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Pearson Edexcel
International
Advanced Level

Centre Number	Candidate Number
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Accounting
International Advanced Subsidiary
Paper 1: The Accounting System and Costing

Tuesday 15 May 2018 – Morning Time: 3 hours	Paper Reference WAC11/01
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You must have: Source Booklet (enclosed)	Total Marks
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Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **both** questions in Section A and **three** questions from Section B.
- All calculations must be shown.
- Answer the questions in the spaces provided
– *there may be more space than you need.*
- Do not return the Source Booklet with the question paper.

Information

- The total mark for this paper is 200.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.
- The source material for use with Questions 1 to 6 is in the enclosed source booklet.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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SECTION A**Answer BOTH questions in this section.**

- 1** Future Solar generates electricity from solar panels placed on its land. The electricity generated is then sold to a single customer, National Distribution, for £150 per megawatt hour.

The following balances were available at 30 April 2018.

	£
Non-current assets (at cost):	
Land and buildings	800 000
Solar panels and equipment	600 000
Computers and fixtures	72 000
Provisions for depreciation:	
Land and buildings	85 000
Solar panels and equipment	120 000
Computers and fixtures	16 000
Inventory – maintenance spares 1 May 2017	23 400
Purchases of maintenance spares	152 500
Trade payables	32 150
Trade receivables	69 000
Wages of maintenance staff	110 000
Management salaries	280 000
Capital	1 250 000
Drawings	25 000
Cash and bank	19 100
Selling expenses	9 500
Computer expenses	16 750
Revenue	750 000
Administration expenses	34 900
General expenses	41 000

Additional information at 30 April 2018

- (1) Inventory of maintenance spares was counted and valued at £27 300
- (2) A cash purchase of maintenance spares in March 2018, £1 750, had not been recorded in the books.
- (3) Amounts owing: maintenance staff wages £5 700, management salaries £11 200
- (4) General expenses prepaid £1 400
- (5) On 20 April 2018 computers costing £12 000 were sold for £1 500 cash. On 1 May 2017 the computers had a carrying value of £6 000. No entries recording the sale had been made in the books.
- (6) Depreciation is charged on all non-current assets owned at the end of the year as follows:
 - No depreciation is charged on land, cost £250 000. Buildings are depreciated at the rate of 2% per annum on cost.
 - Solar panels and equipment have an economic life of 25 years with no residual value. Depreciation is to be charged using the straight line method.
 - Computers and fixtures at the rate of 25% per annum using the reducing balance method.
- (7) Cash drawings of £3 000 made by the owner had not been recorded in the books.

Required

- (a) Calculate the value of the maintenance spares used for the year ended 30 April 2018. (3)
- (b) Prepare the:
 - (i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2018 (12)
 - (ii) Statement of Financial Position at 30 April 2018. (16)

Future Solar is considering expanding its operation by purchasing more land and installing more solar panels and equipment. The owner has forecast that the additional cost would be, £800 000. To finance the expansion a 20-year 6% bank loan would be needed for £750 000

When the expanded facilities are operational the following forecasts are made for a full year.

- (1) A total of 8 000 megawatt hours of electricity will be generated and sold to National Distribution.
- (2) National Distribution will pay a price per megawatt hour that will be 10% lower than in the year ended 30 April 2018.
- (3) The total costs for the year (**before** bank loan interest) will be:

Fixed – £880 000

Variable £12 per megawatt hour.

Required

- (c) Calculate the forecast:
 - (i) profit or loss for the year (5)
 - (ii) total cost of generating **one** megawatt hour. (3)
- (d) Explain:
 - (i) the term **fixed cost** (2)
 - (ii) why the majority of Future Solar's costs are fixed costs. (2)
- (e) Evaluate the expansion proposal of Future Solar. (12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark																					
1 (a)	<p>AO1 (1), AO2 (2) AO1: One mark for sub total. AO2: Two marks for calculation.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">£</td> <td></td> </tr> <tr> <td>Inventory 1 May 2017</td> <td style="text-align: right;">23 400</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">152 500 (1) AO1</td> <td></td> </tr> <tr> <td>Unrecorded purchase</td> <td style="text-align: right;"><u>1 750 (1) AO2</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">177 650</td> <td></td> </tr> <tr> <td>Inventory 30 April 2018</td> <td style="text-align: right;"><u>(27 300)</u></td> <td></td> </tr> <tr> <td>Maintenance spares used</td> <td style="text-align: right;">150 350 (1) AO2</td> <td></td> </tr> </table>		£		Inventory 1 May 2017	23 400		Purchases	152 500 (1) AO1		Unrecorded purchase	<u>1 750 (1) AO2</u>			177 650		Inventory 30 April 2018	<u>(27 300)</u>		Maintenance spares used	150 350 (1) AO2		(3)
	£																						
Inventory 1 May 2017	23 400																						
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	177 650																						
Inventory 30 April 2018	<u>(27 300)</u>																						
Maintenance spares used	150 350 (1) AO2																						

