80-120)	560	**(2)**		
Wages	24,300	**(1)**		
Depreciation	4,000	**(2)**		
Discounts allowed	860	**(1)**		
Provision for doubtful debts	440	**(1)**		
			35,560	
Net Profit			17,500	**(1)**

2501 Jan 2007 Michelle Musa Question 3 Mark scheme continued

(b)

Balance Sheet as at 31 December 2006				
Fixed Assets				
Machinery			7,500	**(1)**
Fixtures			4,500	**(1)**
			12,000	
Current Assets				
Stock	4,800			
Debtors (8,300 - 440)	7,860	**(2)**		
Insurance prepaid	120	**(1)**		
Bank	7,900	**(2)**		
	20,680			
Current Liabilities				
Creditors	3,500			
Rent accrued	650	**(1)**		
	4,150			
Working capital			16,530	
			28,530	
Financed by				
Capital			31,030	**(2)**
Net Profit			17,500	**(1of)**
			48,530	
Drawings			20,000	**(1)**
			28,530	
				[12]
			Total marks	**[31]**

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2006 Karen Gwyne Question 3

3 Karen Gwyne owns a small shop. Karen pays the takings into the business bank account. Karen operates a manual system of accounts. The following is a summary of the bank account for the year ended 28 February 2006.

Bank account summar y for the y ear ended 28 F ebruary 2006

	£		£
Debtors	60 000	Balance b/d	5 000
Cash sales	25 000	Rent	6 300
Capital	8 000	Rates	4100
		Wages	20 000
		General expenses	9 700
		Creditors	32 000
		Fixtures	3 500
		Drawings	15 000

The following information is also available:

(i) Karen allowed her customers discounts of £1 000 during the year ended 28 February 2006.

(ii) Discounts received from suppliers for the year ended 28 February 2006 were £700.

(iii) Karen had taken goods at the cost price of £2 000 for her own personal use.

(iv) Cash of £4 200 was withdrawn from the bank to pay for a family holiday. Karen had recorded this amount as a general expense.

(v) In addition to the items listed above, Karen's assets and liabilities were as follows:

	1 March 2005	28 February 2006
	£	£
Debtors	26 000	30 000
Stock at cost	18 000	16 000
Rent prepaid	1 000	1 200
General expenses owing	900	1 300
Creditors	18 000	20 000
Fixtures	6 000	8 000

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 28 February 2006. [19]

(b) The Balance Sheet as at 28 February 2006. [12]

(c) Discuss the benefits to Karen Gwyne of a change from a manual system to a computerised system of book keeping. [6]

Total marks [37]

2501 Jun 2006 Karen Gwyne Question 3 Mark scheme

(a) Karen Gwyne

Trading and Profit and Loss Account for the year ended 28 February 2006

Sales(60,000 + 25,000 + 1,000 + 30,000 - 26,000)	90,000 **(4)**	
Opening stock	18,000	
Purchases (32,000 + 700 + 20,000 - 18,000 - 2,000)	32,700 **(4)**	
	50,700	
Closing stock	16,000	
Cost of sales **(1)**		34,700
Gross profit		55,300
Discount received		700 **(1)**
		56,000
Rent (6,300 + 1,000 - 1,200)	6,100 **(2)**	
Rates	4, 100 **(1)**	
Wages	20,000	
General expenses (9,700-900 + 1,300-4,200)	5,900 **(3)**	
Discount allowed	1,000 **(1)**	
Depreciation	1,500 **(2)**	
		38,600
Net profit		17,400

[19]

2501 Jun 2006 Karen Gwyne Question 3 Mark scheme continued

(b) Balance sheet as at 28 February 2006

Fixed Assets		
Fixtures		8,000 **(1)**
Current Assets		
Stock	16,000 **(1)**	
Debtors	30,000	
Prepaid	1,200 **(1)**	
	47,200	
Current Liabilities		
Creditors	20,000	
Accruals/general expenses	1,300 **(1)**	
Bank	2,600 **(2)**	
	23,900	
Working capital		23,300
		31,300
Financed by		
Opening capital		27,100 **(2)**
Capital introduced		8,000 **(1)**
		35,100
Net profit		17,400 **(1of)**
		52,500
Drawings		21,200 **(2)**
		31,300

[12]

(c) Would provide management information such as stock reports and debtors reports.
Saves money with her account as quicker to complete final accounts and tax return.
Quicker and would reduce manual errors.
Possibility of trading through website.
(3 x 2 marks)
(1 for point plus 2 for development)

[6]
Total marks [37]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2006 Simon Locke Question 3

3 Simon Locke commenced business several years ago selling computer games. Simon has always relied on records of receipts and payments for assessing the progress of his business.

He prepared the following receipts and payments details for the year ended 31 December 2005.

	£		£
Balance b/d	2 500	Creditors	32 000
Cash sales	72 000	Rent	5 000
Debtors	8 000	Rates	13 000
		General expenses	6 000
		Wages	10 000
		Drawings	12 000
		Computer equipment	2 000

Additional information:

(i) The receipts and payments details have been prepared from the business bank account through which all receipts and payments have passed.

(ii) Discounts allowed to debtors for the year ended 31 December 2005 were £600.

(iii) During the year, Simon took goods at a cost price of £800 from the business for his own use.

(iv) In addition to the items mentioned above, Simon's assets and liabilities were as follows:

	31 December 2004	31 December 2005
	£	£
Stock at cost	3 200	4 600
Debtors	1 200	1 800
Creditors	1 700	2 200
Rent prepaid	600	800
General expenses owing	500	300
Wages owing	–	600
Computer equipment	1 500	2 500

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2005. [19]

(b) The Balance Sheet as at 31 December 2005. [14]

Total Marks [33]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2006 Simon Locke Question 3 Mark scheme

3 **(a)**

Simon Locke
Trading and Profit and Loss Account for year ended 31 December 2005

Sales (72,000 + 8,000 - 1,200 + 1,800 + 600)			81,200	**(4)**
Opening stock	3,200	**(1)**		
Purchases (32,000 + 2,200 - 1,700 - 800)	31,700	**(3)**		
	34,900			
Closing stock	4,600	**(1)**		
Cost of sales **(1)**			30,300	
Gross profit			50,900	
Rent (5,000 + 600 - 800)	4,800	**(2)**		
Rates	13,000	**(1)**		
General expenses (6,000 + 300 - 500)	5,800	**(2)**		
Wages	10,600	**(1)**		
Discount allowed	600	**(1)**		
Computer equipment depreciation	1,000	**(2)**	35,8000	
Net profit			15,100	

[19]

2501 Jan 2006 Simon Locke Question 3 Mark scheme continued

(b)

Balance Sheet as at 31st December 2005

Fixed assets				
Computer equipment			2,500	**(1)**
Current assets				
Stock	4,600	**(1)**		
Debtors	1,800	**(1)**		
Prepaid	800	**(1)**		
Bank	2,500	**(2)**		
	9,700			
Curent liabilities				
Creditors	2,220	**(1)**		
Accruals	900	**(2)**		
	3,100			
Working capital			6,600	
			9,100	
Financed by				
Opening capital			6,800	**(2)**
Net profit			15,100	**(1of)**
			21,900	
Drawings			12,800	**(2)**
			9,100	

[14]

Total marks [33]

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2005 Greg Larssen Question 3

3 Greg Larssen is a sole trader and the following details relate to his business for the year ended 31 December 2004.

Sales	£80 000
Mark up on cost	25%

Bank Account summary for the year ended 31 December 2004

Cash sales	2 500	Bal b/d	5 000
Trade debtors	75 000	Rent	8 000
		General expenses	18 000
		Drawings	9 000
		Trade creditors	52 000
		Motor car	4 000

The following information is also available.

	1 January 2004	31 December 2004
Trade debtors	4 500	7 000
Stock at cost	3 000	?
Rent prepaid	300	500
General expenses owing	900	700
Trade creditors	3 000	18 000
Motor car	–	3 500
Building	50 000	50 000

Greg Larssen has withdrawn £800 for a family holiday during the year. This has been recorded as a general expense.

REQUIRED

(a) Calculate the closing stock at 31 December 2004. [7]

(b) The Trading and Profit and Loss Account for the year ended 31 December 2004. [13]

(c) The Balance Sheet as at 31 December 2004. [11]

(d) Greg would like to value his closing stock in the final accounts at the current selling price. Explain the reasons why this is not allowed. [6]

Total marks [37]

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2005 Greg Larssen Question 3 Mark scheme

3 **(a)** 67,000 **(2)** + 3,000 **(2)** – 64,000 **(2)** = 6,000 **(1)** **[7]**

(b)

G Larssen
Trading and Profit and Loss Account for year ended 31 December 2004 **(1)**

Sales			80,000	**(1)**
Opening Stock	3,000			
Purchases	67,000	**(1 of)**		
	70,000			
Closing Stock	6,000	**(1 of)**		
Cost of Sales **(1)**			64,000	**(1)**
Gross Profit			16,000	
Rent (8 000 + 300 – 500)	7,800	**(3)**		
General expenses (18,000 – 900 +700-800)	17,000	**(3)**		
Depreciation Motor	500	**(1)**	25,300	
Net Loss			(9,300)	
				[13]

(c)

Balance Sheet as at 31 December 2004

Fixed Assets				
Buildings			50,000	
Motor car			3,500	
			53,500	**(1)**
Current Assets				
Stock	6,000			
Debtors	7,000	**(1)**		
Prepaid	500	**(1)**		
	13,500			
Current Liabilities				
Creditors	18,000			
Accruals	700	**(1)**		
Overdraft	18,500	**(2)**		
	37,200			
Working Capital			(23,700)	
			29,800	
Financed By				
Opening Capital			48,900	**(2)**
Net loss			(9,300)	**(1 of)**
			39,600	
Drawings			(9,800)	**(2)**
			29,800	
				[11]

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2005 Greg Larssen Question 3 Mark scheme continued

(d)

Prudence concept must be applied
Must value at the lower of cost and net realisable value SSAP 9 stocks and work in progress
Would understate the cost of goods sold and therefore overstate the profit
Would overstate the net asset value of the business by showing at market value in the balance sheet.
(2 x 3 marks)
(1 for point plus up to 2 for development) **[6]**

Total marks [37]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2005 Hannah Mudd Question 3

3 Hannah Mudd owns a small business. Hannah pays all her business takings into the business bank account. The following is a summary of her bank account for the year ended 31 December 2004.

Bank Account summary for the year ended 31 December 2004

Bal b/d	3 000	General expenses	7 500
Cash sales	18 000	Rent	3 200
Trade debtors	53 000	Wages	20 000
Capital	6 000	Fixtures	4 000
		Trade creditors	25 000
		Drawings	13 000

The following information is also available:

	1 January 2004	31 December 2004
Trade debtors	6 000	9 000
Rent prepaid	600	800
Stock at cost	4 000	5 000
Trade creditors	3 500	4 800
General expenses owing	120	380
Fixtures	2 000	4 800

Hannah allowed her customers discounts of £500 for prompt payment during the year. Hannah paid a local builder £3 000 in wages for work at her home and this amount has been included in the business wages.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2004. [20]

(b) The Balance Sheet as at 31 December 2004. [12]

Total Marks [32]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2005 Hannah Mudd Question 3 Mark scheme

Question 3

(a)

Hannah Mudd

Trading and Profit and Loss Account for the year ended 31 December 2004 **(1)**

Sales (18 000 + 53 000 + 9 000 + 500– 6 000)		74 500 (5)
Opening stock	4 000	
Purchases (25 000+4 800– 3 500)	26 300 (3)	
	30 300	
Closing stock	5 000	
Cost of sales		25 300
Gross profit		49 200
General (7 500 + 380–120)	7 760 **(3)**	
Rent (3 200 + 600– 800)	3 000 **(3)**	
Wages (20 000– 3000)	17 000 **(2)**	
Depreciation fixtures	1 200 **(2)**	
Discount allowed	500 **(1)**	29 460
Net profit		19 740

[20]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2005 Hannah Mudd Question 3 Mark scheme continued

(b)

Balance Sheet as at 31 December 2004			
Fixed Assets			
Fixtures		4 800	
Current Assets			
Stock	5 000		
Debtors	9 000 **(1)**		
Prepaid	800 **(1)**		
Bank	7 300 **(2)**		
	22 100		
Current Liabilities			
Creditors	4 800 **(1)**		
Accruals	380 **(1)**		
	5 180		
Working Capital		16 920	
		21 720	
Financed By			
Opening capital		11 980	**(2)**
Capital introduced		6000	**(1)**
		17 980	
Net profit		19 740	**(1)**
		37 720	
Drawings (13 000 + 3 000)		16 000	**(2)**
		21 720	

[12]

Total marks [32]

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2004 Terry Carter Question 2

2 Terry Carter has not kept adequate records for his business for the year ended 31 December 2003. He has, however, been able to supply the following information to his accountant.

Mark up on cost	25%
Amount paid to trade creditors	£234 000
Business expenses (excluding depreciation)	£32 100
Drawings	£18 900

Terry Carter was also able to provide the following information:

	31 December 2002	31 December 2003
	£	£
Motor car	6000	4500
Cash at bank	10 000	12 500
Creditors	2000	3000
Stock	10 000	15 000
Prepaid business expenses	600	250

There were no purchases or disposals of fixed assets during the year ended 31 December 2003.

REQUIRED

(a) **(i)** The Trading and Profit and Loss Account for Terry Carter for the year ended 31 December 2003. [13]

(ii) The Balance Sheet as at 31 December 2003. [11]

(b) Evaluate the problems for Terry Carter of not keeping adequate business records. [8]

Total marks [32]

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2004 Terry Carter Question 2 Mark scheme

2 (a) (i) Terry Carter

Trading and Profit and Loss Account for the year ended 31 December 2003 **(1)**

Sales			287,500	**(2)**
Opening stock	10,000	**(1)**		
Purchases	235,000	**(2)**		
	245,000			
Closing stock	15,000	**(1)**		
Cost of sales **(1)**			230,000	
Gross profit			57,500	
Business expenses	32,450	**(2)**		
Depreciation	1,500	**(1)**	33,950	
Net profit			23,550	**(2)(1of)**

[13]

(ii) Balance Sheet as at 31 December 2003

Fixed Assets				
Motor car			4,500	**(1)**
Current Assets				
Stock	15,000	**(1)**		
Prepaid	250	**(1)**		
Bank	12,500	**(1)**		
	27,750			
Current Liabilities				
Creditors	3,000	**(1)**		
Working capital **(1)**			24,750	
			29,250	**(1)**
Financed by				
Opening capital **(1)**			24,600	**(1)**
Add Net profit			23,550	**(1 of)**
			48,150	
Less Drawings			18,900	**(1)**
			29,250	

[11]

2501 Jun 2004 Terry Carter Question 2 Mark scheme continued

(b) Lack of information for control and planning.
Measurement of value of assets.
Measurement of value of profit.
No stock record. Would have difficulty in finding stock.
Time consuming in sorting out problems.
Cost of implementing new financial systems and accountants' fees.
Difficulty in working out tax liability.

(4 x 2 marks)
(1 for point plus 1 for development) **[8]**

Total marks [32]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2004 Helen Dovey Question 3

3 Helen Dovey runs a small shop. Helen has prepared the following Cash Book summary for the year ended 31 December 2003.

	£		£
Balance b/d	2000	Trade creditors	18 000
Sales	80 000	Rent	1500
Capital	8000	Wages	17 000
		Cash drawings	22 000
		General expenses	3200

Additional information:

(i) Helen had taken stock from the shop at a cost price of £500 for personal use on 1 December 2003.

(ii) In addition to the items mentioned above, her assets and liabilities were:

	31 December 2002	31 December 2003
	£	£
Stock	6000	9000
Trade creditors	5000	4500
Rent prepaid	200	350
Shop fixtures	2800	2300
General expenses owing	600	750
Debtors	–	450

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2003. [17]

(b) The Balance Sheet as at 31 December 2003. [15]

(c) Helen would like to value her stock at selling price in the accounts of the business. Discuss the reasons why her accountant has valued the stock at cost price. [5]

Total marks [37]

2501 Jan 2004 Helen Dovey Question 3 Mark scheme

3 (a) Helen Dovey
Trading and Profit and Loss Account
for year ended 31 December 2003 **(1)**

Sales					80,450	**(2)**
Opening stock			6,000	**(1)**		
Purchases (18,000-5,000+4,500-500)			17,000	**(4)**		
			23,000			
Closing stock			9,000	**(1)**		
Cost of Sales					14,000	
Gross profit					66,450	
Rent (1,500+200-350)	1,350	**(3)**				
Wages	17,000	**(1)**				
General expenses (3,200-600+750)	3,350	**(3)**				
Depreciation fixtures	500	**(1)**			22,200	
Net profit					44,250	

[17]

2501 Jan 2004 Helen Dovey Question 3 Mark scheme continued

(b) Balance Sheet as at 31 December 2003

Fixed Assets				
Fixtures			2,300	**(1)**
Current Assets				
Stock	9,000	**(1)**		
Prepaid	350	**(1)**		
Debtors	450	**(1)**		
Bank **(1)**	28,300	**(1)**		
	38,100			
Current Liabilities				
Creditors	4,500	**(1)**		
Accruals	750	**(1)**		
	5,250			
Working capital **(1)**			32,850	
			35,150	
Financed by				
Opening capital **(1)**			5,400	**(1)**
+ Capital introduced			8,000	**(1)**
+ Net profit			44,250	**(1 of)**
			57,650	
- Drawings (22,000 + 500)			22,500	**(2)**
			35,150	

[15]

(c) The concept of prudence **(1)**.

SSAP9 – stock is valued at the lower of cost and net realisable value.
The valuation of stock at cost price will not overstate net profit or net assets.
(2 x 2 marks)
(1 for point plus 1 for development) **[5]**

Total marks [37]

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2003 Mevish Ali Question 2

2 Mehvish Ali commenced business several years ago as an exporter of hand-made pottery. He prepared the following receipts and payments details for the year ended 31 March 2003.

	£		£
Balance b/d	8 000	Payments to creditors	36 000
Receipts from debtors	72 000	Rent	5 000
		Rates	2 000
		Wages	12 000
		Drawings	25 000
		General expenses	3 000

Additional information:

(i) The receipts and payments details have been prepared from the business bank account through which all receipts and payments have passed.

(ii) Discount received from suppliers for the year ended 31 March 2003 was £1700.

(iii) In addition to the items mentioned above, the assets and liabilities of Mehvish Ali were as follows:

	31 March 2002	31 March 2003
	£	£
Fixtures (net)	1500	1200
Stock at cost	6000	5000
Debtors	3200	4300
General expenses owing	800	500
Rent prepaid	700	800
Trade creditors	2200	3100

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2003 Mevish Ali Question 2 Mark scheme

2 (a)

Mehvish Ali

Trading and Profit and Loss Account for the year ended 31 March 2003 **(1)**

Sales (72,000+4,300-3,200)			73,100	**(3)**
Opening stock	6,000	**(1)**		
Purchases (36,000+1,700+3,100–2,200)	38,600	**(3)**		
	44,600			
Closing stock	5,000	**(1)**	39,600	
Gross profit			33,500	
+ Discount received			1,700	**(1)**
			35,200	
Less Expenses				
Rent	4,900	**(2)**		
Rates	2,000			
Wages	12,000			
General expenses	2,700	**(2)**		
Depreciation	300	**(1)**	21,900	**(1)**
Net profit			13,300	

[16]

2501 Jun 2003 Mevish Ali Question 2 Mark scheme continued

(b) Balance Sheet as at 31 March 2003

Fixed Assets				
Fixtures			1,200	**(1)**
Current Assets				
Stock	5,000			
Debtors	4,300			
Prepaid	800	**(1)**		
	10,100	**(1)**		
Current Liabilities				
Creditors	3,100			
Accruals	500	**(1)**		
Overdraft	3,000	**(2)**		
	6,600			
Working Capital			3,500	
			4,700	
Financed by				
Opening capital			16,400	**(2)(1of)**
Net profit			13,300	**(1of)**
			29,700	
Drawings			25,000	**(1)**
			4,700	

[10]

2501 Jun 2003 Mevish Ali Question 2 Markscheme continued

(c) (i) Help prevent errors by the elimination of manual recording.

Improve the speed of processing of the data. More up-to-date information would be available for the business.

Would be able to process high volumes of data.

Improve storage of data and records. File and storage space reduced. All records recorded on disk.

Maintain the security of data.

Improve information for management, e.g. reports.
Instant stock-up data, aged persons analysis.

(4 x 2)
(1 for point plus 1 for development) **[8]**

(ii) Spreadsheets. Use of Excel or Lotus 123 for the 'what if' scenario.
Databases – debtors and creditors.
Specialist accounting packages – SAGE.
Payroll – calculation of salaries with deductions made.
Stock control – stock levels, re-order levels and generation of requisition.

2 x 2 marks
(1 for point plus 1 for development) **[4]**

Total marks [38]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2003 Ffion Williams Question 3

3 Ffion Williams operates as a retailer selling toys and gifts. The following details relate to her business for the year ended 31 December 2002.

Opening stock at cost	£35 000
Mark up on cost	20%
Rate of stock turnover	8 times
Closing stock	£25 000

REQUIRED

(a) The Trading Account for the year ended 31 December 2002. (Purchases and sales must be shown.) [10]

(b) Ffion is considering implementing a system of control accounts. Evaluate the benefits to a business of control accounts. [6]

Total marks [16]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2003 Ffion Williams Question 3 Mark scheme

3 (a)

Ffion Williams
Trading Account for the year ended 31 December 2002 **(1)**

Sales			288,000	**(2)**
Opening stock	35,000	**(1)**		
Purchases	230,000	**(2)**		
	265,000			
Closing stock	25,000	**(1)**		
Cost of sales			240,000	**(2)**
Gross profit **(1)**			48,000	

[10]

(b) Detect errors – the control account balance should equal the balance on schedule of debtors/creditors.

Prevent fraud – control account is the responsibility of someone other than the clerk responsible for the sales/purchases ledger accounts.

Totalling device – the control account balance can be taken to the trial balance.

Management information – the debtors/creditors balance from the control account can be quickly calculated.

(3 x 2 marks)
(1 for point plus 1 for development) **[6]**

Total marks [16]

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2002 Michael Solder Question 3

3 Michael Soldor is a sole trader selling electrical equipment. The following details relate to his business for the year ended 31 December 2001:

Sales	£1 200 000
Mark up on cost	20%
Business expenses (including depreciation)	£50 000
Drawings	£40 000

In addition to the above the assets and liabilities for Michael Solder were as follows:

	31 December 2000	31 December 2001
	£	£
Fixed assets (net book value)	60 000	50 000
Cash	5 000	6 000
Bank	25 000	37 000
Stock	100 000	150 000
Debtors	20 000	50 000
Pre-paid business expenses	10 000	10 000
Creditors	70 000	43 000

Capital as at 31 December 2000 was £150 000.

REQUIRED

(a) Prepare the Trading and Profit and Loss Account for Michael Soldor for the year ended 31 December 2001. Show Purchases in your account. [8]

(b) Prepare the Balance Sheet as at 31 December 2001. [11]

(c) Michael is considering converting from a sole trader to a limited company. Evaluate the benefits and drawbacks of this course of action. [12]

Total marks [31]

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2002 Michael Solder Question 3 Mark scheme

3 (a) Michael Solder
Trading and Profit and Loss Account for the year ended 31 December 2001

Sales			1,200,000	**(1)**
Opening Stock	100,000	**(1)**		
Purchases	1,050,000	**(1)**		
	1,150,000			
Closing Stock	150,000	**(1)**		
Cost of Goods Sold			1,000,000	**(1)**
Gross Profit			200,000	**(1)**
Expenses	40,000	**(1)**		
Depreciation	10,000	**(1)**		
			50,000	
Net Profit			150,000	

[8]

(b) Balance Sheet as at 31 December 2001

Fixed Assets			50,000 **(1)**
Current Assets			
Stock	150,000 **(1)**		
Debtors	50,000 **(1)**		
Prepaid	10,000 **(1)**		
Bank	37,000		
Cash	6,000 **(1)**		
	253,000		
Current Liabilities			
Creditors	43,000 **(1)**		
Working Capital **(1)**			210,000
			260,000
Financed By			
Opening Capital		**(1)**	150,000 **(1)**
+ Net Profit			150,000 **(1 of)**
			300,000
- Drawings			40,000 **(1)**
			260,000

[11]

2501 Jun 2002 Michael Solder Question 3 Mark scheme cont

(c) **Benefits**

Michael will enjoy the concept of limited liability.
Michael will only be liable for the amount of his shareholding.
The private of assets of Michael will be protected.
Extra capital could be raised by issuing shares.
(2 x 3 marks)
(1 for point plus up to 2 for development)

Risks

Ordinary shares are known as high risk.
Other creditors are paid before the ordinary shareholders.
Control of the business could be a problem.
Michael must own 50% of the shares to control his business.
(2 x 3 marks)
(1 for point plus up to 2 for development) **[12]**

Total [31]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2002 Jan Kokes Question 3

3 Jan Kokes commenced business several years ago selling soft furnishings from a small shop. Jan prepared the following Cash Book for the year ended 31 December 2001:

	£		£
Balance b/d	6 200	Trade creditors	54 000
Sales	158 000	Rent	3 200
Capital	6 000	Rates	1 800
		General expenses	2 800
		Wages	9 000
		Drawings	20 000

Additional information:

(i) Discounts received from trade creditors for the year ended 31 December 2001 were £1600.