Question Number	Answer	Mark
1 (b) (i)	<p>AO1 (5), AO2 (7) AO1: Five marks for transferring balances to the income statement. AO2: Seven marks for balances requiring adjustment.</p>	(12)

Future Solar
Statement of Profit or Loss and Other Comprehensive Income for the year ended
30 April 2018

	£	£
Revenue		750 000 (1) AO1
Less		
Depreciation- Buildings	11 000 (1) AO2	
Solar panels and equipment	24 000 (1) AO2	
Computers and fixtures	12 500 (1) AO2	
Maintenance spares	150 350 (1of) AO1	
Wages of maintenance staff (110 000+5 700)	115 700 (1) AO2	
Management salaries (280 000 + 11 200)	291 200 (1) AO2	
Selling expenses	9 500 (1) AO1	
Computer expenses	16 750 (1) AO1	
Administration expenses	34 900 (1) AO1	
General expenses (41 000 - 1 400)	39 600 (1) AO2	
Loss on sale of computers	<u>4 500</u> (1) AO2	
	710 000	
Profit for the year		<u>40 000</u>

Question Number	Answer	Mark
1 (b)(ii)	<p>AO1 (5), AO2 (9), AO3 (2) AO1: Five marks for transferring balances to the financial position statement. AO2: Nine marks for balances requiring adjustment. AO3: Two marks for adjusting the non-current asset for the computer sale.</p>	(16)

Statement of Financial Position at 30 April 2018

Non-current assets

	Cost £	Accumulated depreciation £	Carrying value £
Land and buildings	800 000	96 000	704 000 (1of)AO2
Solar panels and equipment	600 000	144 000	456 000 (1of)AO2
Computers and fixtures	<u>60 000</u> (1)AO3	<u>22 500</u> (1)AO3	<u>37 500</u>
	1 460 000	262 500	1 197 500 (1of)AO2

Current assets

Inventory		27 300 (1)AO1	
Trade receivables		69 000 (1)AO1	
Other receivables		1 400 (1)AO2	
Cash and bank (19 100–1 750+1 500–3 000)		15 850 AO2	
	(1) (1) (1)		<u>113 550</u>
Total Assets (1)AO1			<u><u>1 311 050</u></u>

Capital	1 250 000	
Profit for the year	<u>40 000</u>	
	1 290 000	
Drawings (25 000 + 3 000)	<u>(28 000)</u> (1)AO2	1 262 000 (1of)AO1

Current Liabilities

Trade payables	32 150 (1)AO1	
Other payables (5 700 + 11 200)	<u>16 900</u> (1)AO2	
		<u>49 050</u>
Total Capital and Liabilities		<u><u>1 311 050</u></u>

Question Number	Answer	Mark
1 (c) (i)	<p>AO2 (5) AO2: Five marks for calculating components and profit.</p> $\begin{array}{r} \text{Revenue } 8\,000 \times \text{£}135 = \text{£}1\,080\,000 \text{ (1) AO2} \\ \text{Less} \\ \text{Fixed cost } 880\,000 \text{ (1) } + 45\,000 \text{ (1) } = (925\,000) \\ \text{AO2} \\ \text{Variable cost } 8\,000 \times \text{£}12 = \underline{(96\,000)} \text{ (1) AO2} \\ \text{Profit for the year} \quad \underline{\underline{59\,000}} \text{ (1of) AO2} \end{array}$	(5)

Question Number	Answer	Mark
1 (c) (ii)	<p>AO2 (3) AO2: Three marks for calculating cost.</p> $\frac{925\,000 \text{ (1of)} + 96\,000 \text{ (1of)} \text{ AO2}}{8\,000}$ <p>= £127.625 per megawatt hour (1of) AO2</p>	(3)

Question Number	Answer	Mark
1 (d) (i)	<p>AO1 (2) AO1: Two marks for the definition.</p> <p>A cost which is remains constant (1) AO1 over a varying range of output/period of time (1) AO1</p>	(2)

Question Number	Answer	Mark
1 (d)(ii)	<p>AO3 (2) AO3: Two marks for suggesting reasons.</p> <p>The generation of electricity requires considerable capital equipment/non-current assets/staff costs (1) AO3 this will involve a high level of depreciation which is a fixed cost and does not vary with output (1) AO3</p> <p>Variable costs usually include raw materials and direct labour. The raw material is free (1) AO3 and as no product or service is being delivered by a significant workforce the direct labour is relatively small. (1) AO3</p> <p>Max 2</p>	<p style="text-align: right;">(2)</p>