(ii) In addition to the items mentioned above, the assets and liabilities of Jan Kokes were as follows:

	31 December 2000	31 December 2001
	£	£
Stock	7 000	5 000
Fixtures (net book value)	3 700	2 800
Rent pre-paid	800	500
Wages owing	350	480
Trade creditors	4 300	5 900

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2001 and the Balance Sheet as at that date. [28]

(b) Jan is considering expanding her business by buying new premises and expanding her range of products.

Evaluate:

(i) two methods of short term finance available to Jan Kokes; [6]

(ii) two methods of long term finance available to Jan Kokes. [6]

Total marks [40]

Accounting Adjustments and Statements: Incomplete Records

2501 Jan 2002 Jan Kokes Question 3 Mark scheme

3 (a) Jan Kokes

Trading and Profit and Loss Account for the year ended 31 December 2001 (1)

	£		£	
Sales			158,000	(1)
	£			
Opening stock	7000	(1)		
Purchases (54,000+5900(1)+1,600 (1))–4300 (1))	57,200			
	64,200			
Closing stock	5,000	(1)	59,200	
Gross profit			98,800	
Discount received			1,600	(1)
			100,400	
	£			
Rent (3200+800-500)	3,500	(2)		
Rates	1,800	(1)		
General Expenses	2,800	(1)		
Wages (4000-350+480)	9,130	(2)		
Depreciation fixtures	900	(1)	18,130	
Net Profit			82,270	

(b) Balance Sheet as at 31 December 2001

	£		£	
Fixed Assets				
Fixtures			2,800	(1)
Current Assets	£			
Stock	5,000	(1)		
Prepaid	500	(1)		
Bank	79,400	(2)		
	84,900			
Current Liabilities				
Creditors	5,900	(1)		
Accruals	480	(1)		
	6,380		78,520	
Working Capital				
Net Assets			81,320	
Opening Capital			13,050	(2)
+ Capital introduced			6,000	(1)
+ Net Profit			82,270	(1 of)
Drawings			(20,000)	(2)
			81,320	

2501 Jan 2002 Jan Kokes Question 3 Mark scheme continued

(c) **(i)** Overdraft – short term borrowing facility. Interest paid on overdraft amount repayable on demand.

Trade credit – purchase of goods from trade creditors.
Terms of payment 28 days before paying invoice.
Discount can be received for early payment.

Factoring – sale of debts to factoring firm. Helps with cash flow.
Factoring firms pay a percentage of invoice value. Will reduce profit because of payments to factoring firm.
(1 mark for identification of point plus up to 2 for development)
(2 x 3 marks) **[6]**

(ii) Long-term loan/mortgage secured on property. Payment of interest on principal sum. Interest rates can vary. Could lose business if loan is not repaid.

Unsecured loan – repaid over a specified time limit. Higher rate of interest paid on loans not secured on property.

Leasing – finance and operating leases fixed payment made. No large capital outlay required.
(1 mark for identification of point plus up to 2 for development)
(2 x 3 marks) **[6]**

Total marks 40

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2001 Ruth Collins Question 2

2 Ruth Collins operates as a sole trader selling sportswear. The following details relate to her business for the year ended 31 March 2001.

Sales	£800 000
Gross profit margin	25%
Rate of stock turnover	10 times
Opening stock at cost	£80 000

REQUIRED:

(a) Prepare the Trading Account for the year ended 31 March 2001. (Purchases and closing stock must be shown.) [10]

(b) Ruth Collins is considering taking on a partner. Discuss **two** advantages and **two** disadvantages of forming a partnership. [8]

(c) Explain the meaning of the following terms:

(i) trade credit

(ii) factoring. [8]

Total [26 marks]

Accounting Adjustments and Statements: Incomplete Records

2501 Jun 2001 Ruth Collins Question 2 Mark scheme

2 **(a)** Ruth Collins
Trading Account for the year ended 31 March 2001

	£	
Sales		800,000 **(1)**
Opening Stock	80,000 **(1)**	
Purchases	560,000 **(2)**	
	640,000	
Closing Stock	40,000 **(3)**	
Cost of Sales		600,000 **(2)**
Gross Profit		200,000 **(1)**

[10]

(b) Increase the capital of the firm
Share the risks
Share any loss made
Flexible working cover for holiday and sickness
Increased specialist skills and knowledge
Problems with making decisions
Disagreement over financial matters
Having to share the profit that has been made

(1 mark for identification of point plus 1 for development)
(4 x 2 marks) **[8]**

(c) **(i)** Trade credit – Purchase of goods and / or raw materials from trade suppliers on credit
(2 marks)

Trade supplier gives credit terms which allows the creditor a number of days before payment is required, eg 28 days
(2 marks)

(ii) Factoring – sale of trade debtors at a discount
(2 marks)

The factoring company collects the debt and retains a percentage.
(2 marks) **[8]**

Total: [26]

Accounting Adjustments and Statements: Accounting Adjustments

Accounting Adjustments and Statements: Accounting Adjustments

F002 Jun 2007 K Stuart Question 1

1 K. Stuart, a sole trader, has a financial year end which occurs on 31 March. Due to staff sickness the stock-take due on 31 March 2007 did not take place. The stock-take did take place on 10 April 2007 and the value of the business's stock at that date was £162 500. The selling price of all goods is based on cost plus a mark up of 25%.

The following information is also available.

(i) Goods with a sales value of £180 000 were delivered to customers on 9 April 2007.

(ii) Purchases at a list price of £150 000 were received from suppliers on 4 April 2007.

(iii) Goods sold to a customer at a selling price of £7 700 on 20 March 2007 were returned as unsuitable on 7 April 2007.

(iv) Of purchases made on 8 March 2007, goods to the value of £8 500 were returned to suppliers as unsuitable on 1 April 2007.

(v) During March 2007, K. Stuart received free samples with a list price of £4 600 from a supplier and these had been included at this price in the 10 April 2007 stock-take.

(vi) Goods originally purchased at a cost price of £12 600 were damaged in March 2007. These purchases were included in the 10 April 2007 stock-take at cost price. Due to damage their sales value is £7 000.

(vii) On 6 April 2007 a delivery of cleaning materials used in the factory, cost £2 000, was received. These had not been included in the 10 April 2007 stock-take.

(viii) On 29 March 2007 the marketing manager took stock with a sales value of £9 600 to a trade exhibition. These items were not included in the 10 April 2007 stock-take.

REQUIRED

(a) A detailed statement of the stock valuation as at 31 March 2007. [14]

(b) Explain your treatment of each of the items **(vi)** and **(vii)**. [6]

(c) K. Stuart is not very good at keeping financial records. Evaluate the problems of inadequate record keeping for a sole trader. [10]

Total marks [30]

Accounting Adjustments and Statements: Accounting Adjustments

F002 Jun 2007 K Stuart Question 1 Mark scheme

1

(a)

Stock Valuation as at 31 March 2007

Closing stock per stock take 10 April 2007:						162,500	**(1)**
		Additions		Deductions			
(i)	Sales	144,000	**(2)**				
(ii)	Purchases			150,000	**(1)**		
(iii)	Sales returns			6,160	**(2)**		
(iv)	Purchases returns	8,500	**(1)**				
(v)	Free samples			4,600	**(1)**		
(vi)	Damaged stock			5,600	**(2)**		
(viii)	Off-site stock	7,680	**(2)**				
		160,180		166,360		(6,180)	
Stock valuation as at 31 March 2007						156,320	**(2)**

[14]

(b)

Item (vi) Stock must be valued at lower of cost and net realisable value **(2)**, therefore stock must be valued at net realisable value as this is now lower than cost. Application of the prudence concept **(1)**.
Up to 3 marks.

Item (vii) Stock valuation should only include goods that will be sold to customers **(1)**.
The cleaning materials are for use in the factory and therefore should not be recorded as stock for resale **(1)**.
The business was correct in not including cleaning materials in its stock valuation **(1)**.
Up to 3 marks. **[6]**

(c) Lack of financial control.
Inaccurate and/or incomplete knowledge of the business's financial position.
Inability to chase debtors due to lack of current information.
Lack of up to date information on cash-flow, sales revenue and profitability.
Risk of not paying creditors on time; creditors may retaliate eg by stopping further supplies.
Difficulties with forward planning or obtaining external finance.

To achieve maximum marks candidates are expected to consider at least ***three*** *issues. Maximum 4 marks for analysis and maximum 6 marks for evaluation.* **[10]**

Total marks [30]

Accounting Adjustments and Statements: Accounting Adjustments

2501 Jun 2007 Sarah Star Question 1

1 Sarah Star has an accounting year ended 30 April 2007. Due to staff shortages the usual physical stock-taking did not take place until after close of business on 10 May 2007. At that date the stock was valued at £154 600.

The selling price on all goods is based on cost plus 20%.

The following information is also available.

(i) Goods costing £15400 were delivered to the business during the period 1–10 May 2007.

(ii) Sales invoices for goods despatched to customers during the period 1-10 May amounted to £37 500.

(iii) During the period 1-10 May 2007 customers returned goods at a selling price of £2400 to Sarah Star.

(iv) On 5 May 2007 Sarah Star took goods with a selling price of £750 for her own personal use.

(v) On 8 May 2007 Sarah Star received a batch of free samples. These have been included in the stock valuation at the list price of £65.

REQUIRED

(a) A detailed statement of the closing stock value for the final accounts as at 30 April 2007. [12]

(b) An explanation of the treatment of items **(ii)** and **(iv)** including reference, in each case, to the appropriate accounting concept. [6]

Total marks [18]

Accounting Adjustments and Statements: Accounting Adjustments

2501 Jun 2007 Sarah Star Question 1 Mark scheme

1 (a)

<u>Statement to show corrected stock value as at 30 April 2007</u>

	Increase		Decrease			
Valuation of stock 10 May 2007					154,600	**(1)**
Purchases			15,400	**(1)**		
Sales	31,250	**(2)**				
Sales returns			2,000	**(2)**		
Drawings	625	**(2)**				
Free samples			65	**(1)**		
	31,875		17,465			
Net increase					14,410	
Revised stock valuation as at 30 April 2007 **(1)**					169,010	**(2) (1 of)**

[12]

(b)
Item (ii)
Stock valuation is increased by £31,250 as the stock was sold during the period 1 – 10 May and, therefore, Sarah Star would have had these items in stock on 30 April 2007, but they would not have been in stock on 10 May 2007 when the stock-take took place.
Stock should be valued at the lower of cost or net realisable value, therefore, the selling price needs to be adjusted to the cost price.
Prudence concept applies as assets should be valued at the lower value.
Realisation concept applies as profit should not be realised before the stock is sold.

Item (iv)
The goods were not in stock on 10 May 2007 when stock-take took place, but they would have been in stock on 30 April 2007 if stock-take has been conducted. Therefore, stock should be increased by the cost price of £625.
Stock should be valued at the lower of cost or net realisable value.
The goods are for own personal use by the owner.
This is an application of the business entity concept, where the owner's personal transactions need to be kept separate from those of the business.
Application of the prudence concept where assets should be valued at their lower value.

(2 points x 3 marks)
(1 for correct identification of concept and up to 2 marks for explanation)

[6]
Total marks [18]

Accounting Adjustments and Statements: Accounting Adjustments

2501 Jan 2006 Murdoch Question 2

2 Murdoch Limited had an accounting year ended 31 December 2005. Owing to illness, the monthly stocktaking due on 31 December 2005 did not take place. The stock valuation at 30 November 2005 was £42 000. The following information should be taken into account in order to calculate the stock valuation for the final accounts. All goods have a mark up of 20%.

(i) On 3 December 2005 a small fire destroyed goods on display with a selling price of £240.

(ii) Total sales invoices sent to customers during December 2005 amounted to £18 000 of which £3 600 related to sales despatched to customers during November 2005 and were correctly accounted for in the stock valuation at 30 November 2005.

(iii) Of the sales made in December 2005, a customer returned goods which had been sold for £960.

(iv) Murdoch Limited returned goods costing £1 200 to suppliers during December 2005.

(v) Goods at a cost price of £1 000 supplied to Murdoch Limited on a sale or return basis had been included in the stock valuation at 30 November 2005. This range of stock had not sold and was returned by Murdoch Limited to its supplier during December 2005.

REQUIRED

(a) A detailed statement showing the closing stock valuation as at 31 December 2005. [12]

(b) Advise Murdoch Limited how it could reduce its stock holding costs. [6]

Total marks [18]

Accounting Adjustments and Statements: Accounting Adjustments

2501 Jan 2006 Murdoch Question 2 Mark scheme

2 (a) Statement to show the closing stock valuation as at 31 December 2005 **(1)**

		Increase		Decrease		
	Valuation 30 November 2005					42,000
(i)	Fire loss			200	**(2)**	
(ii)	Invoices			12,000	**(3)**	
(iii)	Sales returns	800	**(2)**			
(iv)	Purchase returns			1,200	**(1)**	
(v)	Sale or return			1,000	**(2)**	
	Net decrease	800		14,400		13,600
	Valuation 31 December 2005					28,400 **(1)**

[12]

(b) Maintain stock levels to meet requirements from customers by operationg a just in time system.

Minimum stock levels would reduce the cost of holding the stock in the warehouse.

The use of economic order quantities.

Computer electronic point of sale systems and more efficient stock management.

(3 x 2 marks)
(1 for point plus 1 for development) **[6]**

Total marks [18]

Accounting Adjustments and Statements: Accounting Adjustments

2501 Jan 2005 Curtis Question 1

1 Curtis Ltd had an accounting year ended 31 December 2004. Owing to staff problems stocktaking was not undertaken until after the close of business on 5 January 2005 when stock was valued at £92 000. The selling price of all goods is based upon cost plus a mark up of 25%.

The following information is also available.

- **(I)** Goods included in the stock valuation at a cost price of £2 500 were out of date on 31 December 2004 and had a saleable value of £1 800.
- **(II)** On 2 January 2005 goods with a selling price of £5 000 were despatched to customers.
- **(III)** On 3 January 2005 goods with a selling price of £1 250 were taken for the private use of the owner of the business.
- **(IV)** On 3 January 2005 a supplier sent a free sample to Curtis Ltd which was included in the stock valuation at the cost price of £400.

REQUIRED

- **(a)** A detailed statement of the closing stock valuation for the final accounts as at 31 December 2004. [12]
- **(b)** Assess the advantages a computerised system for sales and purchases could bring to Curtis Ltd. [6]

Total marks [18]

Accounting Adjustments and Statements: Accounting Adjustments

2501 Jan 2005 Curtis Question 1 Mark scheme

Question 1

(a) Statement to show the corrected stock value as at 31 December 2004 **(1)**

Valuation 5 January 2005				92 000	**(1)**
	Increase	Decrease			
Scrap		700	**(2)**		
Sales	4 000 **(2)**				
Drawings	1 000 **(2)**				
Free Samples	_____	400	**(2)**		
	5000	1 100			
Net increase				3900	
Revised stock valuation				95 900	**(2)(1 of)**

[12]

(b)

- Integrated system updates everytime a transaction is made.
- Once the invoice is raised stock levels would fall and the sales ledger is updated.
- The system would show if there is enough stock to meet customers orders.
- Sales order processing allows an order to be placed into the system and avoids overdue orders.
- Print outs can be made showing outstanding orders.
- Purchase order processing allows printing of purchase requisitions and orders to suppliers.
- When orders are issued the purchase ledger is updated. Printouts can be made showing dates and amounts due to suppliers.

(3 points x 2 marks) **[6]**
(1 for point plus 1 for development)

Total marks [18]

Accounting Adjustments and Statements: Accounting Adjustments

2501 Jan 2003 Polar Question 2

2 Polar Trading has an accounting year ended 30 November 2002. At the end of November each year the storekeeper carries out stocktaking to calculate the closing stock value. However, he was taken ill, and the stock was not counted until after close of business on 12 December 2002. At that date the stock was valued at £95 000. The selling price of all goods is based on a 20% mark up on cost.

The information below is also available.

(i) Included in the stock valuation were goods at a cost of £1 000. These goods had been damaged during storage and were worth £100 as scrap value.

(ii) Sales invoices for goods despatched to customers during the period 1–12 December 2002 amounted to £12 000.

(iii) During the period 1–12 December 2002, returns from customers at selling price, were £2 400. Returns to suppliers amounted to £800.

(iv) Goods with a selling price of £600 were taken from stock by the owner of the business on 5 December for his own personal use.

(v) On 5 December 2002 Polar Trading was sent a batch of free samples. These were included in the stock valuation at list price of £200.

REQUIRED

(a) A detailed statement of the closing stock valuation as at 30 November 2002. [16]

(b) Discuss **two** advantages a computerised stock system would bring to a retail business such as Polar Trading. [8]

Total marks [24]

Accounting Adjustments and Statements: Accounting Adjustments

2501 Jan 2003 Polar Question 2 Mark scheme

2 (a)

Statement of closing stock valuation as at 30 November 2002 **(1)**

	+		-			
Original valuation 12 December 2002					95,000	**(1)**
Stock loss (1,000-100)			900	**(2)**		
Sales	10,000	**(2)(1 of)**				
Sales returns			2,000	**(2)(1 of)**		
Purchase returns	800	**(2)(1 of)**				
Drawings	500	**(2)(1 of)**				
Free samples			200	**(2)(1 of)**		
	11,300		3,100			
Net increase					8,200	
Revised stock valuation					103,200	**(2)(1 of)**

[16]

(b) Electronic point of sale systems – an integrated computerised system that updates stock from the point of sale as used by supermarkets.

Instant access to stock holdings – with online system number of units in stock is known.

Stock levels – will show minimum stock levels and the re-order quantity required.

Just in time systems – allows the business to hold enough stock to meet orders by customers and will reduce the cost of holding stock.
(2 x 4 marks)
(1 for point plus up to 3 for development) **[8]**

Total marks [24]

Accounting Adjustments and Statements: Accounting Adjustments

2501 Jun 2002 Solanki and Freeman Question 2

2 Solanki and Freeman's accounting year ended 30 April 2002. Owing to staff shortages the usual stocktaking was not undertaken until after the close of business on 7 May 2002, when the stock was valued at £175 000. The selling price of all goods is based upon cost plus a mark up of 20%.

The following information is also available.

(i) Goods with a sales value of £2400 which had been delivered to customers before the financial year end, were returned from customers during the period 1–7 May 2002.

(ii) Goods included in the stock valuation at cost price of £5000 were out of date on 30 April 2002 and had a saleable value of £600.

(iii) On 4 May 2002 goods with a selling price of £7200 were despatched to customers.

(iv) Goods with a selling price of £960 were withdrawn from stock on 5 May 2002 for the private use of Solanki.

(v) Goods at a cost of £5800 were ordered from suppliers during the period 1–7 May 2002. Of these, £3000 had been received and included in the stock valuation. The outstanding balance had not been received by 7 May 2002.

(vi) On 2 May a supplier sent Solanki and Freeman a free sample. This had been included in the stock valuation at a cost price of £700.

REQUIRED

(a) A detailed statement of the closing stock valuation for the final accounts as at 30 April 2002. [19]

(b) Assess **three** advantages a computerised system of stock control would bring to a business such as Solanki and Freeman. [9]

Total marks [28]

Accounting Adjustments and Statements: Accounting Adjustments

2501 Jun 2002 Solanki and Freeman Question 2 Mark scheme

2 (a) Statement of closing stock valuation as at 30 April 2002 **(1)**

Original stock valuation						175,000	**(1)**
		Inc		Dec			
(i)	Sales returns			2,000	**(3) (1 of)**		
(ii)	Stock loss			4,400	**(2)**		
(iii)	Sales	6,000	**(3) (1 of)**				
(iv)	Drawings	800	**(3) (1 of)**				
(v)	Purchases			3,000	**(2)**		
(vi)	Free sample			700	**(2)**		
		6,800		10,100			
	Net decrease					(3,300)	
	Revised stock valuation					171,700	**(2)(1of)**

[19]

(b) Instant stock valuation on screen
Electronic point of sale systems
Re-order quantities
Minimum and maximum stock levels
Integrated stock packages Sage accounting
Just in Time methods of stock
Economic order quantities
(3 x 3 marks)
(1 for point plus up to 2 for development) **[9]**

Total [28]

Accounting Adjustments and Statements: Accounting Adjustments

2500 Jun 2005 Lyndon Stephens Question 2

2 Lyndon Stephens commenced business on 1 January 2003. The following net profits were reported for the first two years of business.

	£
2003	47 500
2004	53 200

Fixed asset transactions during this period were:

<u>Premises</u>
£120 000 bought on 1 January 2003

<u>Equipment</u>
£30 000 bought on 1 April 2003
£40 000 bought on 1 January 2004

There were no disposals.

Depreciation policies in 2003 and 2004 were:

<u>Premises</u>
Straight line method based on a life of 50 years. No residual value is expected.

<u>Equipment</u>
Reducing balance method at the rate of 20% per annum. The rate is applied for each proportion of a year for which equipment is owned.

Early in 2005 consideration was given to using the straight line method of depreciation on all fixed assets. A rate of 10% per annum on cost would be applied to equipment, with this rate being charged for each proportion of a year for which equipment is owned.

No change would be made to the depreciation rate on premises.

Accounting Adjustments and Statements: Accounting Adjustments

2500 Jun 2005 Lyndon Stephens Question 2 Mark scheme

2 (a)

	2003		2004	
Premises	2,400	**(1)**	2,400	**(1)**
Equipment	4,500	**(2)**	5,100	**(2)**
			8,000	**(1)**
			13,100	

[7]

(b)

	2003		2004	
Equipment	2,250	**(3)**	3,000	**(1)**
			4,000	**(1)**
			7,000	

[5]

(c)

	2003		2004	
Original net profit	47,500	**(1)**	53,200	**(1)**
Add back	4,500		13,100	
	52,000		66,300	
Less	2,250		7,000	
Revised net profit	49,750	**(2)**	59,300	**(2)**

[6]

(d) Costs should be spread evenly over life.
Each year should carry a fair share of expenses.
Charge made in Profit and Loss. Accruals concept.

Assets should be correctly valued in Balance Sheet.
Cost less total depreciation to date gives written down value. Prudence concept.

(2 x 3 marks)
(1 for point plus up to 2 for development) **[6]**

Total marks [24]

Accounting Adjustments and Statements: Accounting Adjustments

2500 Jun 2001 Restbay Question 3

3 Restbay Limited commenced in business on 1 January 1999 and reported the following net profits during its first two years in business:

	£
1999	125,600
2000	135,140

During this period the following fixed assets were purchased on the dates shown:

Motor Vehicles		£
MV1	1 January 1999	22,000
MV2	1 July 1999	31,200
Machinery		
MC1	1 January 1999	50,000
MC2	1 October 1999	65,200

Restbay Limited had a policy to depreciate motor vehicles at 15% per annum on cost, and machinery at 20% per annum on cost, rates being charged for each proportion of a year.

Early in 2001, consideration was given to changing to the reducing balance method, with the following rates applying to the balance at the end of the year, a full year being charged irrespective of time of purchase:

Motor Vehicles 20%   Machinery 25%

REQUIRED

(a) Calculate the total depreciation for each type of asset (motor vehicles and machinery) in 1999 and 2000, using the original method and rates selected by the company. [10]

(b) Calculate the total depreciation for each type of asset (motor vehicles and machinery) in 1999 and 2000, using the alternative method and rates being considered by the company. [6]

(c) Prepare a statement to show the net profit which would have been reported in 1999 and 2000, if the reducing balance method had been in use. [6]

(d) Explain the application of **three** relevant accounting concepts when providing for depreciation in the final accounts. [12]

Total marks [34]

Accounting Adjustments and Statements: Accounting Adjustments

2500 Jun 2001 Restbay Question 3 Mark scheme

1 **(a)** **(i)** B/E = $\frac{300,000}{12}$ = 25,000 **(2)**

(ii)

Contribution	12	**(1)**
x Qty	80,000	
	960,000	
Fixed costs	300,000	**(1)**
Profit	660,000	**(2)**

[6]

(b)

SP	23	15Q - 300,000 = 660,000
VC	8	
Cont	15	Q = $\frac{960,000 \textbf{ (1)}}{15 \textbf{ (1)}}$ = 64,000 **(1)**

SP	18	10Q - 300,000 = 660,000
VC	8	
Cont	10	Q = $\frac{960,000 \textbf{ (1)}}{10 \textbf{ (1)}}$ = 96,000 **(1)**

[6]

(c)

SP	20	
VC	8.20	
Cont	11.80	
x Qty	80,000	**(1)**
	944,000	**(1)**
FC	280,000	**(1)**
Profit	664,000	**(1)**

[4]

(d) Information can be absorbed quickly
Easily understood by non-accountants
Main features emphasised

(1 mark for identification of point plus 1 for development)
(2 x 2 marks) **[4]**

[20]

Organisations

Organisations

F012 Specimen Peter Green Question 2

2 Peter Green commenced business several years ago selling jewellery. He prepared the following receipts and payments details for the year ended 31 December 2006:

	£		£
Balance b/d	3,000	Trade creditors	29,000
Receipts from debtors	83,000	Motor expenses	4,200
Capital	3,000	Rent	4,000
Loan: M Mint	8,000	Rates	2,000
		General expenses	12,000
		Wages	15,000
		Drawings	18,000

Additional information:

(i) The receipts and payments details have been prepared from the business bank account through which all receipts and payments have passed.

(ii) The loan from M Mint was received on 1 September 2006 and interest is payable at 12% per annum. The loan is for a four year period.

(iii) Discounts received from suppliers for the year ended 31 December 2006 were £1,500.

In addition to the items mentioned above, the assets and liabilities of Peter Green were as follows:

	31 December 2005	31 December 2006
	£	£
Delivery van at net book value	8,000	6,800
Stock at cost	6,000	5,500
Trade debtors	3,500	8,200
Motor expenses owing	500	900
Rent prepaid	1,000	1,500
Trade creditors	4,300	5,700

REQUIRED

(a)* The Trading and Profit and Loss Account for the year ended 31 December 2006 and the Balance Sheet as at that date. **[29]**

(b) Peter is considering the possibility of forming a partnership with his local business rival Danny Violet. State three advantages and three disadvantages of forming such a partnership. **[6]**

Total Marks [35]

F012 Specimen Peter Green Question 2 Mark scheme

2(a)*

Peter Green

Trading and Profit and Loss Account for the year ended 31 December 2006

Sales (83,000 + 8,200 – 3,500)			87,700	**[2]**
Opening Stock	6,000			
Purchases (29,000 + 5,700 + 1,500 – 4,300)	31,900	**[3]**		
	37,900			
Closing stock	(5,500)			
Cost of sales			32,400	
Gross Profit			55,300	
Discounts received			1,500	**[1]**
			56,800	
Interest	320	**[2]**		
Motor expenses (4,200 + 900 – 500)	4,600	**[2]**		
Rent (4,000 + 1,000 – 1,500)	3,500	**[2]**		
Rates	2,000	**[1]**		
General expenses	12,000			
Wages	15,000			
Depreciation on van	1,200	**[1]**		
			38,620	
Net Profit			18,180	**[1]**

F012 Specimen Peter Green Question 2 Mark scheme continued

2(a)* cont'd	Balance Sheet as at 31 December 2006						
	Fixed Assets						
	Delivery van				6,800	[1]	
	Current Assets						
	Stock			5,500			
	Debtors			8,200			
	Prepaid rent			1,500 [1]			
	Bank			12,800 [1]			
				28,000			
	Current Liabilities						
	Creditors	5,700					
	Accruals (900 + 320)	1,220	[2]				
				6,920			
	Working capital				21,080		
	Long term liabilities						
	Long-term loan				(8,000)	[1]	
					19,880		
	Financed by						
	Capital				16,700	[2]	
	Additional capital				3,000	[1]	
					19,700		
	Net Profit				18,180	[1]	
					37,880		
	Drawings				(18,000)	[1]	
					19,880		
	NB Up to an additional three marks can be awarded for the candidate's quality of written communication (numerical responses)						
							[29]

F012 Specimen Peter Green Question 2 Mark scheme continued

2(b)	Advantages: • Share the risks with the new partners. • Share workloads, flexible working. • Management cover in times of illness. • Introduction of new capital to expand the business. • Make use of any specialist skills the new partners may have. • Consolidate the market share. *3 x 1 marks* Disadvantages: • Cost of setting up new business, legal costs. • Profit sharing agreement. • The decision making process. • What effect it would have on the customers. • Liability for acts of partners. *(3 x 1 marks)*	**[6]**
	Total Marks	**[35]**

Organisations

F002 Jan 2007 Pritchard, Singh and Jones Question 2

2 Pritchard and Singh had been in partnership for a number of years. As good friends, they had never drawn up a formal partnership agreement. On 1 January 2006, the first day of the partnership's financial year, they admitted Jones as a partner. Jones paid £40 000 capital into the partnership and also brought a motor vehicle, valued at £7 000, for partnership use.

As the number of partners had increased, a formal partnership agreement was drawn up, effective from 1 January 2006. From this date:

(i) Partners share profits in the ratio Pritchard 2/5, Singh 2/5, Jones 1/5.

(ii) Interest on capital is payable at the rate of 10% on the balance of capital as shown in the partners' capital accounts at the end of each financial year.

(iii) Interest on drawings is charged at 5% on the balance of drawings as shown in the partners' current accounts at the end of each financial year.

(iv) Singh would receive a salary of £10 000 per annum.

On 1 January 2006 goodwill in the business was valued at £40 000 and the partners agreed that this would not remain in the books.

The following information relates to the year ended 31 December 2006.

		£	
Sales		2 600 000	
Sales returns		200 000	
Purchases		1 625 000	
Stock at 1 January		120 000	
Stock at 31 December		145 000	
General expenses		480 000	
Capital account balances (before goodwill) at 1 January			
	– Pritchard	120 000	
	– Singh	80 000	
Current account balances at 1 January			
	– Pritchard	17 000	Cr
	– Singh	12 000	Dr
Drawings	– Pritchard	96 000	
	– Singh	120 000	
	– Jones	35 000	

F002 Jan 2007 Pritchard, Singh and Jones Question 2 continued

REQUIRED

(a) Capital Accounts for each of the partners for the year ended 31 December 2006. [7]

(b)* The Trading and Profit and Loss and Appropriation Account for the year ended 31 December 2006. [15]

(c) Current Accounts for each of the partners for the year ended 31 December 2006. [10]

(d) The partners are considering changing their business from a partnership to a private limited company. Discuss the benefits and drawbacks to the partners of such a change. [9]

Total marks [41]

F002 Jan 2007 Pritchard, Singh and Jones Question 2 Mark scheme continued

2 (a)

Capital

	Smith	Singh	Jones		Smith	Singh	Jones
Goodwill	16,000 **(1)**	16,000	8,000 **(1)**	Bal b/d	120,000 **(1)**	80,000	
Bal c/d	124,000	84,000 **(1)**	39,000	Bank			40,000 **(1)**
	140,000	100,000	47,000	Mtr.vech			7,000 **(1)**
				Goodwill	20,000 **(1)**	20,000	
					140,000	100,000	47,000

[7]

(b)

Pritchard, Singh and Jones
Trading and Profit and Loss Account for the year ended 31 December 2006

Sales		2,600,000	
Less sates returns		200,000	
		2,400,000	**(1)**
Opening stock	120,000		
Purchases	1,625,000 **(1)**		
	1,745,000		
Closing stock	145,000		
Cost of sales **(1)**		1,600,000	
Gross profit		800,000	**(1)**
Expenses		480,000	
Net profit		320,000	**(1)**

(c)

Current

	Smith	Singh	Jones		Smith	Singh	Jones
Bal b/d		12,000**(1)**		Bal b/d	17,000		
Drawings **(1)**	96,000	120,000	35,000	Profit **(1)**	119,140	119,140	59,570
Int. on drawings **(1)**	4,800	6,000**(1of)**	1,750	Salary **(1)**		10,000	
Bal c/d	47,740**(1)**		26,720**(1of)**	Int. on capital **(1)**	12,400**(1of)**	8,400	3,900
				Bal c/d		460	
	148,540	138,000	63,470		148,540	138,000	63,470

[10]

F002 Jan 2007 Pritchard, Singh and Jones Question 2 Mark scheme continued

Appropriation:

Net profit				320,000		
Add interest on drawings	Smith	4,800	**(1)**			
	Singh	6,000				
	Jones	1,750				
				12,550		
				332,550		
Less salary - Singh				10,000	**(1)**	
				322,550		
Less interest on capital	Smith	12,400	**(1)**			
	Singh	8,400	**(1)**			
	Jones	3,900	**(1)**			
				24,700		
				297,850	**(1 of)**	
Profit share	Smith	119,140				
	Singh	119,140				
	Jones	59,570	**(2)(1 of)**			
				297,850		**[13]**

QWC **[2]**

Total marks **[15]**

(c)

Limited liability. The partners' personal assets and possessions are less likely to be at risk if the business fails to pay its debts.
Access to capital; shareholders will introduce capital into the business.
Expansion of the business; more finance available and a private limited company may be able to borrow more than a partnership.
Reporting requirements; accounts have to be lodged with the Registrar of Companies
Loss of control; shareholders will be able to exercise control over the way the business is run.

Max 3 marks for analysis and max 6 marls for evaluation, minimum of 3 advantages or disadvantages **[9]**

Total marks **[41]**

Organisations

2502 Jun 2006 Fidel and Grant Question 2

2 Fidel and Grant are in partnership as estate agents sharing profits and losses in the ratio 5:4. Interest is paid on capital at the rate of 4% per annum and charged on drawings at the rate of 6% per annum. Interest on capital and drawings are calculated on the closing balance. Salaries are paid at the rate of Fidel £8000 per annum and Grant £6000 per annum.

On 31 May 2006 the following balances were extracted from the partnership books:

	£
Commission received	112000
Rent paid	11550
Rent received	5000
Debtors	9200
Creditors	6390
Heat and light	4990
Fixtures and fittings at cost	48000
Administration salaries	38000
Insurance	1150
Provision for depreciation on fixtures and fittings	15500
Provision for doubtful debts	650
Advertising expenses	23100
Wages	8600
Capital Accounts	
Fidel	20000
Grant	16000
Drawings	
Fidel	15000
Grant	12500

Additional information:

(i) Administration salaries of £38000 include in error £3000 salary paid to Fidel and £2000 salary paid to Grant.

(ii) Insurance includes a prepayment of £600.

(iii) Advertising expenses due amounted to £1300.

(iv) Wages include an interest free loan of £500 made to an employee repayable on 31 December 2006.

(v) Depreciation is provided on fixtures and fittings at 20% per annum using the reducing balance method.

(vi) Provision for doubtful debts is to be maintained at 5% of debtors.

2502 Jun 2006 Fidel and Grant Question 2 continued

(b) Advantages:
Greater capital available.
Risk shared in wider group.
Wider range of skills and abilities with partners specialising.
Greater cover for absence, sickness, holidays etc.
Issues can be discussed with more partners.
More management capacity.

[6]

(3 x 2 marks)
(1 for point plus 1 for development)

Total marks [25]

Organisations

2502 Jun 2006 Fidel and Grant Question 2 Mark scheme

2

(a) Fidel and Grant
Profit and Loss and Appropriation Account for the year ended 31 May 2006

Commission received		112,000	**(1)**		
Rent received		5,000	**(1)**		
Decrease in provision for doubtful debts		190	**(1)**		
				117,190	
Rent		11,550	**(1)**		
Heat and light		4,990	**(1)**		
Salaries (38,000 - 5,000)		33,000	**(2)**		
Insurance		550	**(1)**		
Advertising		24,400	**(1)**		
Wages		8,100	**(1)**		
Depreciation on fixtures and fittings		6,500	**(1)**		
				89,090	
Net profit				28,100	
Add Interest on drawings	Fidel	900	**(1)**		
	Grant	750	**(1)**		
				1,650	
				29,750	
Less					
Interest on capital	Fidel	800	**(1)**		
	Grant	640	**(1)**		
				1,440	
				28,310	
Salaries	Fidel	8,000	**(1)**		
	Grant	6,000	**(1)**		
				14,000	
				14,310	
Balance of profit shared	Fidel	7,950	**(1of)**		
	Grant	6,360	**(1of)**		
				14,310	
					[19]

2502 Jun 2006 Fidel and Grant Question 2 Mark scheme continued

(b) Advantages:
Greater capital available.
Risk shared in wider group.
Wider range of skills and abilities with partners specialising.
Greater cover for absence, sickness, holidays etc.
Issues can be discussed with more partners.
More management capacity.

[6]

(3 x 2 marks)
(1 for point plus 1 for development)

Total marks [25]

Organisations

2501 Jun 2002 Michael Solder Question 3

3 Michael Soldor is a sole trader selling electrical equipment. The following details relate to his business for the year ended 31 December 2001:

Sales	£1 200 000
Mark up on cost	20%
Business expenses (including depreciation)	£50 000
Drawings	£40 000

In addition to the above the assets and liabilities for Michael Solder were as follows:

	31 December 2000	31 December 2001
	£	£
Fixed assets (net book value)	60 000	50 000
Cash	5 000	6 000
Bank	25 000	37 000
Stock	100 000	150 000
Debtors	20 000	50 000
Pre-paid business expenses	10 000	10 000
Creditors	70 000	43 000

Capital as at 31 December 2000 was £150 000.

REQUIRED

(a) Prepare the Trading and Profit and Loss Account for Michael Soldor for the year ended 31 December 2001. Show Purchases in your account. [8]

(b) Prepare the Balance Sheet as at 31 December 2001. [11]

(c) Michael is considering converting from a sole trader to a limited company. Evaluate the benefits and drawbacks of this course of action. [12]

Total marks [31]

2501 Jun 2002 Michael Solder Question 3 Mark scheme

3 **(a)** Michael Solder
Trading and Profit and Loss Account for the year ended 31 December 2001

Sales			1,200,000	**(1)**
Opening Stock	100,000	**(1)**		
Purchases	1,050,000	**(1)**		
	1,150,000			
Closing Stock	150,000	**(1)**		
Cost of Goods Sold			1,000,000	**(1)**
Gross Profit			200,000	**(1)**
Expenses	40,000	**(1)**		
Depreciation	10,000	**(1)**		
			50,000	
Net Profit			150,000	

[8]

(b) Balance Sheet as at 31 December 2001

Fixed Assets			50,000 **(1)**
Current Assets			
Stock	150,000 **(1)**		
Debtors	50,000 **(1)**		
Prepaid	10,000 **(1)**		
Bank	37,000		
Cash	6,000 **(1)**		
	253,000		
Current Liabilities			
Creditors	43,000 **(1)**		
Working Capital **(1)**		210,000	
		260,000	
Financed By			
Opening Capital	**(1)**	150,000 **(1)**	
+ Net Profit		150,000 **(1 of)**	
		300,000	
- Drawings		40,000 **(1)**	
		260,000	

[11]

2501 Jun 2002 Michael Solder Question 3 Mark scheme continued

(c) **Benefits**
Michael will enjoy the concept of limited liability.
Michael will only be liable for the amount of his shareholding.
The private of assets of Michael will be protected.
Extra capital could be raised by issuing shares.
(2 x 3 marks)
(1 for point plus up to 2 for development)

Risks
Ordinary shares are known as high risk.
Other creditors are paid before the ordinary shareholders.
Control of the business could be a problem.
Michael must own 50% of the shares to control his business.
(2 x 3 marks)
(1 for point plus up to 2 for development) **[12]**

Total [31]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

F012 Specimen Almond, Barley and Cherry Question 1

1 Almond and Barley are partners in a music shop. The partnership agreement states that Almond as manager, receives a salary of £10,000 per annum. Interest is charged at 10% on the balance of drawings at the end of the year, and interest on capital is paid to each partner at the rate of 8% per annum. The remainder of the profit being shared equally. The net profit before appropriation for the year ended 31 December 2006 was £36,940. The following information is also available:

		£		
Drawings	Almond	20,000		
	Barley	15,000		
Capital Accounts	Almond	18,000		1 January 2006
	Barley	12,500		1 January 2006
Current Accounts	Almond	600	Cr	1 January 2006
	Barley	300	Dr	1 January 2006

On 1 January 2007, Almond and Barley agreed to admit Cherry as a partner. The following was agreed between the three partners:

(i) Cherry would bring £12,000 in cash and a vehicle valued at £5,000 into the partnership as capital.

(ii) Partners will share profits two fifths Almond, two fifths Barley and one fifth Cherry.

(iii) On 31 December 2006, goodwill was valued at £20,000. Goodwill will not remain in the books of the new partnership.

(iv) On 31 December 2006, fixed assets are to be re-valued at £100,000, from their original cost of £85,000.

REQUIRED

(a) The Appropriation Account for Almond and Barley for the year ended 31 December 2006. **[7]**

(b) **(i)** The Current Accounts for Almond and Barley as at 31 December 2006. **[8]**

(ii) The Capital Accounts for Almond, Barley and Cherry as at 1 January 2007. **[10]**

(c) Explain why partnerships generally write off goodwill through the capital account rather than record it on the balance sheet. **[4]**

Total Marks [29]

F012 Specimen Almond, Barley and Cherry Question 1 continued

1(c)	It is goodwill that has been generated internally and has not been purchased, and is difficult to value objectively. Internally generated goodwill should not be capitalised (shown as an asset on the balance sheet), and should be written off at the earliest opportunity. Only goodwill that has been purchased is shown on the balance sheet. Prudent not to do so. *(2 x 2 marks)* *(1 for point plus 1 for development)* **Total Marks**	 **[4]** **[29]**

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

F002 Jan 2007 Pritchard, Singh and Jones Question 2

2 Pritchard and Singh had been in partnership for a number of years. As good friends, they had never drawn up a formal partnership agreement. On 1 January 2006, the first day of the partnership's financial year, they admitted Jones as a partner. Jones paid £40 000 capital into the partnership and also brought a motor vehicle, valued at £7 000, for partnership use.

As the number of partners had increased, a formal partnership agreement was drawn up, effective from 1 January 2006. From this date:

(i) Partners share profits in the ratio Pritchard 2/5, Singh 2/5, Jones 1/5.

(ii) Interest on capital is payable at the rate of 10% on the balance of capital as shown in the partners' capital accounts at the end of each financial year.

(iii) Interest on drawings is charged at 5% on the balance of drawings as shown in the partners' current accounts at the end of each financial year.

(iv) Singh would receive a salary of £10 000 per annum.

On 1 January 2006 goodwill in the business was valued at £40 000 and the partners agreed that this would not remain in the books.

The following information relates to the year ended 31 December 2006.

		£	
Sales		2 600 000	
Sales returns		200 000	
Purchases		1 625 000	
Stock at 1 January		120 000	
Stock at 31 December		145 000	
General expenses		480 000	
Capital account balances (before goodwill) at 1 January			
	– Pritchard	120 000	
	– Singh	80 000	
Current account balances at 1 January			
	– Pritchard	17 000	Cr
	– Singh	12 000	Dr
Drawings	– Pritchard	96 000	
	– Singh	120 000	
	– Jones	35 000	

F002 Jan 2007 Pritchard, Singh and Jones Question 2 continued

REQUIRED

(a) Capital Accounts for each of the partners for the year ended 31 December 2006. [7]

(b)* The Trading and Profit and Loss and Appropriation Account for the year ended 31 December 2006. [15]

(c) Current Accounts for each of the partners for the year ended 31 December 2006. [10]

(d) The partners are considering changing their business from a partnership to a private limited company. Discuss the benefits and drawbacks to the partners of such a change. [9]

Total marks [41]

F002 Jan 2007 Pritchard, Singh and Jones Question 2 Mark scheme continued

2 (a)

Capital

	Smith	Singh	Jones		Smith	Singh	Jones
Goodwill	16,000 **(1)**	16,000	8,000 **(1)**	Bal b/d	120,000 **(1)**	80,000	
Bal c/d	124,000	84,000 **(1)**	39,000	Bank			40,000 **(1)**
	140,000	100,000	47,000	Mtr.vech			7,000 **(1)**
				Goodwill	20,000 **(1)**	20,000	
					140,000	100,000	47,000

[7]

(b)

Pritchard, Singh and Jones
Trading and Profit and Loss Account for the year ended 31 December 2006

Sales		2,600,000	
Less sates returns		200,000	
		2,400,000	**(1)**
Opening stock	120,000		
Purchases	1,625,000 **(1)**		
	1,745,000		
Closing stock	145,000		
Cost of sales **(1)**		1,600,000	
Gross profit		800,000	**(1)**
Expenses		480,000	
Net profit		320,000	**(1)**

(c)

Current

	Smith	Singh	Jones		Smith	Singh	Jones
Bal b/d		12,000**(1)**		Bal b/d	17,000		
Drawings **(1)**	96,000	120,000	35,000	Profit **(1)**	119,140	119,140	59,570
Int. on drawings **(1)**	4,800	6,000**(1of)**	1,750	Salary **(1)**		10,000	
Bal c/d	47,740**(1)**		26,720**(1of)**	Int. on capital **(1)**	12,400**(1of)**	8,400	3,900
				Bal c/d		460	
	148,540	138,000	63,470		148,540	138,000	63,470

[10]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

F002 Jan 2007 Pritchard, Singh and Jones Question 2 Mark scheme continued

Appropriation:

Net profit				320,000		
Add interest on drawings	Smith	4,800	**(1)**			
	Singh	6,000				
	Jones	1,750				
				12,550		
				332,550		
Less salary - Singh				10,000	**(1)**	
				322,550		
Less interest on capital	Smith	12,400	**(1)**			
	Singh	8,400	**(1)**			
	Jones	3,900	**(1)**			
				24,700		
				297,850	**(1 of)**	
Profit share	Smith	119,140				
	Singh	119,140				
	Jones	59,570	**(2)(1 of)**			
				297,850		**[13]**

QWC **[2]**

Total marks **[15]**

(c)

Limited liability. The partners' personal assets and possessions are less likely to be at risk if the business fails to pay its debts.
Access to capital; shareholders will introduce capital into the business.
Expansion of the business; more finance available and a private limited company may be able to borrow more than a partnership.
Reporting requirements; accounts have to be lodged with the Registrar of Companies
Loss of control; shareholders will be able to exercise control over the way the business is run.

Max 3 marks for analysis and max 6 marls for evaluation, minimum of 3 advantages or disadvantages **[9]**

Total marks **[41]**

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2007 Sadeek, Emma and Kevin Question 2

2 Sadeek and Emma are business partners. The partnership agreement states that they share profits and losses equally. Interest is charged on drawings at the rate of 5% per annum on the balances at the end of the year. Interest is paid on capital at the rate of 8% per annum on the balances at the end of the year. Sadeek is paid a salary of £5 000 per annum. After calculating the net profit for the year ended 31 December 2006, the remaining ledger balances were as follows.

		£
Net profit		27 500
Capital Account –	Sadeek	40 000
	Emma	25 000
Current Account –	Sadeek	2 700 Cr
	Emma	400 Cr
Drawings –	Sadeek	12 000
	Emma	10 000

On 1 January 2007, Sadeek and Emma agreed to admit Kevin as a partner. At that date the goodwill was valued at £60 000. The following was agreed between the three partners.

(i) Goodwill would not remain in the books of the new partnership.

(ii) The partners would share profits and losses: one half Sadeek, one third Emma, one sixth Kevin.

(iii) Kevin would pay £15 000 into the business bank account. He would also bring stock valued at £5 500 into the partnership.

REQUIRED

(a) The Appropriation Account for Sadeek and Emma for the year ended 31 December 2006. [6]

(b) **(i)** The Current Accounts of Sadeek and Emma as at 31 December 2006. [7]

(ii) The Capital Accounts of Sadeek, Emma and Kevin as at 1 January 2007. [7]

(c) **(i)** Explain the term goodwill. [3]

(ii) Explain **two** reasons why goodwill is **not** normally recorded in the accounts of a business. [4]

Total marks [27]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2007 Sadeek, Emma and Kevin Question 2 Mark scheme

2 **(a)**

Sadeek and Emma
Appropriation Account for the year ended 31 December 2006

Net profit		27 500	
Interest on drawings			
Sadeek	600 **(1)**		
Emma	500 **(1)**		
		1 100	
		28 600	
Interest on Capital			
Sadeek	3 200**(1)**		
Emma	2 000**(1)**		
		5 200	
		23 400	
Salary Sadeek		5 000	**(1)**
		18 400	
Share of profit			
Sadeek	9 200 **(1 of)**		
Emma	9 200		
		18 400	

[6]

(b) **(i)**

Current Accounts

	Sadeek	Emma			Sadeek	Emma	
Drawings	12 000	10 000	**(1)**	Balance b/d	2 700	400	**(1)**
Int on drawings	600	500	**(1of)**	Int on cap	3 200	2 000	**(1of)**
Balance c/d **(1of)**	7 500	1 100		Salary	5 000		**(1)**
				Share	9 200	9 200	**(1of)**
	20 100	11 600			20 100	11 600	

[7]

(ii)

Capital Accounts

	Sadeek	Emma	Kevin		Sadeek	Emma	Kevin
Goodwill	30 000 **(1)**	20 000 **(1)**	10 000 **(1)**	Balance	40 000	25 000	
Balance c/d **(1of)**	40 000	35 000	10 500	Bank			15 000
				Stock			5 500
				Goodwill	30 000 **(1)**	30 000 **(1)**	
	70 000	55 000	20 500		70 000	55 000	20 500

[7]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2007 Sadeek, Emma and Kevin Question 2 Mark scheme continued

(c) **(i)** Goodwill is the value that can be obtained for the business over and above **(1)** the net asset value **(1)** as recorded in the balance sheet **(1)** of the business.