Question Number	Indicative Content	Mark
<p>1 (e)</p>	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Positive points for expanding (own figure rule applies)</p> <p>Expansion does produce a higher profit, £59 000 against £40 000. The energy being generated is 'clean green energy' which will probably escape government environmental taxes in the future. The energy generated will be well received in the market place. Social accounting will be seen to apply. The source of the energy is constantly renewable. Increased revenue and market share. Can take advantage of economies of scale. Will generate more work and meets social accounting objectives.</p> <p>Negative points for expanding (own figure rule applies)</p> <p>To expand Future Solar must obtain a major bank loan of £750 000. Repayment of this loan places long term risk on the business. Prices have already fallen. Further falls would result in losses not profits. Dealing with a single customer and the risks of that customer failing. The energy is sold to a single customer National Distribution. Decisions of this company will impact directly upon Future Solar. At 5.46% the sales margin is very small. These are only estimates and the actual figures may vary. The expansion will require £50 000 from the bank account which will require an overdraft.</p> <p>Decision Candidates may conclude that Solar Futures should expand manufacture. Candidates should support that decision with an appropriate rationale.</p>	<p>(12)</p>

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

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

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

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

Required

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

(8)

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

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

Required

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

(14)

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

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

Required

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

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

(9)

(d) Explain the difference between:

(i) the accounting concepts of accruals and money measurement

(4)

(ii) bad debts and allowance for doubtful debts

(4)

(iii) social accounting and ethical accounting.

(4)

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

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

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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

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

(8)

Roshan
Trial balance at 30 April 2018

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

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

(14)

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

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



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

Roshan
Trial balance at 30 April 2018

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

The same

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

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

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

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

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

Allowance for Doubtful Debts Account

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

Wages Account

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

Electricity and Gas Account

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

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

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

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

AO1 x 4

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

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

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

AO1 x 4

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

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

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

AO1 x 4

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

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
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Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

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

SECTION B

Answer THREE questions from this section.

- 3 Gadhar is in business as a sole trader. He decided to expand his business by investing in the replacement of his outdated non-current assets. The replacement took place in June 2017.

The following are the summarised Statements of Financial Position on 30 April 2017 (**before** the replacement of the non-current assets) and on 30 April 2018 (**after** the replacement of the non-current assets).

Summarised Statements of Financial Position at:

	30 April 2017	30 April 2018
	£	£
Non-current assets (carrying value)	10 000	85 000
Inventory	25 000	31 000
Trade receivables	12 000	26 000
Bank	<u>10 000</u>	<u>—</u>
	<u>57 000</u>	<u>142 000</u>
Capital	35 000	50 000
10-year bank loan	—	40 000
Trade payables	22 000	36 000
Bank overdraft	—	16 000
	<u>57 000</u>	<u>142 000</u>

Additional information

- (1) Sales:
- year ended 30 April 2017 – £175 200 on credit
 - year ended 30 April 2018 – total sales £300 000 of which £60 000 were for cash.
- (2) Profit:
- year ended 30 April 2017 – £17 500
 - year ended 30 April 2018 – £17 700
- (3) Drawings for the year ended 30 April 2018 – £15 500
- (4) Bank interest for the year ended 30 April 2018 – £3 900

Required

- (a) Explain why a fall in the rate of inventory turnover may lead to a fall in liquidity. (4)
- (b) Calculate for both the year ended the 30 April 2017 **and** the year ended 30 April 2018 the:
- liquid (acid test) ratio
 - trade receivables collection period (in days)
 - percentage return on capital employed. (12)
- (c) Comment on the liquidity of Gadhar's business at 30 April 2018. (3)
- (d) Calculate the capital introduced by Gadhar during the year ended 30 April 2018. (2)
- (e) State **three** alternative sources of funding, other than the bank loan, that Gadhar could have used to fund the purchase of the non-current assets. (3)
- (f) Evaluate the usefulness of ratios in determining the performance of a business. (6)

(Total for Question 3 = 30 marks)

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

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

Question Number	Answer	Mark
3 (b)	AO2 (12) AO2: Twelve marks for calculating the ratio/days.	(12)

	30 April 2017	30 April 2018
Liquid (acid test) ratio	$\frac{12\ 000 + 10\ 000}{22\ 000} = 1:1$ (1) AO2	$\frac{26\ 000}{36\ 000 + 16\ 000} = 0.50:1$ (1) AO2
Trade receivables collection period (in days)	$\frac{12\ 000}{175\ 200} \times 365 = 25$ days (1) AO2	$\frac{26\ 000}{240\ 000} \times 365 = 39.5$ days (1) AO2
Percentage return on capital employed	$\frac{17\ 500}{35\ 000} \times 100 = 50\%$ (1) AO2	$\frac{(17\ 700 + 3\ 900)}{(50\ 000 + 40\ 000)} \times 100 = 24\%$ (1) AO2

Question Number	Answer	Mark
3 (c)	<p>AO1(1), AO3 (2) AO1: One mark for identifying decline in liquidity. AO3: Two/Three marks for analysing the liquidity position.</p> <p>The liquid (acid test) ratio is deteriorating (1) AO1 The liquid (acid test) ratio is half of the benchmark of 1:1 (1) AO3 The business has no liquid funds/now has an overdraft which makes it difficult to pay expenses or trade payables (1) AO3 Trade payables are increasing possibly due to inability to pay (1) AO3 Trade receivables collection period is extending (1) AO3 MAX 3 marks</p>	(3)

Question Number	Answer	Mark																								
3 (d)	<p>AO2 (2) AO2: Two marks for calculating the capital introduced.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">£</td> <td></td> </tr> <tr> <td>Capital 1 May 2017</td> <td style="text-align: right;">35 000</td> <td></td> </tr> <tr> <td>Plus profit for year</td> <td style="text-align: right;"><u>17 700</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">52 700</td> <td></td> </tr> <tr> <td>Less Drawings</td> <td style="text-align: right;"><u>(15 500)</u></td> <td></td> </tr> <tr> <td>Closing capital</td> <td style="text-align: right;">37 200 (1) AO2</td> <td></td> </tr> <tr> <td>Capital introduced</td> <td style="text-align: right;"><u>12 800</u> (1) AO2</td> <td></td> </tr> <tr> <td>Capital 30 April 2018</td> <td style="text-align: right;"><u>50 000</u></td> <td></td> </tr> </table>		£		Capital 1 May 2017	35 000		Plus profit for year	<u>17 700</u>			52 700		Less Drawings	<u>(15 500)</u>		Closing capital	37 200 (1) AO2		Capital introduced	<u>12 800</u> (1) AO2		Capital 30 April 2018	<u>50 000</u>		(2)
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Capital 30 April 2018	<u>50 000</u>																									

Question Number	Answer	Mark
3 (e)	<p>AO1 (3) AO1: Three marks for identifying sources.</p> <p>Hire the non-current assets Lease the non-current assets Introduce greater capital funding/reduce drawings Go into partnership to increase capital Venture capital Government subsidy</p> <p>NOT Issue shares or debentures Bank overdraft Extend trade payables Reduce inventory or trade receivables Retained profit</p> <p>3 x (1) AO1</p>	<p>(3)</p>

Question Number	Indicative Content		Mark
3 (f)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Positive points for ratios</p> <p>They provide a yardstick to measure against e.g. liquidity ratios, profitability, use of assets. Provide a basis for comparison with previous performance or compared to competitors. Compare ROCE to alternative investments.</p> <p>Negative points for ratios</p> <p>They do not consider non-financial factors such as the life of the product or skill of the workforce. They are always analysing historical data.</p> <p>Decision Candidates may conclude that ratios are useful. Candidates should support that decision with an appropriate rationale.</p>		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.	
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.	
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.	

- 4 There was a 'break-in' and theft at the Kewstoke Sports Club on 27 April 2018, when cash from the manager's office and sports equipment from the shop were stolen.

The following information is available.

- (1) Balances 1 April 2018

Cash £250

Inventory of sports equipment in the shop £3 500

- (2) Cash receipts and payments – 1 April to 27 April 2018

	£
Receipts from hire charges	525
Wages	400
Cleaning	190
Cash refund made to customer	25
Subscriptions paid by members	310
Sundry payments	120

- (3) All the cash was stolen from the manager's office in the theft.
- (4) Sports equipment sales and purchases – for 1 April to 27 April 2018
- | | |
|-----------------|--------|
| Revenue (Sales) | £4 200 |
| Purchases | £3 200 |
- (5) The inventory of sports equipment remaining **after the theft** was valued at £2 300
- (6) All sports equipment is sold with a 25% gross profit as a percentage of revenue (profit margin).
- (7) The Kewstoke Sports Club is insured with the Sports Insurance Company for the theft of all sums, excluding the first £200 of any claim for stolen cash.

Required

- (a) State **two** differences between a club and a sole trader business. (4)
- (b) Calculate the value of the cash stolen from the manager's office on 27 April 2018. (3)
- (c) Calculate the value of the sports equipment stolen from the shop on 27 April 2018. (4)
- (d) Calculate the total value of the insurance claim to be made to the Sports Insurance Company. (2)
- (e) Prepare the Journal entry, including narrative, recording the insurance claim made to the Sports Insurance Company. (5)

The Kewstoke Sports Club has a function room that it hires to the public for a daily hire rate of £250 per day. The following information is available for the three months ended 31 March 2018.

- (1) The Kewstoke Sports Club hired the function room to the public for five days in January, four days in February and six days in March.
- (2) The following expenses were incurred in the three months ended 31 March 2018:

Rates	£2 340
Wages	£5 600
Advertising	£2 200
Heating	£40 per day when the function room is hired to the public.

The total floor area of the Kewstoke Sports Club is 900 sqm. The function room area is 150 sqm.

It is estimated that 20% of the wages and 75% of the advertising are related to the function room.

- (3) Depreciation on the function room fixtures is charged on the revaluation method. The valuations, purchases and sales of function room fixtures for the three months ended 31 March 2018, were:

	£
Valuation 1 January 2018	4 300
Additions	1 200
Disposals	600
Valuation 31 March 2018	4 700

Required

- (f) Prepare a statement showing the profit or loss on the hire of the function room for the **three months** ended 31 March 2018. (6)

The Kewstoke Sports Club has received a member's proposal to discontinue the hire of the function room.