[3]

(ii) Reasons may include:

Goodwill cannot always be calculated with precision.
If based upon a skilled workforce staff may leave.
If based upon a local or national monopoly this may be broken.
If based upon location competition may reduce impact.

(1 mark for identification of reason plus 1 mark for development x 2)

[4]

Total marks [27]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jun 2006 Fidel and Grant Question 2

2 Fidel and Grant are in partnership as estate agents sharing profits and losses in the ratio 5:4. Interest is paid on capital at the rate of 4% per annum and charged on drawings at the rate of 6% per annum. Interest on capital and drawings are calculated on the closing balance. Salaries are paid at the rate of Fidel £8000 per annum and Grant £6000 per annum.

On 31 May 2006 the following balances were extracted from the partnership books:

	£
Commission received	112000
Rent paid	11550
Rent received	5000
Debtors	9200
Creditors	6390
Heat and light	4990
Fixtures and fittings at cost	48000
Administration salaries	38000
Insurance	1150
Provision for depreciation on fixtures and fittings	15500
Provision for doubtful debts	650
Advertising expenses	23100
Wages	8600
Capital Accounts	
Fidel	20000
Grant	16000
Drawings	
Fidel	15000
Grant	12500

Additional information:

(i) Administration salaries of £38000 include in error £3000 salary paid to Fidel and £2000 salary paid to Grant.

(ii) Insurance includes a prepayment of £600.

(iii) Advertising expenses due amounted to £1300.

(iv) Wages include an interest free loan of £500 made to an employee repayable on 31 December 2006.

(v) Depreciation is provided on fixtures and fittings at 20% per annum using the reducing balance method.

(vi) Provision for doubtful debts is to be maintained at 5% of debtors.

2502 Jun 2006 Fidel and Grant Question 2 continued

REQUIRED

(a) The Profit and Loss and Appropriation Account for the year ended 31 May 2006. [19]

(b) Fidel and Grant are considering increasing the number of partners in the business. Explain **three** advantages to Fidel and Grant of increasing the number of partners in the business. [6]

Total marks [25]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jun 2006 Fidel and Grant Question 2 Mark scheme

2

(a) Fidel and Grant
Profit and Loss and Appropriation Account for the year ended 31 May 2006

Commission received		112,000	**(1)**		
Rent received		5,000	**(1)**		
Decrease in provision for doubtful debts		190	**(1)**		
				117,190	
Rent		11,550	**(1)**		
Heat and light		4,990	**(1)**		
Salaries (38,000 - 5,000)		33,000	**(2)**		
Insurance		550	**(1)**		
Advertising		24,400	**(1)**		
Wages		8,100	**(1)**		
Depreciation on fixtures and fittings		6,500	**(1)**		
				89,090	
Net profit				28,100	
Add Interest on drawings	Fidel	900	**(1)**		
	Grant	750	**(1)**		
				1,650	
				29,750	
Less					
Interest on capital	Fidel	800	**(1)**		
	Grant	640	**(1)**		
				1,440	
				28,310	
Salaries	Fidel	8,000	**(1)**		
	Grant	6,000	**(1)**		
				14,000	
				14,310	
Balance of profit shared	Fidel	7,950	**(1of)**		
	Grant	6,360	**(1of)**		
				14,310	
					[19]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jun 2006 Fidel and Grant Question 2 Mark scheme continued

(b) Advantages:
Greater capital available.
Risk shared in wider group.
Wider range of skills and abilities with partners specialising.
Greater cover for absence, sickness, holidays etc.
Issues can be discussed with more partners.
More management capacity.

[6]

(3 x 2 marks)
(1 for point plus 1 for development)

Total marks [25]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2006 Sundeep and Tracy Question 2

3 Sundeep and Tracy are partners in a business. Their accounting year ended 31 December 2005. The partnership agreement states that they share profits and losses in the ratio 2:1. A salary of £9000 per annum is paid to Tracy. Interest on drawings is charged at 4% per annum on balances at the end of the year. There is no interest on capital payable.

The following balances have been extracted from the books at 31 December 2005:

	£
Capital Accounts:	
Sundeep	10 000
Tracy	6 000
Current Accounts:	
Sundeep	5 200 CR
Tracy	4 750 CR
Drawings:	
Sundeep	8 000
Tracy	15 250
Net profit	6 990

On 1 January 2006, Sundeep and Tracy agreed to admit Ravi as a partner.
The following was agreed between the three partners.

(i) On 31 December 2005, goodwill was valued at £9000. Goodwill will not remain in the books of the new partnership.

(ii) Ravi would bring £10000 in cash and £2000 in stock into the partnership as capital.

(iii) The partners would share profits and losses: one half Sundeep, one quarter Tracy, one quarter Ravi.

REQUIRED

(a) The Appropriation Account for Sundeep and Tracy for the year ended 31 December 2005. [5]

(b) (i) The Current Accounts for Sundeep and Tracy as at 31 December 2005. [5]

(ii) The Capital Accounts for Sundeep, Tracy and Ravi as at 1 January 2006. [8]

(c) Explain the significance of a debit balance on a partner's current account. [2]

(d) State the provisions of the Partnership Act 1890 which would apply in the absence of a Partnership Agreement. [5]

Total marks [25]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2006 Sundeep and Tracy Question 2 Mark scheme

3 (a) Sundeep and Tracy

Appropriation Account for the year ended 31 December 2005

Net Profit				6,990	
Interest on drawings:	Sundeep	320	**(1)**		
	Tracy	610	**(1)**		
				930	
				7,920	
Salary:	Tracy			9,000	(1)
				(1,080)	
Share of loss:	Sundeep	(720)	**(1 of)**		
	Tracy	(360)	**(1 of)**		
				(1,080)	

[5]

(b) (i) Current Accounts

	S	T			S	T	
Int on drawings	320	610	**(1of)**	Balance b/d	5,200	4,750	
Drawings	8,000	15,250	**(1)**	Salary		9,000	**(1)**
Share of loss	720	360	**(1of)**	Balance c/d	3,840	2,470	**(1of)**
	9,040	16,220			9,040	16,220	

[5]

(ii) Capital Accounts

	S		T		R			S		T		R	
Goodwill	4,500	**(1)**	2,250	**(1)**	2,250	**(1)**	Bal b/d	10,000		6,000			
Bal c/d	11,500		6,750		9,750	**(1of)**	Goodwill	6,000	**(1)**	3,000	**(1)**		
							Cash					10,000	**(1)**
							Stock					2,000	**(1)**
	16,000		9,000		12,000			16,000		9,000		12,000	

(c) A debit balance on current account shows that the partner owes the business a sum to the value of the balance.

The debit balance will have arisen where the appropriations of the business profit to the partner are less than the drawings made by the partner.
(2 x 1 mark) **[2]**

2502 Jan 2006 Sundeep and Tracy Question 2 Mark scheme cont

(d) Profits and losses shared equally
No salary
No interest on drawings
No interest on capital
Interest on loans at 5%.
(5 x 1 mark) **[5]**

Total marks [25]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 June 2005 Nasser, Laura and Brendan Question 1

1 Nasser, Laura and Brendan are partners in a firm of accountants. The partners share profits and losses in the ratio 2:2:1 respectively. Nasser is entitled to a salary of £15 000 per annum, Laura and Brendan are each entitled to a salary of £10 000 per annum. Interest is allowed on capital at the rate of 4% per annum but is not charged on drawings.

The following balances were extracted from the books at 30 April 2005.

	£	£
Capital Accounts:		
Nasser		30 000
Laura		30 000
Brendan		20 000
Current Accounts:		
Nasser		1 200
Laura		850
Brendan	400	
Drawings:		
Nasser	20 000	
Laura	20 000	
Brendan	14 000	
Fees charged to customers		142 000
Rent and rates	5 100	
Staff salaries	57 000	
Administration expenses	14 700	
Light and heat	4 600	
Office equipment	24 000	
Provision for depreciation – Office equipment		12 000
Debtors	46 500	
Creditors		9 500
Bank	39 250	
	245 550	245 550

The following additional information is available at 30 April 2005.

(i) Rent and rates include a prepayment of £300.

(ii) Administration expenses owing of £400.

(iii) Depreciation is provided on office equipment at 25% per annum using the reducing balance method.

(iv) One debt of £1 500 is to be treated as a bad debt. A provision should also be created for doubtful debts at 4% of the remaining debtors.

2502 June 2005 Nasser, Laura and Brendan Question 1 continued

REQUIRED

(a) The Profit and Loss and Appropriation Account for the year ended 30 April 2005. [14]

(b) The Balance Sheet of the partnership as at 30 April 2005. [13]

(c) State **three** advantages of a partnership as a form of business entity. [3]

Total marks [30]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 June 2005 Nasser, Laura and Brendan Q1 Mark scheme

1 (a)

Nasser, Laura and Brendan

Profit and Loss and Appropriation Account for the year ended 30 April 2005 **(1)**

Fees charged to customers		142,000	**(1)**
less			
Rent and rates	4,800 **(1)**		
Salaries	57,000 **(1)**		
Administrative expenses	15,100 **(1)**		
Light and heat	4,600 **(1)**		
Depreciation on office equipment	3,000 **(1)**		
Bad debt	1,500 **(1)**		
Provision for doubtful debts	1,800 **(1)**		
		87,800	
Net profit		54,200	
less			
Salaries			
Nasser	15,000		
Laura	10,000 **(1)**		
Brendan	10,000		
		35,000	
		19,200	
Interest on Capital			
Nasser	1,200		
Laura	1,200 **(1)**		
Brendan	800 **(1)**		
		3,200	
		16,000	
Share of Profit			
Nasser	6,400		
Laura	6,400 **(1of)**		
Brendan	3,200 **(1of)**		
		16,000	

[14]

2502 June 2005 Nasser, Laura and Brendan Q1 Mark scheme cont

(b)

Balance Sheet as at 30 April 2005

Fixed Assets					
Office equipment					9,000 **(1of)**
Current Assets					
Debtors (45 000 - 1 800)				43,200 **(2)**	
Prepaid expenses				300	
Bank				39,250	
				82,750 **(1of)**	
Current Liabilities					
Creditors				9,500	
Accrued expenses				400	
				9,900 **(1)**	
Working capital					72,850 **(1of)**
					81,850
Financed by:					
	Nasser	Laura	Brendan		
Capital	30,000	30,000	20,000		80,000 **(1)**
Current Accounts					
Opening balance	1,200	850	(400)	**(1)**	
Salaries	15,000	10,000	10,000	**(1)**	
Interest on capital	1,200	1,200	800	**(1)**	
Share of profit	6,400	6,400	3,200	**(1of)**	
	23,800	18,450	13,600		
Drawings	20,000	20,000	14,000	**(1)**	
Closing balance	3,800	(1,550)	(400)		1,850 **(1of)**
					81,850

[13]

(c)

Increased capital available.
Wider expertise.
Cover for illness or holidays.
Risk and losses shared.

(3 x 1 mark)

[3]
Total marks [30]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2005 Keilif and Mary Question 1

1 Keilif and Mary are business partners. The partnership agreement states that they share profits and losses in the ratio 3:2 respectively. A salary of £9 000 per annum is paid to Mary and interest on capital is paid to each of the partners at the rate of 6% per annum or part of a year. No interest is charged on drawings.

On 1 July 2004 it was agreed between the partners that Keilif would increase his capital by £4 000 and that Mary would reduce her capital by £2 000. The current account balances shown are after the adjustment for the capital transfer, but before the year end adjustments for drawings, interest on capital and salary.

After calculating the net profit for the year ended 31 December 2004, some of the remaining ledger balances were as follows:

		£	
Capital Account -	Keilif	10 000	
	Mary	8 000	
Current Account -	Keilif	2 200	Cr
	Mary	3 900	Dr
Net profit		12 820	
Drawings -	Keilif	3 500	
	Mary	6 350	

REQUIRED

(a) The Appropriation Account for Keilif and Mary for the year ended 31 December 2004. [7]

(b) Prepare for the year ended 31 December 2004:

(I) the Capital Accounts for Keilif and Mary. [5]

(II) the Current Accounts for Keilif and Mary. [9]

(c) Distinguish between fixed and fluctuating capital accounts. [3]

Total marks [24]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2005 Keilif and Mary Question 1 Mark scheme

Question 1
(a)

Keilif and Mary - Appropriation Account for the year ended 31 December 2004

Net Profit		12 820
Less		
Salary - Mary		9 000 **(1)**
		3 820
Interest on capital - Keilif	480 **(2)**	
- Mary	540 **(2)**	
		1 020
		2 800
Share of profit - Keilif	1 680 **(1 of)**	
- Mary	1 120 **(1 of)**	
		2 800

[7]

(b)

Capital Accounts

	Keilif	Mary		Keilif	Mary
Current A/c		2 000 **(1)**	Balance b/d	6 000 **(1)**	10 000 **(1)**
Balance c/d	10 000 **(1)**	8 000	Current A/c	4 000 **(1)**	
	10 000	10 000		10 000	10 000

[5]

Current Accounts

	Keilif	Mary		Keilif	Mary
Balance b/d		5 900 **(1)**	Balance b/d	6 200 **(1)**	
Capital A/c	4 000 **(1)**		Capital A/c		2 000 **(1)**
Drawings	3 500 **(1)**	6 350	Salary		9 000 **(1)**
Balance c/d	860	410 **(1 of)**	Int on Cap	480	540 **(1of)**
			Share of profit	1 680	1 120 **(1of)**
	8 360	12 660		8 360	12 660

[9]

2502 Jan 2005 Keilif and Mary Question 1 Mark scheme continued

(c)

- Fixed capital accounts will require the use of a separate current account for each partner.
- Fluctuating capital account is also used as a current account.
- Fixed capital accounts make it easy to make interest calculations. Fluctuating capital accounts are not easy to calculate.
- With fluctuating capital accounts partners can more easily withdraw capital intended for long term investment in the business.
- A large capital balance will cover up any warning debit balance until later than if separate accounts are maintained.

(3 x 1 mark) **Max [3]**

Total marks [24]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jun 2004 Bajit and William Question 1

1 Bajit and William are in partnership, sharing profits and losses in the ratio 3:2. Interest is paid on capital at the rate of 5% per annum and charged on drawings at the rate of 6% per annum. Bajit is paid a salary of £10 000 per annum as Manager.

On 30 April 2004 the following balances were extracted from the partnership books:

	£
Capital Accounts:	
Bajit	60 000
William	40 000
Current Accounts:	
Bajit	1 750 Cr
William	4 000 Cr
Drawings:	
Bajit	16 000
William	9 000
Fixtures and fittings at cost	28 000
Debtors	14 000
Creditors	17 250
Provision for doubtful debts	500
Stock – 1 May 2003	12 600
Sales	112 000
Purchases	48 350
Salaries	25 000
Rent and rates paid	7 500
Rent received	8 100
General expenses	20 390

The following additional information is also available at 30 April 2004:

(i) Depreciation is provided on fixtures and fittings at 15% per annum by the straight line method.

(ii) Provision for doubtful debts is to be maintained at 4% of debtors.

(iii) Stock was valued at £11 550.

(iv) Salaries contain £5 000 salary paid to Bajit.

(v) General expenses include prepaid advertising expenses of £750.

(vi) Interest on drawings is charged on the closing balances.

2502 Jun 2004 Bajit and William Question 1 continued

REQUIRED

(a) The Trading and Profit and Loss and Appropriation Account for the year ended 30 April 2004. [14]

(b) The Partners' Current Accounts for the year ended 30 April 2004. [7]

(c) **(i)** Distinguish between fixed capital accounts and fluctuating capital accounts. [4]

(ii) State **two** disadvantages to a partnership of using fluctuating capital accounts. [2]

Total marks [27]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jun 2004 Bajit and William Question 1 Mark scheme

1 (a) Bajit and William
Trading and Profit and Loss and Appropriation Account for the year ended 30 April 2004

Sales			112,000	**(1)**
Opening stock	12,600			
Purchases	48,350			
	60,950			
Closing stock	11,550			
Cost of sales			49,400	**(1)**
Gross profit			62,600	
Rent received			8,100	**(1)**
			70,700	
Salaries	20,000	**(1)**		
Rent and rates	7,500			
General expenses	19,640	**(1)**		
Depreciation	4,200	**(1)**		
Increase in provision for doubtful debts	60	**(1)**		
			51,400	
Net profit			19,300	
Interest on drawings – Bajit	960	**(1)**		
William	540	**(1)**		
			1,500	
			20,800	
Interest on capital – Bajit	3,000	**(1)**		
William	2,000	**(1)**		
			5,000	
			15,800	
Salary – Bajit			10,000	**(1)**
			5,800	
Bal of profit shared – Bajit	3,480	**(1 of)**		
William	2,320	**(1 of)**		
			5,800	

[14]

2502 Jun 2004 Bajit and William Question 1 Mark scheme cont

(b)

Current Accounts

	Bajit	William			Bajit	William	
Drawings	16,000	9,000	**(1)**	Balance b/d	1,750	4,000	**(1)**
Interest on drawings	960	540	**(1 of)**	Interest on capital	3,000	2,000	**(1 of)**
Balance c/d	1,270			Salary	10,000		**(1)**
				Share of profit	3,480	2,320	**(1 of)**
				Balance c/d		1,220	**(1 of)**
	18,230	9,540			18,230	9,540	

[7]

(c) (i) Fixed capital accounts record a fixed sum of capital which the partners agree to maintain year on year. All profits, salaries, interests on capital, drawings, are recorded in a separate Current Account.

If fluctuating capital accounts are used, all profits, drawings etc are charged to the capital account which will fluctuate on an ongoing basis and could result in a reduction in the capital contribution of a partner if drawings exceed appropriations.

(2 x 2 marks)
(1 for point plus 1 for development) **[4]**

(ii) Can lead to capital being withdrawn below the original agreed level.
Difficulty in calculating interest on capital/drawings.
Current capital balances of partners difficult to ascertain.

(2 x 1 mark) **[2]**

Total marks [27]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2004 Claire and Tariq Question 1

1 Claire and Tariq are in partnership sharing profits and losses in the ratio 2:1. Interest is paid on capital at the rate of 6% per annum, no interest is charged on drawings. Tariq is entitled to a salary of £12 000 per annum.

The following balances remained in the books of the partnership **after** the preparation of the Trading and Profit and Loss Account for the year ended 31 December 2003:

		£
Net profit		22 950
Stock – **31 December 2003**		30 500
Creditors		25 000
Cash		1 500
Provision for doubtful debts		3 800
Capital Accounts –	Claire	20 000
	Tariq	8 000
Drawings –	Claire	9 050
	Tariq	14 000
Fixed assets		40 000
Provision for depreciation on fixed assets		16 000
Prepaid expenses		3 500
Bank overdraft		15 000
Loan – repayable 31 December 2008		25 000
Current Accounts –	Claire	500 Cr
	Tariq	200 Dr
Debtors		37 500

On 30 June 2003, with the agreement of both partners, Claire brought an additional £5 000 capital into the business and Tariq withdrew £4 000 capital.

REQUIRED

(a) The Appropriation Account for the year ended 31 December 2003. [5]

(b) The Balance Sheet as at 31 December 2003. [14]

(c) **(i)** Explain the term goodwill. [3]

(ii) State **two** circumstances in which a business would record goodwill in the books of accounts. [4]

Total marks [26]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2004 Claire and Tariq Question 1 Mark scheme

1 (a) Claire and Tariq – Appropriation Account for the year ended 31 December 2003

Net profit			22 950	
Less				
Interest on capital	– Claire	1 050 **(1)**		
	– Tariq	600 **(1)**		
			1 650	
Salary – Tariq			12 000	**(1)**
			9 300	
Share of profit	– Claire	6 200 **(1 of)**		
	– Tariq	3 100 **(1 of)**		
			9 300	
				[5]

2502 Jan 2004 Claire and Tariq Question 1 Mark scheme continued

(b) Claire and Tariq – Balance Sheet as at 31 December 2003

Fixed Assets					
Sundry		40 000			
Less Provision for depreciation		16 000			
				24 000	(1)
Current Assets					
Stock		30 500			
Debtors – PDD	37 500 – 3 800	33 700	(2)		
Prepaid expenses		3 500	(1)		
Cash		1 500			
		69 200	(1)		
Current Liabilities					
Creditors		25 000			
Bank overdraft		15 000	(1)		
		40 000	(1)		
Working Capital				29 200	(1 of)
				53 200	
Long Term Liabilities					
Loan – repayable 31 December 2008				25 000	(1)
				28 200	
Financed by:					
	Claire	Tariq			
Capital	20 000	8 000		28 000	(1)
Current Accounts					
Opening Balance	500	(200)	(1)		
Interest on capital	1 050	600			
Salary		12 000			
Share of profit	6 200	3 100			
	7 750	15 500	(1 of)		
Drawings	(9 050)	(14 000)	(1)		
Closing balance	(1 300)	1 500		200	(1 of)
				28 200	

[14]

2502 Jan 2004 Claire and Tariq Question 1 Mark scheme continued

(c) **(i)** Goodwill is the value placed upon, or amount received for a business over and above **(1)** the realiseable value of the tangible assets **(1)**. It may be the result of quality of service, location, or other factor **(1).** **[3]**

(ii) Sale of a business **(2)**
Introduction or retirement of a new partner **(1)**
or change in profit sharing ratio **(2)**
(2 x 2 marks) **[4]**
(1 for point plus 1 for development)

Total marks [26]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jun 2003 Adam and Sanjay Question 1

1 Adam is the sole trader of a retail business. His accounting year ends on 31 December.

On 31 December 2002 the following balances were recorded in his ledger after preparing the Trading and Profit and Loss Account.

	£
Net profit	10 000
Drawings	12 000
Capital as at 1 Jan 2002	40 000
Vehicles	8 000
Fixtures and fittings	15 000
Stock	24 000
Debtors	4 000
Creditors	12 000
Bank overdraft	1 000

On 1 January 2003, Adam admitted Sanjay as a partner. At this date, goodwill was valued at £30 000. The following was agreed between the two partners:

(i) Goodwill will not remain in the books of the partnership.

(ii) The partners will share profits and losses: three fifths Adam, two fifths Sanjay.

(iii) Sanjay will bring a cheque for £10 000, a vehicle valued at £6 000 and stock valued at £4 000 into the partnership as capital.

REQUIRED

(a) The Capital Accounts for Adam and Sanjay as at 1 January 2003. [12]

(b) The Balance Sheet of the partnership as at 1 January 2003. [6]

(c) Outline **four** possible advantages to Adam of forming a partnership. [8]

Total marks [26]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jun 2003 Adam and Sanjay Question 1 Mark scheme

1 (a)

Capital Accounts

	Adam		Sanjay			Adam		Sanjay	
Goodwill **(1)**	18 000	**(2)(1 of)**	12 000	**(2)(1 of)**	Balance b/d **(1)**	38 000	**(3)**		
Balance c/d **(1)**	50 000		8 000		Goodwill	30 000	**(1)**		
					Bank			10 000	**(1)**
					Vehicle			6 000	
					Stock			4 000	
	68 000		20 000			68 000		20 000	

[12]

(b) Balance Sheet as at 1 January 2003

Fixed Assets				
Fixtures	15 000			
Vehicles	14 000			
			29 000	**(1)**
Current Assets				
Stock	28 000	**(1)**		
Debtors	4 000			
Bank	9 000	**(1)**		
	41 000			
Current Liabilities				
Creditors	12 000			
Working Capital			29 000	**(1 of)**
			58 000	
Financed by				
Capital – Adam	50 000	**(1 of)**		
– Sanjay	8 000	**(1 of)**		
			58 000	

(c) Greater access to capital.
Shared risk.
Wider expertise of individual partners.
Management cover in times of illness.
Somebody to discuss problems with.
Shared responsibility.

(4 x 2 marks)
(1 for point plus 1 for development) **[8]**

Total marks [26]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2003 Ashiob and Brenda Question 1

1 Ashiob and Brenda are business partners. The partnership agreement states that they share profits and losses equally. No interest is charged on drawings or paid on capital, and there are no partner's salaries. After calculating the net profit for the year ended 31 October 2002 the remaining ledger balances were as follows:

		£
Net profit		24 000
Drawings –	Ashiob	8 000
	Brenda	10 000
Capital Account –	Ashiob	40 000
	Brenda	30 000
Current Account –	Ashiob	1 000 Dr
	Brenda	2 000 Cr
Fixed Assets		75 000
Debtors		8 000
Stock		12 000
Creditors		5 000
Bank overdraft		13 000

On 1 November 2002, Ashiob and Brenda agreed to admit Trevor as a partner. At that date good will was valued at £30,000. The following was agreed between the three partners:

(i) Goodwill would not remain in the books of the new partnership.

(ii) The partners would share profits and losses: two fifths Ashiob, two fifths Brenda, one fifth Trevor.

(iii) Trevor would pay £10 000 into the partnership bank account. He would also bring fixed assets valued at £15 000 into the partnership.

REQUIRED

(a) The Appropriation Account for Ashiob and Brenda for the year ended 31 October 2002. [3]

(b) **(i)** Capital Accounts for Ashiob, Brenda and Trevor as at 1 November 2002. [13]

(ii) Balance Sheet of the new partnership as at 1 November 2002. [12]

Total marks [28]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jan 2003 Ashiob and Brenda Question 1 Mark scheme

1 (a) Appropriation Account for the year ended 31 October 2002

		£		£	
Net profit				24,000	**(1)**
less					
Share of profit	-Ashiob	12,000	**(1)**		
	-Brenda	12,000	**(1)**		
				24,000	

[3]

(b) (i)

Capital Accounts

	Ashiob	Brenda	Trevor		Ashiob	Brenda	Trevor
	£	£	£		£	£	£
Goodwill	12,000 **(1)**	12,000 **(1)**	6,000 **(2)**	Balance b/d	40,000 **(1)**	30,000 **(1)**	
				Bank			10,000 **(1)**
				Fixed Assets			15,000 **(1)**
				Goodwill **(2)**	15,000 **(1)**	15,000 **(1)**	
Balance c/d	43,000	33,000	19,000 **(1)** of				
	55,000	45,000	25,000		55,000	45,000	25,000
				Balance b/d	43,000	33,000	19,000

[13]

Alternative Answer For Goodwill:

Ashiob	£3,000 CR **(2)**
Brenda	£3,000 CR **(2)**
Trevor	£6,000 DR **(2)**

2502 Jan 2003 Ashiob and Brenda Question 1 Mark scheme cont

(b) (ii) Ashiob, Brenda and Trevor – Balance Sheet as at 1 November 2002

		£	£
Fixed Assets	75,000 **(1)** + 15,000 **(1)**		90,000 **(2)**
Current Assets			
Stock		12,000	
Debtors		8,000	
		20,000 **(1)**	
less			
Current Liabilities			
Creditors		5,000	
Bank overdraft	13,000 **(1)** – 10,000 **(1)**	3,000 **(2)**	
		8,000	
Working Capital			12,000 **(1) of**
			102,000

Financed by:

Capital:	Ashiob	Brenda	Trevor	
	43,000	33,000	19,000	95,000 **(1) of**

Current Accounts:

	Ashiob	Brenda	
O/bal **(1)**	(1,000)	2,000 **(1)**	
Profit Share	12,000	12,000 **(1)**	
	11,000	14,000	
Drawings	8,000	10,000 **(1)**	
	3,000	4,000	7,000 **(1) of**
			102,000

[12]

Total [28]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jun 2001 Amanda, Brian and Carla Question 3

3 Amanda and Brian are partners in a music shop. The partnership agreement states that Amanda receives a salary of £10,000 per annum and that interest is charged at 10% on the balance of drawings at the end of the year, with the remainder of the profit being shared equally. The net profit before appropriation for the year ended 30 April 2001 was £34,500. The following information is also available:

		£	
Drawings –	Amanda	20,000	
	Brian	15,000	
Capital Account –	Amanda	18,000	1 May 2000
	Brian	12,500	1 May 2000
Current Account –	Amanda	600 Cr	1 May 2000
	Brian	300 Dr	1 May 2000

On 1 May 2001, Amanda and Brian agreed to admit Carla as a partner. The following was agreed between the three partners:

1. On 30 April 2001, goodwill was valued at £20,000. Goodwill will not remain in the books of the new partnership.
2. The partners would share profits: two fifths Amanda, two fifths Brian, one fifth Carla.
3. Carla would bring £12,000 in cash and a vehicle valued at £5,000 into the partnership as capital.

REQUIRED

(a) The Appropriation Account for Amanda and Brian for the year ended 30 April 2001. [10]

(b) **(i)** Prepare the Capital Accounts for Amanda, Brian and Carla as at 1 May 2001.

(ii) Prepare the Current Accounts for Amanda and Brian as at 30 April 2001. [19]

(c) Explain the term **goodwill.** Why do businesses generally not record goodwill in the balance sheet? [6]

[Total: 35]

Partnership: Final Accounts of Partnerships & Revaluation and Goodwill

2502 Jun 2001 Amanda, Brian and Carla Question 3 Mark scheme

3 (a) Amanda and Brian
Appropriation Account for the year ended 30 April 2001

			£
Net Profit			34,500 **(1)**
Interest on Drawings –	Amanda	2,000 **(2)**	
	Brian	1,500 **(2)**	
			3,500
			38,000
Salary -	Amanda	10,000 **(1)**	
			10,000
			28,000
Share of Profit -	Amanda	14,000 **(2) (1of)**	
	Brian	14,000 **(2) (1of)**	
			28,000

[10]

(b)

Capital Accounts

	Amanda £	Brian £	Carla £		Amanda £	Brian £	Carla £
Goodwill	8,000**(1)**	8,000**(1)**	4,000**(1)**	Balance b/d	18,000**(1)**	12,500**(1)**	-
Balance c/d	20,000	14,500	13,000	Cash/vehicle			17,000**(1)**
				Goodwill**(2)**	10,000**(1)**	10,000**(1)**	
	28,000	22,500	17,000		28,000	22,500	17,000
				Balance b/d	20,000	14,500	13,000

Current Accounts

	Amanda £	Brian £		Amanda £	Brian £
Balance b/d		300**(1)**	Balance b/d	600**(1)**	
Drawings	20,000**(1of)**	15,000**(1 of)**	Salary	10,000**(1)**	
Interest on Drawings	2,000**(1)**	1,500**(1)**	Share of Profit	14,000**(1of)**	14,000**(1of)**
Balance c/d	2,600		Balance c/d		2,800
	24,600	16,800		24,600	16,800
Balance b/d		2,800	Balance b/d	2,600	

Total: [19]

Clubs and Societies:
Final Accounts of Clubs and Societies

Clubs and Societies: Final Accounts of Clubs and Societies

F002 Jun 2007 Merstham Question 2

2 Merstham Sailing Club has been in existence for a number of years. The Club's financial year end is 31 March. The following information is available.

		£	
<u>Balances as at 1 April 2006:</u>			
Buildings		150 000	
Depreciation of buildings		90 000	
Equipment		65 000	
Depreciation of equipment		33 280	
Accumulated fund		97 070	
Subscriptions owing		1 950	
Subscriptions in advance		2 400	
Bar creditors		600	
Bar stocks		1 530	
Bank		4 870	Dr
<u>Receipts for the year ended 31 March 2007:</u>			
Subscriptions received for:	2005/6	1 350	
	2006/7	14 400	
	2007/8	1 800	
Proceeds from annual raffle ticket sales		1 200	
Proceeds from Christmas dinner dance		2 000	
Bar sales		?	
<u>Payments for the year ended 31 March 2007:</u>			
Equipment repairs		550	
Bar purchases		13 940	
Payments to builder		22 000	
Raffle prizes		300	
Christmas dinner dance		1 150	
Insurance		800	
Buildings maintenance		630	
Heat and light		500	

Clubs and Societies: Final Accounts of Clubs and Societies

F002 Jun 2007 Merstham Question 2 continued

The Bar achieved a profit margin of 20% in the year ended 31 March 2007. All bar sales are paid into the bank. There are no bar expenses.

At 31 March 2007, bar stocks were £1 420 and bar creditors were £950. Also at this date insurance had been prepaid by £50 and £200 was owing for heat and light. No accruals or prepayments (other than subscriptions) were brought forward on 1 April 2006.

No subscriptions remained outstanding for the year ended 31 March 2007. Subscriptions for 2005/6 still outstanding at 31 March 2007 are to be treated as bad debts.

The payments to the builder represent a £20 000 extension to the buildings and £2 000 for redecoration of the existing bar.

The Club uses the straight line method of depreciation for buildings. Buildings are depreciated at a rate of 4% per annum on the balance in the buildings account at the end of the year. Equipment is depreciated at a rate of 20% per annum using the reducing balance method. No equipment was purchased or sold during the year ended 31 March 2007.

REQUIRED

(a) The Bar Trading Account for the year ended 31 March 2007. [7]

(b) The balance of the Receipts and Payments Account as at 31 March 2007. [3]

(c) The Subscriptions Account for the year ended 31 March 2007. [9]

(d)* The Income and Expenditure Account for the year ended 31 March 2007. [14]

(e) The value of the Accumulated Fund as at 31 March 2007. [2]

Total marks [35]

Clubs and Societies: Final Accounts of Clubs and Societies

F002 Jun 2007 Merstham Question 2 Mark scheme

2

(a)

Merstham Sailing Club
Bar Trading Account for the year ended 31 March 2007

Sales			18,000	**(2)**	
Opening stock	1,530				
Purchases (13,940 + 950 -600)	14,290	**(2)**			
	15,820				
Closing stock	1,420				
Cost of sales			14,400	**(1)**	
Bar profit			3,600	**(2)**	**[7]**

(b)

Receipts and Payments balance

Balance as at 1 4 06	4,870		
Add income	38,750	**(1of)**	
	43,620		
Less payments	39,870	**(1)**	
Balance as at 31 3 07	3,750	**(1of)**	**[3]**

(c)

Subscriptions Account

Balance b/d	1,950	**(1)**	Balance b/d	2,400	**(1)**
Income and Expenditure	16,800	**(2)**	Bank	17,550	**(2)**
Balance c/d	1,800	**(1)**	Bad debts	600	**(2)**
	20,550			20,550	

[9]

Clubs and Societies: Final Accounts of Clubs and Societies

F002 Jun 2007 Merstham Question 2 Mark scheme continued

(d) *

Income and Expenditure Account for the year ended 31 March 2007

Income			3,600	
Bar Profit			16,800	**(1of)**
Subscriptions			900	**(1)**
Raffle (1200 – 300)			850	**(1)**
Dinner dance (2000 – 1150)			22,150	
Expenditure				
Equipment repairs	550	**(1)**		
Insurance	750	**(2)**		
Buildings maintenance (2,000 + 630 **(1)**)	2,630			
Heat and Light	700	**(1)**		
Bad debts (Subscriptions)	600	**(1of)**		
Depreciation: Buildings	6,800	**(1)**		
Equipment	6,344	**(1)**		
			18,374	
Surplus **(1)**			3,776	**(1)**

[12]

QWC **[2]**

[14]

(e)

Accumulated fund as at 1 April 2006	97,070	
Surplus of income over expenditure	3,776	
Accumulated fund as at 31 March 2007	100,846	**(2) (1of)**

[2]

Total marks [35]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jun 2007 Knightstone Question 3

3 The following balances remained in the books of the Knightstone Sports Club as at 30 April 2007, after preparation of the Income and Expenditure Account for the year.

	£
Subscriptions in advance	298
Subscriptions in arrears	80
Bar stock	1 040
Bar creditors	300
Rent prepaid	15
Bank overdraft	167
Sports equipment at cost	6 150
Provision for depreciation – sports equipment	450
Wages accrued	35
Debtors	200
Surplus	175
Provision for doubtful debts	10

The following information is also available.

(i) Balances at 1 May 2006: Subscriptions in advance £90
Subscriptions in arrears £183

(ii) Subscriptions of £3 486 were received from members during the year.

(iii) Bad debts of £25 were incurred from subscriptions in arrears on 1 May 2006.

REQUIRED

(a) The Subscriptions Account for the year ended 30 April 2007, showing the transfer to the Income and Expenditure Account. [10]

(b) The Balance Sheet as at 30 April 2007. [15]

Total marks [25]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jun 2007 Knightstone Question 3 Mark scheme

3 **(a)**

Subscriptions Account

Balance b/d **(1)**	183	**(1)**	Balance b/d	90	**(1)**
Income and Expenditure **(1)**	3,200	**(1)**	Bank	3,486	**(1)**
Balance c/d	298	**(1)**	Bad debts	25	**(1)**
			Balance c/d **(1)**	80	**(1)**
	3,681			3,681	

[10]

Knightstone Sports Club
Balance Sheet as at 30 April 2007

Fixed Assets				
Sports equipment			5,700	**(1)**
Current Assets				
Bar stock	1,040	**(1)**		
Debtors	190	**(2)**		
Subscriptions in arrears	80	**(1)**		
Rent prepaid	15	**(1)**		
	1,325			
Current Liabilities				
Bar creditors	300	**(1)**		
Subscriptions in advance	298	**(1)**		
Wages accrued	35	**(1)**		
Bank overdraft	167	**(1)**		
	800			
Working capital			525	**(1of)**
			6,225	
Financed By				
Accumulated fund **(1)**			6,050	**(2)**
Surplus			175	**(1)**
			6,225	

[15]

Total marks [25]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2007 Loxton Question 1

1 The Loxton Sports Club prepares accounts annually on 31 December. The Receipts and Payments Account for the year ended 31 December 2006 was prepared by the treasurer as follows.

	£		£
Subscriptions received	1 850	Balance b/f	32
Competition receipts	1 617	Competition prizes	986
Annual dinner ticket sales	2 050	Annual dinner - hire of band	1 000
Donations	60	- catering	950
Deposit account	2 000	Insurance	230
Sale of equipment	160	Clubhouse maintenance	800
		New equipment	2 000
		Rent and rates	320
		Electricity	185
		Balance c/f	1 234
	7 737		7 737

The following additional information is available.

(i) The withdrawal from the deposit account was made on 1 September 2006. The deposit account pays a fixed rate of interest of 6% per annum. Interest received to 31 December 2006 had not been entered in the Receipts and Payments Account.

(ii) The remaining assets and liabilities of the Club at the beginning and end of the year were:

	1 January 2006	31 December 2006
	£	£
Clubhouse	25 000	24 500
Equipment	6 000	7 250
Rates prepaid	70	75
Rent accrued	100	–
Subscriptions due and unpaid	55	110
Subscriptions paid in advance	165	195
Deposit account	6 000	4 000

(iii) All subscriptions due and unpaid on 1 January 2006 were received in full.

(iv) During the year, equipment with a book value of £300 was sold for £160.

2502 Jan 2007 Loxton Question 1 continued

REQUIRED

(a) The Income and Expenditure Account for the year ended 31 December 2006. [16]

(b) The Balance Sheet as at 31 December 2006. [9]

(c) Explain **two** differences between an Income and Expenditure Account and a Receipts and Payments Account. [4]

Total marks [29]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2007 Loxton Question 1 Mark scheme

1 **(a)**

Loxton Sports Club
Income and Expenditure Account for the year ended 31 December 2006 **(1)**

Income					
Subscriptions	(1 850 – 55 + 165 + 110 – 195)			1 875	**(3)**
Competitions	(1 617 – 986)			631	**(1)**
Dinner dance	(2 050 – 1 000 – 950)			100	**(2)**
Donations				60	**(1)**
Interest	(240 + 80)			320	**(2)**
				2 986	
Expenditure					
Insurance		230	**(1)**		
Clubhouse maintenance		800			
Electricity		185			
Rent and rates	(320 – 100 – 75 + 70)	215	**(2)**		
Clubhouse depreciation		500	**(1)**		
Equipment		450	**(1)**		
Loss on sale		140	**(1)**		
				2 520	
Surplus				466	

[16]

2502 Jan 2007 Loxton Question 1 Mark scheme continued

(b)

Balance Sheet as at 31 December 2006

Fixed Assets				
Clubhouse			24 500	
Equipment			7 250	
			31 750	**(1)**
Current Assets				
Rates prepaid	75			
Subscriptions due	110	**(1)**		
Deposit account	4 000			
Interest due	320	**(1of)**		
Cash	1 234			
	5 739	**(1of)**		
Current Liabilities				
Subscriptions in advance	195	**(1)**		
			5 544	
			37 294	
General/Accumulated Fund **(1)**			36 828	**(1)**
Plus Surplus/Deficit **(1)**			466	**(1of)**
			37 294	
				[9]

(c)

Income and Expenditure	Receipts and Payments
Equivalent to profit and loss account	Equivalent to cash book
Matches income to expenditure	Records actual cash transactions
Estimate of depreciation recorded	Actual capital expenditure recorded

2 marks for each correct difference x 2 **[4]**

Total marks [29]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jun 2006 Westcliff Question 1

1 The Westcliff Art Club prepares accounts annually on 31 December. The Receipts and Payments Account for the year ended 31 December 2005 was as follows:

		£		£
Sale of art materials		3415	Balance b/f	145
Exhibition receipts		940	Heating and lighting	790
Subscriptions received			Insurance	65
for the year	2004	70	Purchase of art materials	1760
	2005	1140	Premises maintenance	630
	2006	85	Deposit account	400
Balance c/f		40	Exhibition expenses	380
			Rent	1120
			Equipment purchase	400
		5690		5690

Additional information:

(i) The deposit account pays a fixed rate of interest of 5% per annum. A single deposit of £400 was made into the account on 1 July 2005. There were no withdrawals made during the year. Interest due to 31 December 2005 had not been received.

(ii) The remaining assets and liabilities of the Club at the beginning and end of the year were:

	1 January 2005	31 December 2005
	£	£
Stocks of art materials	490	365
Equipment at book value	4500	4600
Subscriptions due and unpaid	95	110
Subscriptions paid in advance	160	85
Deposit account	800	1200
Rent prepaid	120	–
Rent in arrears	–	260

(iii) The Accumulated Fund at 1 January 2005 was £5700.

(iv) All subscriptions due for the year 2004 but unpaid on 31 December 2005, were considered to be bad debts.

2502 Jun 2006 Westcliff Question 1 continued

REQUIRED

(a) The Trading Account for art materials for the year ended 31 December 2005. [4]

(b) The Income and Expenditure Account for the year ended 31 December 2005. [16]

(c) The Balance Sheet as at 31 December 2005. [10]

Total marks [30]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jun 2006 Westcliff Question 1 Mark scheme

1

(a) Westcliff Art Club
Art Materials Trading Account for the year ended 31 December 2005

Sales of art materials			3,415	**(1)**
Opening stock	490			
Purchases	1,760	**(1)**		
	2,250			
Closing stock		**(1)**		
	365			
Cost of sales			1,885	
Profit on sale of materials			1,530	**(1)**

[4]

(b) Westcliff Art Club
Income and Expenditure Account for the year ended 31 December 2005

Income			
Subscriptions (1 140 + 160 + 110)	1,410	**(3)**	
Profit on exhibition (940 - 380)	560	**(2)**	
Profit on sale of art materials	1530	**(1of)**	
Interest on deposit account	50	**(2)**	
			3,550
Expenditure			
Bad debts	25	**(1)**	
Heating and lighting	790	**(1)**	
Insurance	65	**(1)**	
Premises maintenance	630	**(1)**	
Rent (1 120 + 120 + 260)	1,500	**(2)**	
Depreciation on equipment	300	**(1)**	
			3,310
Surplus **(1)**			240

[16]

2502 Jun 2006 Westcliff Question 1 Mark scheme continued

(c) Balance Sheet as at 31 December 2005

Fixed Assets				
Equipment	4,600	**(1)**		
Current Assets				
Stock of art materials	365	**(1)**		
Subscriptions in arrears	110	**(1of)**		
Deposit account interest due	50	**(1of)**		
Deposit account	1,200	**(1)**		
	1,725			
Current Liabilities				
Subscriptions in advance	85	**(1)**		
Rent in arrears	260	**(1)**		
Bank overdraft	40	**(1)**		
	385			
Working capital			1,340	
			5,940	
Financed by:				
Accumulated Fund 1 January 2005			5,700	**(1)**
Surplus			240	**(1 of)**
			5940	**[10]**

Total marks [30]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jun 2005 Midvale Question 2

2 The following Receipts and Payments Account for the year ended 30 April 2005 was prepared by the Treasurer of the Midvale Community Club.

Receipts and Payments Account

	£		£
Balance b/d	1 420	Wages – Bar	16 500
Subscriptions	20 600	– General	25 280
Bar receipts	42 000	Bar purchases	19 600
Raffle proceeds	9 870	Raffle prizes	3 600
Quiz night receipts	6 400	Light and heat	4 510
		Equipment purchase	2 000
		Sundry expenses	7 250
		Balance c/d	1 550
	80 290		80 290

The following information is also available:

(i) Balances

	1 May 2004	30 April 2005
	£	£
Equipment – book value	4 200	5 100
Bar stocks	1 580	1 760
Creditors for bar purchases	920	1 080
Subscriptions in arrears	950	730
Subscriptions in advance	1 300	1 480
Unpaid wages – Bar	400	650

(ii) Bar receipts, £360, for the year ended 30 April 2005 had not been recorded in the Receipts and Payments Account.

(iii) Subscriptions in arrears on 1 May 2004 were paid by members, with the exception of £200, which should now be treated as a bad debt.

REQUIRED

(a) The Bar Trading Account for the year ended 30 April 2005. [10]

(b) The Subscriptions Account for the year ended 30 April 2005. [9]

(c) Distinguish between a receipts and payments account and an income and expenditure account. State the purpose for which each account is prepared. [6]

Total marks [25]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jun 2005 Midvale Question 2 Mark scheme

2 (a)

Bar Trading Account for the year ended 30 April 2005 **(1)**

Sales	(42,000 + 360)		42,360 **(2)**
Opening stock		1,580 **(1)**	
Purchases	(19,600 - 920+ 1,080)	19,760 **(2)**	
		21,340	
Closing Stock		1,760 **(1)**	
		19,580	
Bar wages	(16,500 – 400 + 650)	16,750 **(2)**	
			36,330
Bar trading profit			6,030 **(1of)**
			[10]

(b)

Subscriptions Account for the year ended 30 April 2005

Balance b/d	950**(1)**	Balance b/d **(1)**	1,300
Income and Expenditure **(1)**	20,400**(1)**	Cash/Bank **(1)**	20,600 **(1)**
Balance c/d	1,480**(1)**	Bad debts	200 **(1)**
		Balance c/d	730 **(1)**
	22,830		22,830

[9]

(c)

Receipts and Payments	**Income and Expenditure**
Records actual cash transactions	Matches income and expenditure
Equivalent of cash book	Equivalent of profit and loss account
	Adjusts actual payments for prepaid/ accrued expenditure
Actual capital expenditure recorded	Estimate of depreciation recorded

(2 marks for each distinction x 2)

Reasons for use

Record and monitor cash balances	Establish surplus/deficit of income to expenditure

(1 mark for each purpose x 2)

[6]

Total marks [25]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2005 Mill Street Question 2

2 The following were the assets and liabilities of the Mill Street Tennis Club on 1 January 2004:

Assets	£
Tennis equipment, net book value	2 400
Stock of refreshments	620
Subscription for 2003 in arrears	80
4% Investment Deposit Account	5 000
Cash and Bank balance	1 200
Liabilities	
Subscriptions for 2004 received in advance	240
Accrued electricity bill	60

During the year 2004, the following summarised transactions took place.

(i) Subscriptions of £4000 were received in cash and cheques. These included £320 paid in advance for 2005. The subscription for 2003 of £80 was not collected and should now be considered a bad debt. There were no subscriptions in arrears for 2004 at 31 December 2004.

(ii) Purchases of refreshments were £1 850 and sales of refreshments £3 500. All purchases and sales of refreshments were for cash.

(iii) Stock of refreshments at 31 December 2004, £470.

(iv) Sundry expenses of £1 170 were paid by cheque.

(v) Payments for electricity of £257 were paid by cheque. It was estimated that £37 of this payment was prepaid.

(vi) Maintenance and ground staff wages of £4 500 were paid by cheque.

(vii) Interest for the full year was credited directly to the Investment Deposit Account.

(viii) A donation cheque of £50 was received from a local business.

(ix) Sales of tickets for the annual dinner dance of £2 640 were received in cash and cheques. Dinner dance expenses were £1 900, all of which had been paid by 31 December 2004.

(x) New tennis equipment was purchased on 1 April 2004 for £600 paying by cheque.

(xi) Tennis equipment is depreciated at the rate of 25% per annum using the reducing balance method. A full year's depreciation is charged irrespective of the date of purchase.