- (g) Evaluate the member's proposal to discontinue the hire of the function room. (6)

(Total for Question 4 = 30 marks)

Question Number	Answer	Mark
4 (a)	<p>AO1 (4) AO1: Four marks for stating differences.</p> <p>2 x 2 marks AO1 for stating differences</p>	(4)

Club	Sole trader
Non-profit making organisation	Profit making business
Accumulated fund representing net assets/funded by subscription	Owner invests capital
Surplus belongs to all the club members	All the profit belongs to the sole trader
Primarily for pursuit of mutual interest not trading	Primarily for trading to generate profit
Decision making is by committee	Decision making is by the owner
Prepare receipts and payment account	Prepare bank account
Prepare income and expenditure account	Prepare income statement/profit or loss account

Question Number	Answer	Mark
4 (b)	<p>AO1 (1), AO2 (2) AO1: One mark for calculating balance. AO2: Two marks for identifying incomes and expenditures and adjusting to opening balance.</p> <p>1 mark (1) AO2 for 525 and 310 added to the opening balance 1 mark (1) AO2 for deducting 400, 190, 25 and 120 1 mark (1) AO1 for cash stolen Alternative presentations accepted</p>	(3)

Cash Account

	£		£
Balance	250	Wages	400
Receipts from hire charges	525	Cleaning	190
Subscriptions	310	Refund	25
		Sundry	120
		Cash stolen	<u>350</u>
	<u>1085</u>		<u>1085</u>

Question Number	Answer	Mark																														
4 (c)	<p>AO1 (1), AO2 (2), AO3 (1) AO1: One mark for using given figure for inventory remaining. AO2: Two marks for calculating the purchases, cost of sales and gross profit. AO3: One mark for calculating the inventory stolen.</p> <p style="text-align: center;">Trading Account 1 April to 27 April 2018</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>£</th> <th>£</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td>4 200</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td>3 500</td> <td></td> </tr> <tr> <td>Purchases 2 800 + 400</td> <td><u>3 200</u> (1) AO2</td> <td></td> </tr> <tr> <td></td> <td>6 700</td> <td></td> </tr> <tr> <td>Closing inventory</td> <td>(2 300) (1) AO1</td> <td></td> </tr> <tr> <td>Inventory stolen</td> <td><u>(1 250)</u> (1) AO3</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td>(3 150) (1) AO2</td> </tr> <tr> <td>Gross profit</td> <td></td> <td><u>1 050</u></td> </tr> </tbody> </table> <p>Alternative presentations accepted.</p>		£	£	Revenue		4 200	Less			Opening inventory	3 500		Purchases 2 800 + 400	<u>3 200</u> (1) AO2			6 700		Closing inventory	(2 300) (1) AO1		Inventory stolen	<u>(1 250)</u> (1) AO3		Cost of sales		(3 150) (1) AO2	Gross profit		<u>1 050</u>	(4)
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Cost of sales		(3 150) (1) AO2																														
Gross profit		<u>1 050</u>																														

Question Number	Answer	Mark
4 (d)	<p>AO1 (1), AO2 (1) AO1: One mark for calculating the claim for stolen cash. AO2: One mark for calculating the total insurance claim.</p> <p>Insurance claim: 1 250 of + (350 of – 200) (1of) AO2 = 1 400 (1of) AO1</p>	(2)

Question Number	Answer	Mark
4 (e)	<p>AO1 (2), AO2 (2), AO3 (1) AO1: Two marks for using given figure for inventory remaining. AO2: Two marks for calculating the purchases and gross profit. AO3: One mark for cost of sales and inventory stolen.</p>	(5)

Journal

	Dr £	Cr £
Sports Insurance Company (1) AO1	1 400 (1of) AO2	
Inventory of sports equipment		1 250 (1of) AO2
Cash		150 (1of) AO3
Theft of cash and inventory on 27 April 2018. Insurance claim submitted (1) AO1		

Question Number	Answer	Mark																														
4 (f)	<p>AO2 (5), AO3 (1) AO2: Five marks for calculating the incomes and expenses. AO3: One mark for calculating the depreciation.</p> <p>Statement of Profit or Loss for the three months ending 31 March 2018</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>£</th> <th>£</th> </tr> </thead> <tbody> <tr> <td>Function room hire-15 days@£250</td> <td></td> <td>3 750 (1)AO2</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Rates</td> <td>390 (1)AO2</td> <td></td> </tr> <tr> <td>Wages</td> <td>1 120 (1)AO2</td> <td></td> </tr> <tr> <td>Advertising</td> <td>1 650 (1)AO2</td> <td></td> </tr> <tr> <td>Heating</td> <td>600 (1)AO2</td> <td></td> </tr> <tr> <td>Depreciation – fixtures</td> <td><u>200 (1)AO3</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td>(3 960)</td> </tr> <tr> <td>Loss on hire</td> <td></td> <td><u>(210)</u></td> </tr> </tbody> </table>		£	£	Function room hire-15 days@£250		3 750 (1) AO2	Less			Rates	390 (1) AO2		Wages	1 120 (1) AO2		Advertising	1 650 (1) AO2		Heating	600 (1) AO2		Depreciation – fixtures	<u>200 (1)AO3</u>				(3 960)	Loss on hire		<u>(210)</u>	(6)
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Loss on hire		<u>(210)</u>																														