2502 Jan 2005 Mill Street Question 2 continued

REQUIRED

(a) Prepare for the year ended 31 December 2004:

- **(i)** the Receipts and Payments Account; [10]
- **(ii)** the Refreshments Trading Account; [3]
- **(iii)** the Income and Expenditure Account. [12]

(b) Explain why the depreciation of tennis equipment is an application of the accruals concept. [4]

Total marks [29]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2005 Mill Street Question 2 Mark scheme

Question 2
(a)(i)

Receipts and Payments Account

Balance b/d	1 200		Purchase of refreshments	1 850	**(1)**
Subscriptions	4 000	**(1)**	Sundry expenses	1 170	**(1)**
Sales of refreshments	3 500	**(1)**	Electricity	257	**(1)**
Donations	50	**(1)**	Expenses - dinner dance	1 900	**(1)**
Ticket sales - dinner dance	2 640	**(1)**	Tennis equipment	600	**(1)**
			Wages	4 500	**(1)**
			Balance c/d	1 113	
	11 390			11 390	

[10]

(ii)

Mill Street Tennis Club
Refreshments Trading Account for the year ended 31 December 2004

Sales		3 500 **(1)**
Opening stock	620	
Purchases of refreshments	1 850	
	2 470 **(1)**	
Closing stock	470	
Cost of sales		2 000 **(1)**
Profit on refreshments		1 500

[3]

2502 Jan 2005 Mill Street Question 2 Mark scheme continued

(iii)

Mill Street Tennis Club

Income and Expenditure Account for the year ended 31 December 2004

Income				
Subscriptions (4000 + 240 – 320)			3 920	**(2)**
Donations			50	
Interest on Investment Account			200	**(1)**
Profit on refreshments			1 500	**(1)**
Profit on dinner dance (2 640 - 1 900)			740	**(1)**
			6 410	
less				
Expenses				
Bad debt	80	**(1)**		
Sundry expenses	1 170			
Electricity (257 –60 –37)	160	**(2)**		
Depreciation (150 + 600)	750	**(2)**		
Wages	4 500			
			6 660	**(1 of) if all 5 items**
Excess of expenditure over income/Deficit			(250)	**(1of)inc narrative**

[12]

(b)

- The accrual concept seeks to match income and expenditure to an accounting period **(1).**
- Payments may require adjustment to establish the amount that is attributable to that trading period.**(1)**
- In the case of the purchase of tennis equipment, the equipment will last for several years **(1)** and therefore only a proportion of the cost should be attributed to each year **(1).**
- This is achieved through depreciating the **asset (1)** each year in that years Income and Expenditure account.**(1)**

Max [4]

Total marks [29]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jun 2004 Locking Question 2

2 The Management Committee of the Locking Sports Club is concerned that cash collected from bar trading and from subscriptions is being stolen. The Committee is therefore undertaking an investigation for the period 1 January to 31 December 2003.

The following information is available relating to the bar for the year 2003:

	£
Bar takings in cash	10 960
Bar stocks – 1 January	2 100
Bar stocks – 31 December	2 300
Purchases	8 600

The mark up on bar stock is 50%.

The following information is available relating to subscriptions for the year 2003:

	£
Subscriptions in arrears – 1 January	50
Subscriptions in advance – 1 January	150
Cash received for subscriptions – 1 January to 31 December	4 850
Subscriptions in arrears – 31 December	200
Subscriptions in advance – 31 December	150

The Locking Sports Club had 100 members throughout the year, each charged a subscription of £50 per annum. All subscriptions in arrears on 1 January 2003 were paid.

REQUIRED

(a) The Bar Trading Account for the year ended 31 December 2003. [5]

(b) Advise the Management Committee how much cash, if any, has been stolen from the bar. [6]

(c) The Subscriptions Account for the year ended 31 December 2003, showing the transfer to the Income and Expenditure Account. [8]

(d) Advise the Management Committee how much cash, if any, has been stolen from subscriptions. [3]

Total marks [22]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jun 2004 Locking Question 2 Mark scheme

2 (a) Locking Sports Club
Bar Trading Account for the year ended 31 December 2003

Sales		10,960 **(1)**
Opening stock	2,100 **(1)**	
Purchases	8,600 **(1)**	
	10,700	
Closing stock	2,300 **(1)**	
Cost of sales		8,400
Gross profit		2,560 **(1)**

[5]

(b) Cash has been stolen **(1)** Cost of sales £8,400 plus 50% = Sales £12,600 **(2 of)** less actual Sales £10,960 **(1)** = £1,640 loss **(2 of)**

[6]

(c) Subscriptions Account

Bal b/f	50 **(1)**	Bal b/f	150 **(1)**
Income and Expenditure **(1)**	5,000 **(1)**	Cash/Bank **(1)**	4,850 **(1)**
Bal c/f	150 **(1)**	Bal c/f	200 **(1)**
	5,200		5,200

[8]

(d) Cash has not been stolen **(1 of)** Subscriptions Account £5,000 **(1 of)** equals amount due from members 100 x £50 per member **(1)** **[3]**

Total marks [22]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2004 Spring Valley Question 3

3 The Spring Valley Golf Club prepares accounts annually on 31 December. The Receipts and Payments Account for the year ended 31 December 2003 was prepared by the treasurer as follows:

	£		£
Subscriptions received	28 900	Balance b/d	1 800
Transfer from deposit account	5 000	Catering for annual dinner	2 800
Playing fees from visitors	4 800	Salaries – Grounds staff	15 480
Competition entrance fees	12 400	– Administration staff	3 900
Annual dinner ticket sales	5 200	– Bar staff	8 280
Bar receipts	25 300	Bar purchases	14 650
		Competition prizes	10 850
		Heating and lighting	920
		Rent, rates and insurance	6 150
		Clubhouse extension	4 000
		Course maintenance	6 610
		Balance c/d	6 160
	81 600		81 600

The following additional information is available:

(i) The deposit account yields a fixed rate of interest of 5% per annum. The transfer of £5 000 to the Receipts and Payments Account was on 30 June 2003. Interest received to 31 December 2003 had not been entered in the Receipts and Payments Account.

(ii) The remaining assets and liabilities of the Club at the beginning and end of the year were:

	1 January 2003 £	31 December 2003 £
Clubhouse	180 000	181 000
Equipment	65 000	58 500
Deposit account	40 000	35 000
Bar stocks	2 400	2 250
Creditors – Bar purchases	–	620
– Band for annual dinner	–	500
Insurance prepaid	100	120
Rent accrued	–	1 100
Subscriptions due and unpaid	800	300
Subscriptions paid in advance	4 200	4 650

(iii) Bar staff salaries are the only expenses chargeable to the Bar Trading Account.

(iv) Subscriptions due and unpaid on 1 January 2003 were all collected.

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2004 Spring Valley Question 3 continued

REQUIRED

(a) The Bar Trading Account for the year ended 31 December 2003. [6]

(b) The Income and Expenditure Account for the year ended 31 December 2003. [24]

Total marks [30]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2004 Spring Valley Question 3 Mark scheme

3 (a)

Spring Valley Golf Club
Bar Trading Account for the year ended 31 December 2003 **(1)**

Bar receipts				25 300	**(1)**
Opening stock		2 400			
Purchases	14 650+620	15 270	**(2)**		
		17 670			
less closing stock		2 250			
Cost of Sales				15 420	
				9 880	
Salaries – Bar staff				8 280	**(1)**
Bar Trading Surplus				1 600	**(1 of)**

[6]

(b) Income and Expenditure Account for the year ending 31 December 2003

Income					
Subscriptions	(28 900+300–4 650–800+4 200)	27 950	**(5)**		
Annual Dinner	(5 200–2 800–500)	1 900	**(3)**		
Competitions	(12 400 – 10 850)	1 550	**(2)**		
Bar trading surplus		1 600	**(1 of)**		
Visitors paying fees		4 800	**(1)**		
Interest on Deposit Account		1 875	**(2)**		
				39 675	
Less					
Expenditure					
Depreciation – Clubhouse		3 000	**(2)**		
Equipment		6 500	**(1)**		
Salaries – Grounds staff		15 480			
Administration		3 900	**(1)**		
Course Maintenance		6 610			
Heat and light		920	**(1)**		
Rent, rates and insurance	(6 150+100–120+1 100)	7 230	**(3)**	43 640	
Deficit of Income to Expenditure **(1 of)**				3 965	**(1)**
				40 025	

[24]

Total marks [30]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2003 Eden Question 2

2 The summarised bank account entries of the Eden Music Society for the year ended 31 December 2002 were as follows:

Received	£	Paid	£
Balance, 1 January 2002	300	Rent of practise rooms	660
Members subscriptions	1 250	New instrument purchase	1 500
Collection at concerts	1 680	Instrument repairs	235
Bank loan	2 000	Sundry expenses	725
Raffle ticket sales	900	Raffle prize purchases	600

Additional information:

	1 January 2002 £	31 December 2002 £
Subscriptions paid in advance	75	50
Subscriptions in arrears	–	125
Instruments at cost	6 000	see note below
8% Bank loan	2 000	4 000
Stock of raffle prizes	180	220
Unbanked cash from collections	–	150

(i) Instruments are depreciated at the rate of 20% on cost per annum. A full year's depreciation is charged in the year of purchase.

(ii) A second 8% bank loan for £2,000 was obtained on 1 October 2002, part of which was used to purchase new instruments on that date.

(iii) Loan interest has not yet been recorded in the books of the Eden Music Society.

(iv) £60 rent for practise rooms was outstanding at the year end.

REQUIRED

(a) The Income and Expenditure Account for the year ended 31 December 2002. [20]

(b) **(i)** Explain the **accruals (matching)** concept. [3]

(ii) Use **one** example from the Income and Expenditure Account of Eden Music Society to outline the application of this concept. [2]

Total marks [25]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2003 Eden Question 2 Mark scheme

2 (a) Income and Expenditure Account for the year ended 31 December 2002

			£	£
INCOME				
Subscriptions	1,250 + 75 + 125 – 50 (1) (1) (1) (1)		1,400 **(4)**	
Raffles:	Receipts	900 (1)		
less	Prizes 180+600-220 = (1) (1) (1)	560	340 **(4)**	
Collections	1,680 + 150 (1) (1)		1,830 **(2)**	3,570
less				
EXPENDITURE				
Depreciation	1,200 + 300 (1) (1)		1,500 **(2)**	
Instrument repairs			235 **(1)**	
Loan interest	160 + 40 (1) (2)		200 **(3)**	
Rent	660 + 60 (1) (1)		720 **(2)**	
Sundry expenses			725 **(1)**	3,380
Excess of Income Over Expenditure/Surplus				190 **(1) of**

[20]

(b) (i) Accruals (matching): matching incomes and expenditures to the accounting period in which they have been incurred or used up, **(2)** as opposed to the periods in which they are paid. **(1)**

(ii) Examples include: Rent accrued
Depreciation
Loan interest

(1) Mark for example plus **(1)** Mark for identifying reason for adjustment. **[5]**

Total [25]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jun 2002 Hutton Question 3

3 The following balances remained in the books of the Hutton Social Club as at 31 December 2001, after preparation of the Income and Expenditure Account for the year:

	£
Subscription in arrears	215
Subscriptions in advance	85
Equipment at cost	9000
Provision for depreciation – equipment	5200
Bar stock	620
Bar creditors	1100
Debtors	500
Provision for doubtful debts	25
Expenses accrued	75
Expenses prepaid	90
Deficit of income to expenditure	560
Bank overdraft	1500

The following information is also available:

(i) Balances at 1 January 2001: Subscriptions in arrears £400
Subscriptions in advance £65

(ii) Subscriptions of £7200 were received from members for the year ended 31 December 2001.

REQUIRED

(a) The Balance Sheet as at 31 December 2001, showing the Accumulated Fund balance as at 1 January 2001. [14]

(b) The Subscriptions Account for the year ended 31 December 2001, showing the transfer to the Income and Expenditure Account. [10]

Total marks [24]

2502 Jun 2002 Hutton Question 3 Mark scheme

3 (a)

Hutton Social Club
Balance Sheet as at 31 December 2001

Fixed Assets				
Equipment at cost			9,000	
less Provision for depreciation			5,200	
			3,800	**(1)**
Current Assets				
Stock	620	**(1)**		
Debtors less provision for doubtful debts	475	**(1)**		
Subscriptions in arrears	215	**(2)**		
Prepaid expenses	90	**(1)**		
	1,400			
Current Liabilities				
Bar creditors	1,100	**(1)**		
Subscriptions in advance	85	**(2)**		
Bank overdraft	1,500	**(1)**		
Accrued expenses	75	**(1)**		
	2,760			
Working Capital			(1,360)	
			2,440	
Financed by:				
Accumulated Fund			3,000	**(2)**
Deficit of income to expenditure			(560)	**(1)**
			2,440	

[14]

(b)

Subscriptions Account

Balance b/d		400	**(1)**	Balance b/d		65	**(1)**
Income and Expd	**(1)**	6,995	**(1)**	Bank/Cash	**(1)**	7,200	**(1)**
Balance c/d	**(1)**	85	**(1)**	Balance c/d	**(1)**	215	**(1)**
		7,480				7,480	

[10]

Total [24]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2002 Newton Question 3

3 The following balances remained in the books of the Hutton Social Club as at 31 December 2001, after preparation of the Income and Expenditure Account for the year:

	£
Subscription in arrears	215
Subscriptions in advance	85
Equipment at cost	9000
Provision for depreciation – equipment	5200
Bar stock	620
Bar creditors	1100
Debtors	500
Provision for doubtful debts	25
Expenses accrued	75
Expenses prepaid	90
Deficit of income to expenditure	560
Bank overdraft	1500

The following information is also available:

(i) Balances at 1 January 2001:

	Subscriptions in arrears	£400
	Subscriptions in advance	£65

(ii) Subscriptions of £7200 were received from members for the year ended 31 December 2001.

REQUIRED

(a) The Balance Sheet as at 31 December 2001, showing the Accumulated Fund balance as at 1 January 2001. [14]

(b) The Subscriptions Account for the year ended 31 December 2001, showing the transfer to the Income and Expenditure Account. [10]

Total marks [24]

Clubs and Societies: Final Accounts of Clubs and Societies

2502 Jan 2002 Newton Question 3 Mark scheme

3 (a)

Hutton Social Club
Balance Sheet as at 31 December 2001

Fixed Assets				
Equipment at cost			9,000	
less Provision for depreciation			5,200	
			3,800	**(1)**
Current Assets				
Stock	620	**(1)**		
Debtors less provision for doubtful debts	475	**(1)**		
Subscriptions in arrears	215	**(2)**		
Prepaid expenses	90	**(1)**		
	1,400			
Current Liabilities				
Bar creditors	1,100	**(1)**		
Subscriptions in advance	85	**(2)**		
Bank overdraft	1,500	**(1)**		
Accrued expenses	75	**(1)**		
	2,760			
Working Capital			(1,360)	
			2,440	
Financed by:				
Accumulated Fund			3,000	**(2)**
Deficit of income to expenditure			(560)	**(1)**
			2,440	

[14]

(b)

Subscriptions Account

Balance b/d		400	**(1)**	Balance b/d		65	**(1)**
Income and Expd	**(1)**	6,995	**(1)**	Bank/Cash	**(1)**	7,200	**(1)**
Balance c/d	**(1)**	85	**(1)**	Balance c/d	**(1)**	215	**(1)**
		7,480				7,480	

[10]

Total [24]

Analysis and Evaluation of Accounting Statements

Analysis and Evaluation of Accounting Statements

F012 Specimen Stone and Rye Question 3

3 The following summary information relates to two businesses Stone and Rye. Both businesses traded in the same market sector for the year ended 31 December 2006.

Trading and Profit and Loss Accounts for the year ended 31 December 2006

	Stone	Rye
	£	£
Sales	600,000	600,000
Cost of sales	300,000	240,000
Gross Profit	300,000	360,000
Expenses	150,000	120,000
Net Profit	150,000	240,000

Balance Sheets as at 31 December 2006

	Stone		Rye	
	£	£	£	£
Fixed Assets		370,000		500,000
Current Assets				
Stock	30,000		50,000	
Debtors	40,000		150,000	
Cash at bank	110,000		–	
	180,000		200,000	
Current Liabilities				
Creditors	50,000		140,000	
Bank overdraft	–		60,000	
		130,000		–
		500,000		500,000
Financed by:				
Opening capital		375,000		335,000
Net profit		150,000		240,000
		525,000		575,000
Drawings		25,000		75,000
Closing capital		500,000		500,000

Additional information

Stock as at 1 January 2006	Stone	£20,000
	Rye	£46,000

F012 Specimen Stone and Rye Question 3 continued

REQUIRED

(a) Calculate the following ratios for Stone and Rye:

(i) gross profit as a percentage of sales; **[2]**

(ii) net profit as a percentage of sales; **[2]**

(iii) return on capital employed (based on closing capital); **[2]**

(iv) current ratio; **[2]**

(v) liquid (acid test) ratio; **[2]**

(vi) stock turnover. **[4]**

(b) Using the ratios calculated in **(a)** evaluate:

- the liquidity of both businesses;
- the profitability of both businesses. **[8]**

(c) Advise the managements of **both** Stone and Rye on the actions they should now take to improve liquidity and profitability. **[8]**

Total Marks [30]

Analysis and Evaluation of Accounting Statements

F012 Specimen Stone and Rye Question 3 Mark scheme

		Stone		Rose		
3(a)						
(i)	Gross profit to sales	50%	**[1]**	60%	**[1]**	**[2]**
(ii)	Net profit to sales	25%	**[1]**	40%	**[1]**	**[2]**
(iii)	Return on capital employed	30%	**[1]**	48%	**[1]**	**[2]**
(iv)	Current ratio	3.6:1	**[1]**	1:1	**[1]**	**[2]**
(v)	Liquid ratio	3:1	**[1]**	0.75:1	**[1]**	**[2]**
(vi)	Stock turnover	12 times	**[2]**	5 times	**[2]**	**[4]**

3(b)

Liquidity:
- Stock turnover of Rye is low, stock levels are nearly twice those of Stone.
- Current ratio of Stone is high with probable idle funds, Rye's ratio is low with poor credit control.
- Liquid ratio of Stone is high with substantial cash available, Rye's ratio is again low with an overdraft and substantial debts uncollected.

Profitability:
- Gross profit % of Rye is greater than Stone possible higher mark up.
- Net profit % of Rye is greater than Stone as expenses have been maintained at a lower level for the same turnover for both businesses.
- Return on capital employed is acceptable for both businesses but particularly high for Rye.

(4 x 2 marks)
(1 for point plus 1 for development)
Maximum of 4 marks for liquidity and 4 marks for profitability. **[8]**

3(c)

Advice to management of Stone:
- Stone should seek to reduce its expenses.
- Stone should consider investing some of its cash which is at present 'idle'.
- Stone's stock level has increased from £20 000 to £30 000 in one year and should therefore be reviewed.

Advice to management of Rye:
- Rye should seek to reduce its stock level and improve its stock turnover.
- Rye should institute better credit control to reduce its debtors to fund the elimination of the bank overdraft.
- Rye should seek to improve its current ratio and liquid ratio.

(4 x 2 marks)
(1 for point plus 1 for development)
Maximum of 4 marks for Stone and 4 marks for Rye **[8]**

Total Marks **[30]**

Analysis and Evaluation of Accounting Statements

2502 Jun 2007 Sanjay Question 2

2 Sanjay owns a general trading business. The following balances were extracted from his books as at 30 April 2007.

	£
Sales	300 000
Stock – 1 May 2006	18 000
30 April 2007	22 000
General expenses	36 000
Creditors	64 000
Debtors	60 000
Bank	3 000
Capital – 30 April 2007	500 000

Additional information.

- The mark up on goods is 25%.
- There were no other current assets and current liabilities at 30 April 2007.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 30 April 2007. [5]

(b) Calculate each of the following ratios:

(i) stock turnover; [2]

(ii) return on capital employed; [2]

(iii) current ratio; [2]

(iv) liquid (acid test) ratio. [2]

(Where appropriate, calculations should be made to one decimal place.)

(c) Comment upon the **profitability** and **liquidity** of the business. [6]

(d) Sanjay plans to increase his net profit in the next accounting year by increasing his rate of stock turnover.

Evaluate the circumstances in which an increase in the rate of stock turnover will result in:

(i) an increase in net profit; [4]

(ii) a decrease in net profit. [4]

Total marks [27]

Analysis and Evaluation of Accounting Statements

2502 Jun 2007 Sanjay Question 2 Mark scheme

2 (a)

Sanjay
Trading and Profit and Loss Account for the year ended 30 April 2007

Sales			300,000	
Opening stock	18,000			
Purchases	244,000	**(1of)**		
	262,000			
Closing stock	22,000			
Cost of sales			240,000	**(1)**
Gross profit			60,000	**(1of)**
General expenses			36,000	**(1)**
Net profit			24,000	**(1of)**

[5]

(b)

(i)	Stock turnover	$\frac{240,000}{20,000}$	= 12 times or 31 days	**(2)**
(ii)	Return on capital employed	$\frac{24,000}{500,000} \times 100$	= 4.8%	**(2)**
(iii)	Current ratio	$\frac{85,000}{64,000}$	= 1.3:1	**(2)**
(iv)	Liquid (acid test) ratio	$\frac{63,000}{64,000}$	= 1:1	**(2)**

[8]

Analysis and Evaluation of Accounting Statements

2502 Jun 2007 Sanjay Question 2 Mark scheme continued

(c)
Profitability:
The return on capital employed at 4.8% is very low.
This does not represent an adequate return for the risk of running the business.
The return of 4.8% could be received from alternative investments with no risk.
(3 x 1 mark)

Liquidity:
The current ratio at 1.3:1 is lower than we would expect to see in a general trading business.
This appears to be caused by high volumes of debtors and creditors.
The liquid (acid test) ratio at 1:1 is at the required level.
However, creditors are high.
The business has little cash to meet these debts.
(4 x 1 mark)
(Up to 3 marks for profitability and up to 4 marks for liquidity, max 6 marks)

[6]

(d)
(i)
Each time that stock is bought and sold the stock has 'turned over'.
Gross profit will have been made on the sales each time that the stock is 'turned over'.
The degree to which net profit will be increased will depend upon the ability of the business to maintain its' unit selling price.
Net profit will also be increased if expenses are controlled.
(2 x 2 marks)
(1 for point plus 1 for development)

[4]

(ii)
Although the rate of stock turnover may have increased, this does not guarantee that the net profit will increase. The net profit may have decreased because:
Selling price has been reduced per unit to gain increased sales.
Expenses such as marketing or distribution have been disproportionately increased to obtain extra sales.
Stock levels have been reduced leading to the danger of stock running out with a loss of potential sales.
(2 x 2 marks)
(1 for point plus 1 for development)

[4]

Total marks [27]

Analysis and Evaluation of Accounting Statements

F002 Jan 2007 Ashover and Leek Question 3

3 Ashover and Leek are two businesses that compete in the same market and have been trading for a number of years.

The following information relates to their results for the year ended 31 December 2006.

	Ashover	Leek
	£000's	£000's
Sales	4000	4600
Cost of sales	2285	2300
Net profit	960	990
Stock at 1 January	690	455
Stock at 31 December	910	435
Capital employed	2218	1733
Debtors	470	1230
Bank	50	940
Creditors	650	620

There are no other current assets or current liabilities.

REQUIRED

(a) Calculate the following ratios (to two decimal places) for each of the two businesses.

(i) Return on capital employed [2]

(ii) Gross profit as a percentage of sales [2]

(iii) Net profit as a percentage of sales [2]

(iv) Current ratio [2]

(v) Liquid (acid test) ratio [2]

(vi) Stock turnover [2]

(b)* Discuss which of the two businesses appears to be performing better. [12]

Total marks [24]

Analysis and Evaluation of Accounting Statements

F002 Jan 2007 Ashover and Leek Question 3 Mark scheme

3 (a)

		Ashover		Leek		
(i)	Return on capital employed	43.28%	**(1)**	57.13%	**(1)**	
(ii)	Net profit/sales	24.00%	**(1)**	21.52%	**(1)**	
(iii)	Gross profit/sales	42.88%	**(1)**	50.00%	**(1)**	
(iv)	Current ratio	2.2:1	**(1)**	4.2:1	**(1)**	
(v)	Liquid (acid test) ratio	0.8:1	**(1)**	3.5:1	**(1)**	
(vi)	Stock turnover	2.86	**(1)** times pa	5.17	**(1)** times pa	**[12]**

(b)

Both businesses have high rates of return on capital employed.
Leek has a higher rate of return on capital employed due to lower capital employed relative to net profit.
Ashover has higher net profit to sales %.
Leek appears to have better control over stock costs.
Ashover appears to have better control over expenses.
Both businesses have current ratios close to generally accepted minimum levels but Leek's is better.
Neither business seems to be carrying excess working capital.
Both businesses have liquid (acid test) ratios above generally accepted minimum level (1:1) but Leek is better.
Ashover has a healthier bank balance than Leek.
Ashover has a better stock turn than Leek.