Question Number	Indicative Content		Mark
4 (g)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Positive points for closing the functions room</p> <p>Many of the expenses can be reduced such as wages and advertising, but closure would not result in some other costs being saved. The functions room is making a loss and eliminating this could increase the surplus/reduce the deficit.</p> <p>Negative points for closing the functions room</p> <p>Some of the costs attributed to the functions room would not be saved if the hire was ceased e.g. rates. This cost would now need to be borne by the sports club as a whole. Does the sports club have an alternative for use or will the functions room remain unused and deteriorate? By offering a room for hire the public is visiting the Club which may attract future members.</p> <p>Decision Candidates will conclude that it is or is not advantageous to close the functions room to hire. Candidates should support that decision with an appropriate rationale.</p>		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.	
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.	

Level 3	5-6	<p>Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>
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Question Number	Answer	Mark
5 (a)	<p>AO1 (4) AO1: Four marks for explaining the concepts.</p> <p>(i) Historic cost – All assets and expenses are recorded in the ledger accounts at their actual cost (1) AO1 at the time of purchase/not at current market value. (1) AO1</p> <p style="text-align: right;">(2)</p> <p>(ii) Consistency – where a choice of method is available, once a method has been selected (1) AO1 the method must be used consistently from one accounting period to the next/to not distort profits. (1) AO1</p> <p style="text-align: right;">(2)</p>	(4)

- 5 Brit Gold buys gold coins from the National Mint and sells them to customers. The price of gold in the three months January to March 2018 fluctuated owing to economic conditions.

The following information is available for Brit Gold for the three months January to March 2018.

- (1) Inventory of gold coins 1 January 2018, 200 coins with a **total** value of £180 000
 (2) Purchases of coins from the National Mint and sales to customers.

	Purchases from National Mint (coins)	Sales (coins)
January	200 @ £950	110
February	250 @ £980	220
March	150 @ £1050	200

- (3) Brit Gold uses the First In First Out (FIFO) **perpetual inventory** method of valuation.
 (4) Revenue for the three months ended 31 March 2018 totalled £550 000
 (5) Total expenses, including depreciation, were £12 200 per month.

Required

- (a) Explain the following accounting concepts as they relate to the valuation of inventory:
- (i) historic cost (2)
- (ii) consistency. (2)
- (b) Calculate the inventory value at the 31 March 2018 using the First In First Out (FIFO) **perpetual inventory** method. (8)
- (c) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2018. (6)
- (d) Calculate:
- (i) the value of the inventory at 31 March 2018 using the Last In First Out (LIFO) **perpetual inventory** method (4)
- (ii) the difference in the profit for the three months ended 31 March 2018 if Brit Gold had used the Last In First Out (LIFO) **perpetual inventory** method. (2)

The Sales Manager of Brit Gold stated: 'We use the First In First Out (FIFO) inventory valuation because our profit is **always greater**'.

(e) Evaluate the Sales Manager's statement.

(6)

(Total for Question 5 = 30 marks)

Level 3	5-6	<p>Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>
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Question Number	Answer	Mark
5 (a)	<p>AO1 (4) AO1: Four marks for explaining the concepts.</p> <p>(i) Historic cost – All assets and expenses are recorded in the ledger accounts at their actual cost (1) AO1 at the time of purchase/not at current market value. (1) AO1</p> <p style="text-align: right;">(2)</p> <p>(ii) Consistency – where a choice of method is available, once a method has been selected (1) AO1 the method must be used consistently from one accounting period to the next/to not distort profits. (1) AO1</p> <p style="text-align: right;">(2)</p>	(4)

Question Number	Answer	Mark
5 (b)	AO2 (8) AO2: Eight marks for calculating the value of the inventory.	(8)

First In First Out (F.I.F.O)

	Purchases from national mint (coins)	Sales (coins)	Balance
Balance			200 @ £900 (1) AO2
January	200 @ £950	110	90 @ £900 (1) AO2 200 @ £950 (1) AO2
February	250 @ £980	220	70 @ £950 (1) AO2 250 @ £980 (1) AO2
March	150 @ £1050	200	120 @ £980 (1) AO2 150 @ £1050 (1) AO2
Total closing value			£275 100 (1) AO2