Decision. Accept justified argument for either business.

Candidates are expected to consider at least ***three*** *issues. Max 6 marks for analysis plus 4 marks for evaluation.*

Max **[10]**
QWC **[2]**

Total marks **[12]**

Total marks **[24]**

Analysis and Evaluation of Accounting Statements

2502 Jan 2007 Lindsay Question 3

3 Lindsay is a general trader who buys and sells goods on credit. She has prepared her accounts for the year ended 31 December 2006.

The following balances at 31 December 2006 are available.

	£
Net profit	24 000
Debtors	22 000
Creditors	54 000
Bank	14 000
Capital Employed	60 000
Stock	18 000

There were no other current assets and current liabilities at 31 December 2006.

REQUIRED

(a) Calculate each of the following ratios:

(i) return on capital employed; [2]

(ii) current ratio; [2]

(iii) liquid (acid test) ratio. [2]

(Where appropriate, calculations should be made to two decimal places.)

(b) Comment on each of the ratios calculated in **(a)** above. [6]

(c) Lindsay has been considering the future of her business and she needs to purchase £20 000 of fixed assets immediately. There are two methods by which Lindsay might finance the purchase.

1. 30 days credit. This will result in a loss of £1 000 interest receivable for the next year;
OR
2. obtaining a £20 000 10% business loan repayable in 5 years.

Evaluate the effect on the **profitability** and **liquidity** of her business of the purchase of fixed assets by each of the **two** alternative payment methods under consideration. [12]

Total marks [24]

Analysis and Evaluation of Accounting Statements

2502 Jan 2007 Lindsay Question 3 Mark scheme

3 (a)

Return on capital employed	$\frac{24\ 000}{60\ 000} \times 100 = 40\%$	**(2)**
Current ratio	$\frac{54\ 000}{54\ 000} = 1{:}1$	**(2)**
Liquid (acid test) ratio	$\frac{36\ 000}{54\ 000} = 0.67{:}1$	**(2)**

(b)

Return on capital employed	At 40% is high **(1)** compared to other alternative investments **(1)**
Current ratio	Is lower than the norm of 1.5 to 2:1 **(1)** Need to improve ratio by controlling costs and reducing creditors **(1)**
Liquid (acid test) ratio	Is less than the accepted level of 1:1 **(1)** Need for corrective action **(1)**

[6]

(c) In Option:

1. 30 day credit		2. Business loan	
Profitability		Profitability	
Profit will be £1 000 less	**(1)**	Profit will be £2 000 less	**(1)**
Profitability will fall	**(1)**	Profitability will fall	**(1)**
Liquidity		Liquidity	
Current liabilities will rise by £20 000	**(1)**	Current assets and liabilities will remain unchanged	**(1)**
Liquidity will fall substantially	**(1)**	Liquidity will remain unaffected	**(1)**
Cash will not be available to meet debt in 30 days	**(1)**	Loan is a long term liability, not affecting short term liquidity	**(1)**

(Decision (1) plus (1) if a reason given) **[12]**

Total marks [24]

Analysis and Evaluation of Accounting Statements

2502 Jun 2006 Taylor Question 3

3 The following balances were extracted from the accounts of Taylor & Co, a general trading business, at the year ended 30 April 2006.

	£
Debtors	40 000
Stock	87 000
Bank overdraft	9000
Prepaid expenses	1000
Fixed assets	65000
Creditors	55 000
Capital	80 000

There were no other current assets or current liabilities.

Additional information:

Ratios for the year ended 30 April 2006:

	Taylor & Co	Sector Average
Gross profit as a percentage of sales	30%	40%
Net profit as a percentage of sales	5%	20%
Stock turnover	13 times	8 times
Return on capital employed	3%	12%
Current ratio		1.9:1
Liquid (acid test) ratio		1:1

REQUIRED

(a) Calculate for Taylor & Co the:

(i) current ratio; [3]

(ii) liquid (acid test) ratio. [3]

(Where appropriate, calculations should be made to one decimal place.)

(b) (i) Explain the terms liquidity and profitability . [4]

(ii) Explain why liquidity is important to a new business for its short term survival. [3]

(c) Using the ratios given, together with those calculated in part (a), evaluate the liquidity and profitability of Taylor & Co compared to the sector average. [12]

Total marks [25]

Analysis and Evaluation of Accounting Statements

2502 Jun 2006 Taylor Question 3 Mark scheme

3 (a)

Current ratio	$\frac{128,000}{64,000}$ = 2:1 **(3)**
Liquid (acid test) ratio	$\frac{41,000}{64,000}$ = 0.6:1 **(3)**

[6]

(b) (i)

Liquidity is the ability to meet the short term (current liabilities) of the business from the circulating assets (current assets) of the business.

Profitability is the return that the owner will receive against capital invested after deducting expenses from the income for a given period of time.

[4]

(2 x 2 marks
(1 for point plus 1 for development)

(ii) The continuance of the business depends upon its ability to continue trading over an extended period of time.
To enable trading to continue, stock must be sold and debts collected in order that creditors can be paid.
If creditors cannot be paid, supplies of stock will not be forthcoming and the business will close.

(3 x 1 mark) **[7]**

2502 Jun 2006 Taylor Question 3 Mark scheme continued

(c)

The current ratio is above the general benchmark for the sector of 1.9:1.
The liquid (acid test) ratio at 0.6:1 is considerably below the sector benchmark of 1:1. This is caused by a high level of stock and could lead to problems if we are unable to pay creditors in a timely manner.
The business has a bank overdraft and therefore may not have the capacity to pay creditors quickly.
Gross profit is lower than the sector. Mark up and hence selling price may have been reduced to gain sales or alternatively higher purchase prices may have been paid for goods.
Stock turnover is higher than the sector indicating that the business has reduced its selling price to gain sales. An element of over trading may be taking place.
The percentage of sales expended in expenses is greater than the sector average. These may be marketing or selling costs.
The return on capital employed is considerably below the sector average and at a level which could be considered an inadequate return on capital invested compared to other potential returns on investments.

(1 point plus up to 2 marks for development) **[12]**

Total marks [25]

Analysis and Evaluation of Accounting Statements

2502 Jan 2006 Delliton Question 1

1 The following information is available for the general trading business of Delliton for the years 2004 and 2005.

Trading and Profit and Loss Account for the year ended

	31 December 2004		31 December 2005	
	£'000	£'000	£'000	£'000
Sales		240		360
Opening stock	10		20	
Purchases	130		166	
	140		186	
Closing stock	20		26	
Cost of sales		120		160
Gross profit		120		200
Administrative expenses	40		80	
Marketing costs	20		50	
Depreciation	20		30	
		80		160
Net profit		40		40

The following information is available from the Balance Sheets:

	31 December 2004	31 December 2005
	£'000	£'000
Capital	150	220
Fixed assets	110	170
Working capital	40	50

2502 Jan 2006 Delliton Question 1 continued

REQUIRED

(a) Calculate the following ratios for each of the two years:

(I) gross profit as a percentage of sales; [4]

(II) stock turnover; [4]

(III) return on capital employed. [4]

(Where appropriate, calculations should be made to one decimal place.)

(b) Explain how a faster stock turnover can increase the profitability of a business. [4]

(c) In the year 2005, the owner of Delliton set the objective of improving the profitability of the business by increasing the level of marketing expenditure.

Using the ratios calculated in part **(a)**, together with other information available from the accounts, evaluate the success of the owner's objective to increase the profitability of the business. [12]

Total marks [28]

Analysis and Evaluation of Accounting Statements

2502 Jan 2006 Delliton Question 1 Mark scheme

1 (a)

		2004	2005	
(i)	Gross profit as percentage of sales	$\frac{120}{240} \times 100 = 50\%$ **(2)**	$\frac{200}{360} \times 100 = 55.6\%$ **(2)**	**[4]**
(ii)	Stock turnover	$\frac{120}{15}$ = 8 Times **(2)**	$\frac{160}{23}$ = 7 Times **(2)**	**[4]**
(iii)	Return on capital employed	$\frac{40}{150} \times 100 = 26.7\%$ **(2)**	$\frac{40}{220} \times 100 = 18.2\%$ **(2)**	**[4]**

(b) The calculation of stock turnover represents the number of times that, on average the stock has been sold in a given period.

Each time that stock is sold it contains a mark up/profit.

Therefore the more times that the stock is turned over, the more mark up/gross profit that will be accumulated.

If expenses do not rise disproportionately to the increase in sales, then the total of net profit will increase.

Where stock turnover is high less stock may be held resulting in reduced stock holding costs which would lead to an increase in profitability.

(4 x 1 mark) **[4]**

2502 Jan 2006 Delliton Question 1 Mark scheme continued

(c) Evaluation on profitability of the business:

The gross profit to sales has improved due to either higher prices charged to customers or improved purchasing at lower prices. The increase in marketing expenditure may have assisted the increased gross profit margin.

The stock turnover has fallen indicating that either prices have been raised to too high a level reducing sales or the stock holding has increased significantly over the period with stock levels now too high and reducing profitability.

Over the two year period stock levels have risen from £10k to £26k this will incur additional stock holding costs reducing profit.

The return on capital employed has fallen over the two years although it still remains at a healthy level.

Business expenses have doubled over the year but sales have only increased by 50%. Administrative costs have doubled reducing profitability. Investigation is required.

Although considerable marketing costs have been expended and sales increased by 50%, the net profit has not increased and the net profit to sales percentage has fallen. Overall, profitability of the business has not been improved.

(4 x 3 marks)

(1 for point up to 2 for development) **[12]**

Total Marks [28]

Analysis and Evaluation of Accounting Statements

2502 Jun 2005 Melinda Question 3

3 Melinda is reviewing the accounts of her business for the years ended 30 April 2005 and the 30 April 2005.

The following information is available:

<u>Trading and Profit and Loss Account for the year ended 30 April 2005</u>

	£	£
Sales		200 000
Opening stock	14 000	
Purchases	122 000	
	136 000	
Closing stock	16 000	
		120 000
Gross profit		80 000
less Expenses		62 000
Net profit		18 000

<u>Balance Sheet as at 31 December 2005</u>

	£	£
<u>Fixed Assets</u> (book value)		22 000
<u>Current Assets</u>		
Stock	15 000	
Debtors	41 000	
Bank	44 000	
	100 000	
<u>Current Liabilities</u>		
Creditors	50 000	
		50 000
		72 000
<u>Financed by</u>		
Capital		72 000
		72 000

Melinda has already calculated the ratios for the year ended 30 April 2004 and some of the ratios for the year ended 30 April 2005:

	30 April 2004	30 April 2005
Gross profit as a percentage of sales	45%	40%
Net profit as a percentage of sales	15%	
Return on capital employed	30%	
Stock turnover	5 times	
Current ratio	1.2:1	2:1
Liquid (acid test) ratio	0.4:1	

Analysis and Evaluation of Accounting Statements

2502 Jun 2005 Melinda Question 3 continued

REQUIRED

(a) Calculate for the year ended 30 April 2005:

- **(i)** net profit as a percentage of sales; [2]
- **(ii)** return on capital employed; [2]
- **(iii)** stock turnover; [2]
- **(iv)** liquid (acid test) ratio. [2]

(b) Explain the significance of the rate of stock turnover to a business. [3]

(c) Comment upon the sufficiency of liquidity and profitability for the business in both years. [8]

(d) Melinda needs to purchase £40 000 of fixed assets. Assess the effect on the liquidity of her business if she purchases the fixed assets making payment by:

1. 60 days credit;
2. obtaining a £40 000 business loan repayable in 5 years. [6]

Total marks [25]

Analysis and Evaluation of Accounting Statements

2502 Jun 2005 Melinda Question 3 Mark scheme

3 (a) (i) Net profit to sales percentage $\frac{18,000}{200,000} \times 100 = 9\%$ **[2]**

(ii) Return on capital employed $\frac{18,000}{72,000} \times 100 = 25\%$ **[2]**

(iii) Stock turnover $\frac{120,000}{15,000} = 8$ times **[2]**

(iv) Liquid (acid test) ratio = $\frac{85,000}{50,000} = 1.7:1$ **[2]**

Reward appropriate alternative answers.

(b)
Stock turnover is the number of times, on average, that a business will sell its stock in a given period of time **(1)**. In general, the quicker a business can turn over its stock, the greater the total gross profit that it will make **(1)** as the selling price consists of the two elements of cost and gross profit **(1)**.
(3 x 1 mark) **[3]**

(c)
Liquidity:
The liquidity of Melinda's business has improved in 2005. **(1)**
Both the current and liquid (acid test) ratios are at an acceptable level in 2005. **(1)**
In 2004 both the current ratio and liquid (acid test) ratios were at a lower level than we would wish to see. **(1)**
Melinda has a significant sum in the bank sufficient to meet creditor demands. **(1)**
The stock level is low and appears to be controlled. **(1)**
(4 x 1 mark)

Profitability:
The profitability of Melinda's business has declined in 2005. **(1)**
Net and gross profit to sales percentages and return on capital employed have declined in the year. **(1)**
The decline in the net profit to sales percentage is less than in the gross profit to sales percentage. Therefore, expenses have been controlled and probably reduced. **(1)**
The stock turnover has increased significantly in 2005.**(1)** The reduction in gross profit to sales percentage may be the result of prices being reduced to stimulate sales. **(1)**
(4 x 1 mark)

[8]

2502 Jun 2005 Melinda Question 3 Mark scheme continued

(d)
If the business pays on credit, the current assets would remain at £100 000 but the current liabilities would rise to £90 000. The current ratio would reduce to 1.1:1 and deteriorate the liquidity of the business. Within a short period the creditor must be paid in cash.
If the business borrows £40 000 to pay for the fixed asset, after payment the current assets and current liabilities will remain the same. Therefore the liquidity of the business will not be affected.
(2 x 3 marks)
(1 for point plus up to 2 for development) **[6]**

Total marks [25]

Analysis and Evaluation of Accounting Statements

2502 Jan 2005 Holt Francis Question 3

3 The following balances were extracted from the accounts of Holt Francis, a general trading business, for the year ended 31 December 2004, after the preparation of the Trading and Profit and Loss Account.

	£
Stock as at 31 December 2004	46 000
Net profit	18 000
Debtors	17 500
Provision for depreciation of fixed assets	21 000
Creditors	32 000
Bank overdraft	25 000
Capital	85 000
Drawings	8 000
Fixed assets at cost	110 000
Accrued expenses	3 000
Prepaid expenses	2 500

The following additional information is also available for the year ended 31 December 2004:

- Sales £144 000
- Gross profit £36 000

REQUIRED

(a) Prepare the Balance Sheet as at 31 December 2004. [8]

(b) Calculate the:

(i) current ratio; [2]

(ii) liquid (acid test) ratio; [2]

(iii) gross profit to sales percentage; [2]

(iv) net profit to sales percentage; [2]

(v) return on capital employed (based upon Balance Sheet Value). [2]

(Where appropriate, calculations should be made to one decimal place.)

(c) Comment upon the adequacy of the liquidity and return on capital employed of Holt Francis. [5]

(d) Explain two courses of action that Holt Francis might take to ensure that the creditors can continue to be paid in circumstances in which the bank has refused to extend the overdraft or make a loan. [4]

Total marks [27]

Analysis and Evaluation of Accounting Statements

2502 Jan 2005 Holt Francis Question 3 Mark scheme

Question 3

(a) Holt Francis

Balance Sheet as at 31 December 2004 **(1)**

Fixed Assets		
At cost	110 000	
Less Provision for Depreciation	21 000	
		89 000 **(1)**
Current Assets		
Stock	46 000	
Debtors	17 500	
Prepaid	2 500 **(1)**	
	66 000 **(1)**	
Current Liabilities		
Creditors	32 000	
Accruals	3 000 **(1)**	
Bank Overdraft	25 000 **(1)**	
	60 000	
Working Capital		6 000 **(1of)**
		95 000
Financed by		
Capital		85 000
Net profit		18 000
		103 000
Drawings		8 000
		95 000 **(1)**

[8]

(b)

Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{66\,000}{60\,000}$ = 1.1:1	**(2)**
Liquid ratio	$\frac{\text{Current Assets - Stock}}{\text{Current Liabilities}}$	$\frac{20\,000}{60\,000}$ = 0.3:1	**(2)**
Gross Profit to Sales	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	$\frac{36\,000}{144\,000} \times 100$ = 25%	**(2)**
Net Profit to Sales	$\frac{\text{Net Profit}}{\text{Sales}} \times 100$	$\frac{18\,000}{144\,000} \times 100$ = 12.5%	**(2)**
Return on Capital	$\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$	$\frac{18\,000}{95\,000} \times 100$ = 18.9%	**(2)**

[10]

Analysis and Evaluation of Accounting Statements

2502 Jan 2005 Holt Francis Question 3 Mark scheme continued

(c)

The liquidity of the business causes concern **(1)** as both the current and liquid ratios are below the accepted benchmarks for a general trading business.**(1)** The business appears to have a high stock balance **(1)** and is dependant upon the bank to meet its creditor payments **(1).**

Max 4 marks

The acceptability of the level of gross and net profit as a percentage of sales will depend upon the general trade of the business, but this does seem to be adequate **(1).** The return on capital employed at 18.9% is good **(1)** when compared to other investments **(1).**

Max 4 marks

[5]

(d)

- Sell fixed assets to raise cash.
- Bring in additional personal capital.
- Reduce stock levels.
- Press debtors for faster payment.
- Reduce drawings.
- Factor debts

(2 x 2 marks)
(1 for point plus 1 for development)

[4]

Total marks [29]

Analysis and Evaluation of Accounting Statements

2502 Jun 2004 Serjo Deli Question 3

3 Serjo Deli owns a general wholesale business. He buys and sells on credit. The following balances were extracted from the books at 30 April 2004:

	£
Sales	180 000
Purchases	85 000
Stock – 1 May 2003	20 000
Expenses	45 000
Capital – 1 May 2003	200 000
Creditors	20 000
Debtors	30 000
Bank overdraft	5 000

The value of the stock as at 30 April 2004 was £15 000. There were no other balances in the books.

REQUIRED

(a) Calculate the net profit for the year ended 30 April 2004. [3]

(b) Calculate the following ratios:

(i) net profit as a percentage of sales [2]

(ii) stock turnover [3]

(iii) return on capital employed (based on the capital as at 1 May 2003) [3]

(iv) current ratio [3]

(v) liquid (acid test) ratio. [3]

Where appropriate calculations should be to one decimal place.

(c) Advise Serjo Deli of the adequacy of the following ratios, calculated in **(b)** above, in managing his business:

(i) return on capital employed

(ii) current ratio

(iii) liquid (acid test) ratio.

[10]

(d) Outline **two** comparisons that Serjo Deli could make to assess the efficiency of his stock turnover ratio. [4]

Total marks [31]

Analysis and Evaluation of Accounting Statements

2502 Jun 2004 Serjo Deli Question 3 Mark scheme

3 (a) Serjo Deli
Trading and Profit and Loss Account for year ended 30 April 2004

Sales		180,000	**(1)**
Opening stock	20,000		
Purchases	85,000		
	105,000		
Closing stock	15,000		
Cost of sales		90,000	**(1)**
Gross profit		90,000	
Expenses		45,000	
Net profit		45,000	**(1)**

[3]

(b) (i) $\frac{\text{Net profit} \times 100}{\text{Sales}}$ $\frac{45{,}000 \textbf{ (1of)} \times 100}{180{,}000}$ = 25% **(2 of)**

(ii) $\frac{\text{COGS}}{\text{Ave stock}}$ $\frac{90{,}000 \textbf{ (1of)}}{17{,}500}$ = 5.1 times **(3 of)**

(iii) $\frac{\text{Net profit} \times 100}{\text{Capital}}$ $\frac{45{,}000 \textbf{ (1of)} \times 100}{200{,}000}$ = 22.5% **(3 of)**

(iv) $\frac{\text{Current assets}}{\text{Current liabilities}}$ $\frac{45{,}000}{25{,}000}$ = 1.8:1 **(3)**

(v) $\frac{\text{Current assets – stock}}{\text{Current liabilities}}$ $\frac{30{,}000}{25{,}000}$ = 1.2:1 **(3)**

In each ratio, **(1)** mark will be allocated for stating %, times or :1 as appropriate.

[14]

2502 Jun 2004 Serjo Deli Question 3 Mark scheme continued

(c) **(i)** Return on capital employed measures the return on every pound of investment into the business **(1).** It can be directly measured against all other potential investments **(1).** The figures of 22.5% seems adequate **(1)** but consideration must also be given to the risk inherent in this business **(1).**

(ii) In a general trading business, a current ratio of 1.4 to 2:1 **(1)** is considered sufficient **(1).** At 1.8:1 this ratio seems sufficient **(1).**

(iii) In a general trading business, an acid test ratio of 0.7 to 1:1 is considered sufficient **(1).** At 1.2:1 this ratio seems very sufficient **(1),** but the business has no cash **(1)** if creditors were to demand payment **(1).**

(10 x 1 mark) **[10]**

(d) Comparison with a benchmark turnover for that type of industry or business.
Comparison with his previous year to establish if improvement has taken place.

(2 x 2 marks)
(1 for point plus 1 for development) **[4]**

Total marks [31]

Analysis and Evaluation of Accounting Statements

2502 Jan 2004 D Kenton Question 2

2 D. Kenton owns a food wholesale business. The following balances were extracted from her books as at 31 December 2003.

	£
Stock – 1 January	45 000
– 31 December	65 000
Cost of sales	880 000
Business expenses	130 000
Creditors	100 000
Debtors	150 000
Bank overdraft	50 000
Capital – 31 December	1 125 000

There are no additional current assets or current liabilities to the balances listed above.

The mark up on goods is 25%.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2003. [4]

(b) Calculate the following ratios:

(i) net profit as a percentage of sales; [2]

(ii) return on capital employed; [2]

(iii) stock turnover; [3]

(iv) liquid (acid test) ratio. [3]

(Where appropriate, calculations should be made to one decimal place.)

(c) D. Kenton is considering expanding her business by purchasing another food wholesale business. She has obtained the following information on two possible business purchases.

	Abbey Foods	Easton Wholesalers
1. Return on capital employed	15%	6%
2. Current ratio	3.4:1	1.8:1
3. Liquid (acid test) ratio	0.5:1	1.4:1

Advise which business, if any, she should purchase on the basis of the information provided. [10]

Total marks [24]

2502 Jan 2004 D Kenton Question 2 Mark scheme

2 (a) D Kenton – Trading and Profit and Loss Account for the year ended 31 December 2003

Sales	1 100 000	**(1)**
Cost of sales	880 000	**(1)**
Gross profit	220 000	**(1)**
Business expenses	130 000	
Net profit	90 000	**(1 of)**

[4]

(b)

Net profit as a percentage of sales	Net Profit x 100 / Sales	90 000 x 100 / 1 100 000 = 8.2% **(2)(1 of)**
Return on capital employed	Net Profit x 100	90 000 x 100 = 8% **(2)(1 of)**
Stock turnover	Cost of Goods Sold / Average Stock	880 000 / 55 000 = 16 Times **(3)**
Liquid (acid test) Ratio	Current Assets – Stock / Current Liabilties	215 000–65 000 / 150 000 = 1:1 **(3)**

[10]

Analysis and Evaluation of Accounting Statements

2502 Jan 2004 D Kenton Question 2 Mark scheme

(c) Abbey Food

1. ROCE is high at 15% **(1)** and higher than D Kenton is currently obtaining **(1).**
2. Current ratio is good **(1)** and possibly too high with excess stock **(1).** Level is well in excess of D Kentons' **(1).**
3. Liquid ratio seems low for a general trading business **(1).**

(5 x 1 mark)

Easton Wholesalers

1. ROCE is low at 6% **(1)** much lower than D Kenton is currently obtaining **(1).**
2. Current ratio is good **(1)** and within the range 1.4 to 2:1 that we would expect to see **(1).**
3. Liquid ratio is high **(1)** indicating high debtors or cash **(1).**

(5 x 1 mark)

A decision about the advice which is supported by at least one rationale **(1).**

[10]

Total marks [24]

Analysis and Evaluation of Accounting Statements

2502 Jun 2003 Food and Furniture Question 3

3 Two retailing businesses trade in different markets: one in food and the other in furniture. Their accounts are as follows:

Trading and Profit and Loss Accounts
for the year ended 31 December 2002.

	Food Retailer	**Furniture Retailer**
	£000's	£000's
Sales	1 000	250
Cost of Sales	850	100
Gross Profit	150	150
Less		
Expenses	100	100
Net Profit	50	50

Balance Sheets
as at 31 December 2002.

	Food Retailer		**Furniture Retailer**	
	£000's		£000's	
Fixed Assets		75		200
Current Assets				
Stock	20		60	
Debtors	10		25	
Bank	45		5	
	75		90	
Current Liabilities				
Creditors	50		90	
	50		90	
Working Capital		25		–
		100		200
Financed By:				
Capital		100		200
		100		200

Note: Stock on 1 January 2002 was valued at:

Food Retailer	£22 500
Furniture Retailer	£40 000

Analysis and Evaluation of Accounting Statements

2502 Jun 2003 Food and Furniture Question 3 continued

REQUIRED

(a) Assess the relative importance of **liquidity** and **profitability** to the short term survival of a business. [6]

(b) Calculate the following ratios for **each** of the two businesses:

– gross profit as a percentage of sales
– liquid (acid test) ratio
– stock turnover

(Where appropriate, calculations should be made to one decimal point) [15]

(c) Compare and comment upon the relationship between the gross profit as a percentage of sales ratio and the rate of stock turnover of a food retailer and a furniture retailer. [8]

Total marks [29]

Analysis and Evaluation of Accounting Statements

2502 Jun 2003 Food and Furniture Question 3 Mark scheme

3 **(a)** Liquidity – the ability of a business to meet its short term debts. **(1)**
the ability to convert assets such as stock into cash. **(1)**
inability to convert assets such as stock into cash will result in inability to pay creditors who will cease supply in the short term. **Up to (2)**

Profitability – the surplus of income over expenditure incurred for an accounting period. **(1)**
usually shown as a rate against turnover or investment level. **(1)**
if sufficient cash to meet short term debts, business can exist in short term without being profitable. **Up to (2).**

[6]

(b)

Gross profit to sales:	$\frac{\text{Gross Profit x 100}}{\text{Sales}}$	$\frac{150 \times 100}{1{,}000} = 15\%$ **(2)**	$\frac{150 \times 100}{250} = 60\%$ **(2)**
Acid test ratio:	$\frac{\text{Current Assets – Stock}}{\text{Current Liabilities}}$	$\frac{75 - 20}{50} = 1.1{:}1$ **(3)**	$\frac{90 - 60}{90} = 0.3{:}1$ **(2)**
Stock turnover:	$\frac{\text{COGS}}{\text{Ave Stock}}$	$\frac{850}{21.25} = 40$ Times **(3)**	$\frac{100}{50} = 2$ Times **(3)**

[15]

(c) Gross profit of Food Retailer low but stock turnover high.
Gross profit of Furniture Retailer high but stock turnover low.
Food Retailer regular repeat business of largely perishable items.
Furniture Retailer consumer items not purchased at regular intervals but one off purchases of non perishable goods made occasionally.
The furniture retailer operates on a higher profit margin to offset relatively low stock turnover.

(4 x 2 marks)
(1 for point plus 1 for development) **[8]**

Total marks [29]

Analysis and Evaluation of Accounting Statements

2502 Jan 2003 Robert Green Question 3

3 Robert Green is the owner of a wholesale electrical business. His Balance Sheets for the last two years were as follows:

Balance Sheets as at

	30 April 2001		**30 April 2002**	
	£000's		£000's	
Fixed Assets		250		240
Current Assets				
Stock	120		160	
Debtors	70		50	
Bank	10		10	
	200		220	
Current Liabilities				
Creditors	200		60	
	200		60	
Working Capital		–		160
		250		400
Financed By:				
Capital		200		250
Net Profit		50		150
		250		400

2502 Jan 2003 Robert Green Question 3 continued

REQUIRED

(a) **(i)** State how the return on capital employed is calculated. [2]

(ii) Explain why this ratio is an important measure of the success of a business. [3]

(b) Calculate and comment upon the following ratios for **each** of the two years:

(i) current ratio

(ii) liquid (acid test) ratio.

(Where appropriate, calculations should be made to the nearest one decimal place.) [16]

(c) Robert Green is proposing to pay £100 000 additional capital into the business bank account. Part of this will then be used to fund the purchase of fixed assets for £60 000.

Assess the effect that these transactions will have upon the working capital and the return on capital employed. [6]

Total marks [27]

Analysis and Evaluation of Accounting Statements

2502 Jan 2003 Robert Green Question 3 Mark scheme

3 (a) (i) Calculated by a comparison of net profit **(1)** to the capital employed to generate that profit. This would normally be the owners capital plus any long term liabilities such as loans **(1)**.

(ii) It is important because the return on the total investment is established **(1)**. The return can be compared with a range of other investments **(1)**, in similar businesses and other industries **(1)** or from fixed interest rate investments **(1)**.

Max [5]

(b)

		2001	2002
Current ratio:	Current Assets / Current Liabilities	200 / 200 = 1:1 **(2)**	220 / 60 = 3.7:1 **(2)**
Comment:		Lower than required for safety. **Up to (2)**	High possible idle funds. High proportion of assets in stock. **Up to (2)**
Liquid ratio:	Current Assets – Stock / Current Liabilities	80 / 200 = 0.4:1 **(2)**	60 / 60 = 1:1 **(2)**
Comment:		Lower than required for safety. **Up to (2)**	At appropriate level. **Up to (2)**

[16]

(c) The effect will be to increase working capital **(1)** by a net £40,000 **(2)**. Both the current and liquid ratios will increase **(1)**. **Max (3)**

The effect on capital employed would be to reduce the returns **(1)** in the short term, additional capital has been invested but net profit may not immediately rise **(1)**. In the medium term, the additional assets should increase profits which will increase the return on capital employed **(2)**. **Max (3)** **[6]**

Total [27]

Analysis and Evaluation of Accounting Statements

2502 Jun 2002 Abatron and Megasonic Question 1

1 The following summary information relates to two businesses, Abatron and Megasonic. Both businesses traded in the same market sector for the year ended 31 December 2001.

Trading and Profit and Loss Accounts for the year ended 31 December 2001

	Abatron £'000	Megasonic £'000
Sales	600	600
Cost of sales	300	240
	300	360
Expenses	150	120
Net profit	150	240

Balance Sheets as at 31 December 2001

	Abatron £'000	Abatron £'000	Megasonic £'000	Megasonic £'000
Fixed Assets		370		500
Current Assets				
Stock	30		50	
Debtors	40		150	
Cash at bank	110		–	
		180		200
Current Liabilities				
Creditors	50		140	
Bank overdraft	–		60	
		50		200
		130		–
		500		500
Financed by:				
Opening capital		375		335
Net profit for year		150		240
		525		575
Drawings		25		75
Closing capital		500		500

Analysis and Evaluation of Accounting Statements

2502 Jun 2002 Abatron and Megasonic Question 1 continued

Additional information:

(i) All sales are on credit.

(ii) Stock on 1 January 2001:

	Abatron	£20 000
	Megasonic	£46 000.

Analysis and Evaluation of Accounting Statements

2502 Jun 2002 Abatron and Megasonic Question 1 Mark scheme

1 (a)

	Abatron		Megasonic	
Net profit to sales %	25%	**(1)**	40%	**(1)**
Return on capital employed	30%	**(2)**	48%	**(2)**
Current ratio	3.6:1	**(2)**	1:1	**(2)**
Stock turnover	12 times	**(2)**	5 times	**(2)**

[14]

(b) Evaluation of liquidity and profitability:

(i) Comparison of liquidity:

- Stock turnover of Megasonic is low, stock levels are nearly twice those of Abatron.
- Current ratio of Abatron is high with probable idle funds, Megasonic's ratio is low with poor credit control.
- Acid test ratio of Abatron is high with substantial cash available, Megasonic's ratio is again low with an overdraft and substantial debts uncollected.

(2 x 2 marks)
(1 for point plus 1 for development)

(ii) Comparison of profitability:

- Net profit of Megasonic is greater than Abatron as expenses have been maintained at a lower level for the same turnover for both businesses.
- Return on capital employed is acceptable for both businesses but particularly high for Megasonic.

(2 x 2 marks)
(1 for point plus 1 for development) **[8]**

2502 Jun 2002 Abatron and Megasonic Q1 Mark scheme cont

(c) Advice to management of Abatron:

- Abatron should seek to reduce its expenses.
- Abatron should consider investing some of its cash which is at present 'idle'.
- Abatron stock level has increased from £20,000 to £30,000 in one year and should therefore be reviewed.

(2 x 2 marks)
(1 for point plus 1 for development)

Advice to management of Megasonic:

- Megasonic should seek to reduce its stock level and improve its stock turnover.
- Megasonic should institute better credit control to reduce its debtors to fund the elimination of the bank overdraft.
- Megasonic should seek to improve its current ratio.
- Megasonic should consider reducing drawings to improve liquidity.

(2 x 2 marks)
(1 for point plus 1 for development) **[8]**

Total [30]

Analysis and Evaluation of Accounting Statements

2502 Jan 2002 Johal Question 3

3 The manager of Johal & Co is reviewing the accounts for the year 2001 and preparing her forecasts for the year 2002. The following information is available for the two years:

	Year 2001 £	Year 2002 £
Opening stock	6 600	6 200
Closing stock	6 200	6 200
Sales	96 000	140 000
Administration costs	17 600	17 000
Capital employed	80 000	80 000
Mark up on cost	50%	40%

REQUIRED

(a) Prepare, in columnar format:
- the Trading and Profit and Loss Account for the year 2001;
- the forecast Trading and Profit and Loss Account for the year 2002. [14]

(b) Calculate for each of the years 2001 and 2002:
- the net profit as a percentage of sales;
- the return on capital employed. [8]

(c) The manager of Johal & Co had set the objective of improving the profitability of the business in the year 2002. Comment upon whether her objective is likely to be achieved. [3]

Total marks [25]

2502 Jan 2002 Johal Question 3 Mark scheme

3 (a) Johal & Co Trading and Profit and Loss Account for the year

	2001		2002	
	£	**£**	**£**	**£**
Sales		96000		140000
Opening stock	6600 **(1)**		6200	
Purchases	63600 **(1)**		100000	
	70200		106200	
Closing stock	6200 **(1)**		6200 **(1)**	
Cost of sales		64000		100000 **(2)**
Gross profit		32000 **(2)**		40000 **(1)**
Administration costs		17600 **(1)**		17000 **(1)**
Net profit		14400 **(1 of)**		23000 **(2 of**

[14]

(b)

Net profit as a percentage of sales	Year 2001	$\frac{14,400}{96,000} \times 100 = 15\%$	**(2) 1 of**
	Forecast Year 2002	$\frac{23,000}{140,000} \times 100 = 16.4\%$	**(2) 1 of**
Return on capital employed	Year 2001	$\frac{14,400}{80,000} \times 100 = 18\%$	**(2) 1 of**
	Forecast Year 2001	$\frac{23,000}{80,000} \times 100 = 28.75\%$	**(2) 1 of**

[8]

(c) Net profit has risen but sales have risen at a faster rate **(1),** but the reduction in mark-up has resulted in a large increase in sales with a resultant increase in the net profit percentage **(1).** Capital employed has remained at a constant level over the two years and therefore the increased level of profit has resulted in a higher return **(1).** At 28.75% the ROCE has risen significantly **(1)** and the manager's objective to increase profitability could be said to have been achieved **(1).** **Max [3]**

Question Total [25]

Analysis and Evaluation of Accounting Statements

2502 Jun 2001 Nick Johnson Question 2

2 Nick Johnson is the owner of a wholesale frozen food business. At a recent management meeting called to consider the accounts for the year ended 31 December 2000, he made the following statement.

'Our policy of reducing prices to expand sales has been an undoubted success. Sales have more than doubled and the return on capital employed has risen sharply from 4% to 5.6%. I will be pursuing this policy even more vigorously in the next financial year to ensure greater prosperity and greater stability for the business.'

Trading and Profit and Loss Account for the year ended

	31 December 1999 £000's	31 December 2000 £000's
Sales	600	1 400
Cost of Sales	480	1 232
Gross Profit	120	168
less		
Administration costs	100	140
Net profit	20	28

Balance Sheet as at

		31 December 1999 £000's		31 December 2000 £000's
Fixed Assets		400		500
Current Assets				
Stock	50		80	
Debtors	50		190	
Bank	80		10	
	180		280	
Current Liabilities				
Creditors	80		280	
	80		280	
Working Capital		100		0
		500		500
Financed By:				
Capital		500		500
		500		500

Note: Stock on 1 January 1999 was valued at £60,000.

2502 Jun 2001 Nick Johnson Question 2 continued

REQUIRED

(a) Explain the term **liquidity**. Why is it important that all businesses have sufficient liquidity? [8]

(b) Calculate the following ratios for each of the two years:

– current ratio
– liquid (acid test) ratio
– stock turnover.

(Where appropriate, calculations should be made to the nearest one decimal place.) [15]

(c) Critically evaluate Nick Johnson's policy of reducing prices to expand sales. [12]

[Total 35]

Analysis and Evaluation of Accounting Statements

2502 Jun 2001 Nick Johnson Question 2 Mark scheme

2 **(a)** Answers should focus on importance of relationship between current assets and current liabilities.

Liquidity – the ability of a business to meet its short term payments. **(2)** Ability to convert assets into cash. **(2)** Business has greater current assets than current liabilities. **(2)**
(2 x 2 marks)

Without sufficient liquidity, the business would be unable to meet its short term debts. **(1)** Creditors would remain unpaid. **(1)** Creditors would cease supplying goods and services **(1)** and may take action to recover debts. **(1)** The business would be forced to cease trading, **(1)** however profitable the business. **(1)**

[8]

(b)

		1999	2000
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$ **(1)**	$\frac{180}{80}$ = 2.3:1 **(2)**	$\frac{280}{280}$ = 1:1 **(2)**
Acid test	$\frac{\text{Current Assets – Stock}}{\text{Current Liabilities}}$ **(1)**	$\frac{130}{80}$ = 1.6:1 **(2)**	$\frac{200}{280}$ = 0.7:1**(2)**
Stock turnover	$\frac{\text{Cost of Goods Sold}}{\text{Average Stock}}$ **(1)**	$\frac{480}{55}$ = 8.7 times **(2)**	$\frac{1232}{65}$ = 19 times **(2)**

[15]

2502 Jun 2001 Nick Johnson Question 2 Mark scheme continued

(c) 1999

1. Current ratio and acid test ratio both above the recommended level **(1)** and probably too high for this type of business representing idle funds. **(1)**
2. Stock turnover low for this type of business. **(1)**

2000

1. Major deterioration in current and acid test ratios **(1)** placing the ability to pay creditors at risk. **(1)**
2. Stock turnover substantially increased **(1)** but still at acceptable level for this type of business. **(1)**
3. Debtors increased disproportionately to sales increase **(1)** so better credit control required. **(1)**
4. Creditors increased disproportionately to cost of sales **(1)** so pressure will soon mount from suppliers for payment. **(1)**
5. Stock appears to have been controlled **(1)** eg JIT, economic order quantity **(1)**.

Conclusion

1. The business is less stable **(1)** because it is experiencing greater difficulty in meeting its short term commitments. **(1)**
2. The policy should be questioned **(1)**, because there is a greater risk to the business **(1)** in return for only a marginal increase in profitability. **(1)**

Accept other reasonable answers.
Up to 10 marks for discussion
plus maximum 2 marks for conclusion. **[12]**

Total: [35]

Budgeting: Introduction to Budgeting

Budgeting: Introduction to Budgeting

F012 Specimen Amber Question 4

4 Amber Ltd is preparing its Cash Budget for the three months ending 31 March 2007. The following forecasts are available.

	Sales	Purchases	Wages	General Expenses
	£	£	£	£
December 2006	480,000	300,000	48,000	90,000
January 2007	500,000	320,000	48,000	90,000
February 2007	520,000	380,000	52,000	90,000
March 2007	490,000	310,000	56,000	90,000

The following information is also available.

(i) All purchases are on a credit basis and are paid for one month after purchases are made.

(ii) 40% of sales are on a cash basis. The remainder are paid one month after sales are made.

(iii) General expenses include depreciation of £2,000 per month. General expenses are paid one month in arrears.

(iv) 75% of wages are paid in the month they are earned, and 25% are paid during the following month.

(v) The company intends to purchase new equipment at a cost of £30,000 in December 2006, with 10% payable on 15 January 2007 and the balance on 15 March 2007. Old equipment originally costing £10,000 is to be disposed of for £1,000, to be received during February 2007.

(vi) The budgeted bank balance on 1 January 2007 is £48,000.

REQUIRED

(a) The Cash Budget for the three months ending 31 March 2007. **[15]**

(b)* Discuss **three** benefits to a company of budgeting. **[11]**

Total marks [26]

F012 Specimen Amber Question 4 Mark scheme

4(a)

Amber Ltd

Cash Budget for the three months ending 31 March 2007

	Jan		Feb		Mar	
Receipts						
Sales	488,000	**[1]**	508,000	**[1]**	508,000	**[1]**
Equipment			1,000	**[1]**		
	488,000		509,000		508,000	
Payments						
Purchases	300,000	**[1]**	320,000	**[1]**	380,000	**[1]**
Wages	48,000	**[1]**	51,000	**[1]**	55,000	**[1]**
Equipment	3,000	**[1]**			27,000	**[1]**
General expenses	88,000		88,000		88,000	**[1 line]**
	439,000		459,000		550,000	
Net cash flow	49,000		50,000		(42,000)	
Opening balance	48,000	**[1]**	97,000		147,000	
Closing balance	97,000		147,000		105,000	**[1]**

[15]

4(b)*

The necessary examination of costs usually results in improved efficiency. Weaknesses become apparent and action can be taken.

Managers will become more aware of financial matters and the importance of cost control. Output can be measured in financial terms rather than just units.

Cash budgets will show a future cash surplus/deficit. A surplus will enable investment plans to be made, whilst warning of a deficit will enable remedial action to be taken.

Preparation of departmental budgets facilitates responsibility accounting. The department manager is responsible for keeping to budget, which should present an achievable target.

(3 x 3 marks)
(1 for point plus up to 2 for development)

NB Up to an additional two marks can be awarded for the candidate's quality of written communication (narrative responses) **[11]**

Total Marks **[26]**

ICT in Accounting

F002 Jun 2007 J Savill Question 3

3 J. Savill's financial year end occurs on 30 April each year. He produced a trial balance as at 30 April 2007 and from this calculated his net profit for the year as £17 000. However, the trial balance showed debits exceeding credits by £4 200 and subsequent investigations revealed the following.

(I) A cheque for £3 000 received from J. Mander, a debtor, had been correctly recorded in the cash book but posted as a credit to T. Maunder.

(II) Goods purchased on credit for £2 400 from JD Supplies had been correctly recorded in the purchases account but the corresponding double entry had not been made.

(III) A payment of £760 for motor vehicle repairs was entered in error as a debit in the motor vehicles account. No entries have been made to record depreciations in relation to this payment. The correct depreciation has been made for motor vehicles held by the business.

(Iv) Discounts allowed of £850 had been entered as a credit entry in the discounts received account.

(v) A cheque received for £6 300 from R. Grant, a debtor, had been processed for the correct amount in the cash book but entered as £3 600 in R. Grant's account.

(vI) Sales for the year ending 30 April 2007 had been undercast by £800.

REQUIRED

(a) Journal entries to correct the above errors (narratives are not required). [14]

(b) The Suspense Account. [4]

(c) A statement showing the corrected net profit for the year ended 30 April 2007. [5]

(d) Using an appropriate example from the above, explain what is meant by an error of principle. [2]

(e)* Considering both advantages and disadvantages, evaluate the usefulness of ICT in accounting to a business. [10]

Total marks [35]

F002 Jun 2007 J Savill Question 3 Mark scheme

3

(a)

The Journal

		Dr		Cr	
(i)	T Maunder	3,000	**(1)**		
	J Mander			3,000	**(1)**
(ii)	Suspense	2,400	**(1)**		
	J D Supplies			2,400	**(1)**
(iii)	Motor vehicle repairs	760	**(1)**		
	Motor vehicles			760	**(1)**
(iv)	Discounts received	850	**(1)**		
	Suspense			850	**(1)**
	Discounts allowed	850	**(1)**		
	Suspense			850	**(1)**
(v)	Suspense	2,700	**(1)**		
	R Grant			2,700	**(1)**
(vi)	Suspense	800	**(1)**		
	Sales			800	**(1)**

[14]

(b)

Suspense Account

J D Supplies	2,400	**(1)**	Bal b/d	4,200	**(1)**
R Grant	2,700	**(1)**	Discounts received	850	**(1)**
Sales	800		Discounts allowed	850	
	5,900			5,900	

[4]

(c)

Original net profit			17,000	
Motor vehicle repair	(760)	**(1)**		
Discounts allowed	(850)	**(2)**		
Discounts received	(850)			
Sales undercast	800	**(1)**		
			1,660	
Corrected net profit			15,340	**(1of)**

[5]

F002 Jun 2007 J Savill Question 3 Mark scheme continued

(d)

An error of principle occurs when an entry has been made in the wrong class of account. **(1)**
Example: item (iii) above **(1)**

[2]

(e) *

Advantages:
speed
accuracy
volume of data processing
storage
security.

Disadvantages:
cost
training
technical problems
operator error
security.

Judgement as to whether advantages outweigh disadvantages.

To achieve maximum marks a maximum 4 marks for analysis and maximum 4 marks for evaluation.
Minimum of 3 points must be considered (must include ***both*** *advantages and disadvantages).* **[8]**

QWC **[2]**

[10]

Total Marks [35]

2501 Jun 2003 Mevish Ali Question 2

2 Mehvish Ali commenced business several years ago as an exporter of hand-made pottery. He prepared the following receipts and payments details for the year ended 31 March 2003.

	£		£
Balance b/d	8 000	Payments to creditors	36 000
Receipts from debtors	72 000	Rent	5 000
		Rates	2 000
		Wages	12 000
		Drawings	25 000
		General expenses	3 000

Additional information:

(i) The receipts and payments details have been prepared from the business bank account through which all receipts and payments have passed.

(ii) Discount received from suppliers for the year ended 31 March 2003 was £1700.

(iii) In addition to the items mentioned above, the assets and liabilities of Mehvish Ali were as follows:

	31 March 2002	31 March 2003
	£	£
Fixtures (net)	1500	1200
Stock at cost	6000	5000
Debtors	3200	4300
General expenses owing	800	500
Rent prepaid	700	800
Trade creditors	2200	3100

2501 Jun 2003 Mevish Ali Question 2 continued

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 March 2003. [16]

(b) The Balance Sheet as at 31 March 2003. [10]

(c) Mehvish Ali is considering a new computerised accounting and management information system.

(I) Identify and explain **four** advantages of using information technology in the business of Mehvish Ali. [8]

(II) Describe **two** computerised accounting applications that would improve the financial control of the business of Mehvish Ali. [4]

Total marks [38]

2501 Jun 2003 Mevish Ali Question 2 Mark scheme

2 (a)

Mehvish Ali

Trading and Profit and Loss Account for the year ended 31 March 2003 **(1)**

Sales (72,000+4,300-3,200)			73,100	**(3)**
Opening stock	6,000	**(1)**		
Purchases (36,000+1,700+3,100–2,200)	38,600	**(3)**		
	44,600			
Closing stock	5,000	**(1)**	39,600	
Gross profit			33,500	
+ Discount received			1,700	**(1)**
			35,200	
Less Expenses				
Rent	4,900	**(2)**		
Rates	2,000			
Wages	12,000			
General expenses	2,700	**(2)**		
Depreciation	300	**(1)**	21,900	**(1)**
Net profit			13,300	

[16]

2501 Jun 2003 Mevish Ali Question 2 Mark scheme continued

(b) Balance Sheet as at 31 March 2003

Fixed Assets				
Fixtures			1,200	**(1)**
Current Assets				
Stock	5,000			
Debtors	4,300			
Prepaid	800	**(1)**		
	10,100	**(1)**		
Current Liabilities				
Creditors	3,100			
Accruals	500	**(1)**		
Overdraft	3,000	**(2)**		
	6,600			
Working Capital			3,500	
			4,700	
Financed by				
Opening capital			16,400	**(2)(1of)**
Net profit			13,300	**(1of)**
			29,700	
Drawings			25,000	**(1)**
			4,700	

[10]

2501 Jun 2003 Mevish Ali Question 2 Mark scheme continued

(c) **(i)** Help prevent errors by the elimination of manual recording.

Improve the speed of processing of the data. More up-to-date information would be available for the business.

Would be able to process high volumes of data.

Improve storage of data and records. File and storage space reduced. All records recorded on disk.

Maintain the security of data.

Improve information for management, e.g. reports.
Instant stock-up data, aged persons analysis.

(4 x 2)
(1 for point plus 1 for development) **[8]**

(ii) Spreadsheets. Use of Excel or Lotus 123 for the 'what if' scenario.
Databases – debtors and creditors.
Specialist accounting packages – SAGE.
Payroll – calculation of salaries with deductions made.
Stock control – stock levels, re-order levels and generation of requisition.

2 x 2 marks
(1 for point plus 1 for development) **[4]**

Total marks [38]