Question Number	Answer	Mark																																	
5 (c)	<p>AO1 (4), AO2 (1), AO3 (1)</p> <p>AO1: Four marks for using the correct figures.</p> <p>AO2: One mark for calculating the value of the expenses.</p> <p>AO3: One mark for calculating the total value of the purchases.</p> <p style="text-align: center;">Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 20%; text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">550 000 (1)AO1</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">180 000 (1)AO1</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>592 500</u> (1)AO3</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">772 500</td> <td></td> </tr> <tr> <td>Less closing inventory</td> <td style="text-align: right;"><u>(275 100)</u> (1of)AO1</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>(497 400)</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">52 600</td> </tr> <tr> <td>Expenses (12 200 x 3)</td> <td></td> <td style="text-align: right;"><u>(36 600)</u> (1)AO2</td> </tr> <tr> <td>Profit for the 3 months</td> <td></td> <td style="text-align: right;"><u>16 000</u> (1of)AO1</td> </tr> </tbody> </table>		£	£	Revenue		550 000 (1)AO1	Less			Opening inventory	180 000 (1)AO1		Purchases	<u>592 500</u> (1)AO3			772 500		Less closing inventory	<u>(275 100)</u> (1of)AO1		Cost of sales		<u>(497 400)</u>	Gross profit		52 600	Expenses (12 200 x 3)		<u>(36 600)</u> (1)AO2	Profit for the 3 months		<u>16 000</u> (1of)AO1	(6)
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Question Number	Answer	Mark
5 (d) (i)	<p>AO1 (1), AO2 (3) AO1: One mark for using the correct opening inventory. AO2: Three marks for calculating the monthly balance.</p>	(4)

Last In First Out (L.I.F.O)

	Purchases from National Mint (coins)	Sales (coins)	Balance
Balance			200 @ £900 (1) AO1
January	200 @ £950	110	200 @ £900 90 @ £950 (1) AO2
February	250 @ £980	220	200 @ £900 90 @ £950 30 @ £980 (1) AO2
March	150 @ £1050	200	200 @ £900 70 @ £950 (1) AO2
Total closing value			£246 500

Question Number	Answer	Mark
5 (d) (ii)	<p>AO3 (2) AO3: Two marks for the effect on quarterly profit.</p> <p>Closing inventory valuation – FIFO £275 100 – LIFO £246 500 = £28 600 (1of) AO3 less (1of) AO3</p>	(2)

Question Number	Indicative Content		Mark
5 (e)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Positive points FIFO</p> <p>FIFO is a more logical approach to inventory rotation in that you would look to sell your oldest inventory first. This is not particularly important with gold but would be important with perishable items.</p> <p>FIFO will yield higher profits when commodity prices are rising because the most expensive items are valued in closing inventory. Therefore a higher value is deducted from the goods for resale giving a lower cost of sales and a higher profit. If prices are rising FIFO will yield a higher profit but if the reverse is the case the profits will be lower.</p> <p>The value of inventory in the statement of financial position will be nearer to the replacement valuation.</p> <p>Negative points for FIFO</p> <p>The reverse will be the case when commodity prices are falling. When prices are falling profit will be reduced because the value of the closing inventory will be smaller increasing the cost of sales and reducing the profit.</p> <p>Decision Candidates should conclude that the Sales Manager’s statement is not always valid. Candidates should support that decision with an appropriate rationale.</p>		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	<p>Isolated elements of knowledge and understanding which are recall based.</p> <p>Generic assertions may be present.</p> <p>Weak or no relevant application to the scenario set.</p>	

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

Question Number	Answer	Mark
6 (a)	<p>AO1 (3)</p> <p>AO1: Three marks for stating the rule.</p> <p>Interest on loans – Will be paid at 5% per annum (1) AO1</p> <p>Partners salaries – There will be no salaries paid (1) AO1</p> <p>Share of profit or loss- Equal shares (1) AO1</p>	<p>(3)</p>

- 6 Asanka and Bhulo are in partnership sharing profits and losses equally. The following balances were in the books on 30 April 2017.

Capital accounts:	£
Asanka	30 000
Bhulo	25 000

Current accounts:	
Asanka	600 Cr
Bhulo	1 500 Dr

Additional information

- (1) On 1 May 2017 Asanka and Bhulo agreed to admit Padman as a partner. An agreement was prepared for the new partnership as follows:
- Padman would introduce capital of £20 000 by cheque.
 - Goodwill was valued at £18 000. This would **not** be retained in the books of the new partnership.
 - Asanka would withdraw £10 000 of his capital. This would be paid by cheque on 1 May 2017.
 - Interest will be charged on drawings taken at 5% per annum.
 - Asanka would be paid interest on his remaining capital at 8% per annum.
 - No interest on capital would be paid to Bhulo or Padman.
 - Salaries for the year would be paid to Bhulo £8 000 and Padman £10 000
 - The profit (loss) sharing ratio of Asanka, Bhulo and Padman would be 2:4:3
- (2) Balances in the books at 30 April 2018:
- Profit for the year £45 585
 - Salaries and drawings:

	Partners' salaries accrued	Drawings taken
	£	£
Asanka	–	5 800
Bhulo	500	6 500
Padman	1 000	8 000

Required

- (a) State the rules that would apply to the following where there is **no** partnership agreement:
- interest on partners' loans
 - partners' salaries
 - share of profit or loss.
- (3)
- (b) Prepare, for the year ended 30 April 2018, the:
- (i) appropriation section of the Statement of Profit or Loss and Other Comprehensive Income
- (7)
- (ii) capital accounts of Asanka, Bhulo and Padman
- (7)
- (iii) current accounts of Asanka, Bhulo and Padman.
- (7)
- (c) Evaluate the use of a formal partnership agreement.
- (6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS

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

Question Number	Answer	Mark
6 (a)	<p>AO1 (3)</p> <p>AO1: Three marks for stating the rule.</p> <p>Interest on loans – Will be paid at 5% per annum (1) AO1</p> <p>Partners salaries – There will be no salaries paid (1) AO1</p> <p>Share of profit or loss- Equal shares (1) AO1</p>	<p>(3)</p>

Question Number	Answer	Mark																																																															
6 (b) (i)	<p>AO1 (3), AO2 (4) AO1: Three marks for recording given balances. AO2: Four marks for calculating the balance and correctly recording this in the account.</p> <p>Appropriation section of the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 20%; text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;">45 585 (1) AO1</td> </tr> <tr> <td>Plus</td> <td></td> <td></td> </tr> <tr> <td>Interest on drawings</td> <td></td> <td></td> </tr> <tr> <td>Asanka</td> <td style="text-align: right;">290</td> <td></td> </tr> <tr> <td>Bhulo</td> <td style="text-align: right;">325 (1) AO2 all</td> <td></td> </tr> <tr> <td>Padman</td> <td style="text-align: right;"><u>400</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>1 015</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">46 600</td> </tr> <tr> <td>Interest on capital:</td> <td></td> <td></td> </tr> <tr> <td>Asanka</td> <td style="text-align: right;">2 000 (1) AO2</td> <td></td> </tr> <tr> <td>Salaries:</td> <td></td> <td></td> </tr> <tr> <td>Bhulo</td> <td style="text-align: right;">8 000 (1) AO1</td> <td></td> </tr> <tr> <td>Padman</td> <td style="text-align: right;"><u>10 000 (1) AO1</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>(20 000)</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">26 600</td> </tr> <tr> <td>Share of profit:</td> <td></td> <td></td> </tr> <tr> <td>Asanka</td> <td style="text-align: right;">5 910 (1of) AO2 If ratio correct</td> <td></td> </tr> <tr> <td>Bhulo</td> <td style="text-align: right;">11 820</td> <td></td> </tr> <tr> <td>Padman</td> <td style="text-align: right;"><u>8 870 (1of) AO2</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>26 600</u></td> </tr> </tbody> </table>		£	£	Profit for the year		45 585 (1) AO1	Plus			Interest on drawings			Asanka	290		Bhulo	325 (1) AO2 all		Padman	<u>400</u>				<u>1 015</u>			46 600	Interest on capital:			Asanka	2 000 (1) AO2		Salaries:			Bhulo	8 000 (1) AO1		Padman	<u>10 000 (1) AO1</u>				<u>(20 000)</u>			26 600	Share of profit:			Asanka	5 910 (1of) AO2 If ratio correct		Bhulo	11 820		Padman	<u>8 870 (1of) AO2</u>				<u>26 600</u>	(7)
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Question Number	Answer	Mark
6 (b) (ii)	<p>AO1 (2), AO2 (2), AO3 (3)</p> <p>AO1: Two marks for recording the opening balance and balancing the account.</p> <p>AO2: Two marks for recording the bank entries correctly.</p> <p>AO3: Three marks for calculating and recording the impact of goodwill.</p>	(7)

Capital Accounts

	Asanka £	Bhulo £	Padman £		Asanka £	Bhulo £	Padman £
Goodwill	4 000	8 000 (1)	6 000 (1)	Balance b/d	30 000	25 000 (1)	
Bank	10 000 (1)			Bank			20 000 (1)
Balance c/d	<u>25 000</u>	<u>26 000</u>	<u>14 000</u>	Goodwill	<u>9 000(1)</u>	<u>9 000</u>	—
	39 000	34 000	20 000		39 000	34 000	20 000
				Balance b/d	25 000	26 000	14 000
						(1of) All	

Balances b/d **(1) AO1 x2**

Bank entries **(1) AO2 x 2**

Goodwill adjustment **(1) AO3 x3**

Question Number	Answer	Mark
6 (b)(iii)	<p>AO1 (1), AO2 (6)</p> <p>AO1: One mark for recording the opening balance and balancing the account.</p> <p>AO2: Six marks for correctly recording the transfers from appropriation and the salaries and drawings paid.</p>	(7)

Current Accounts

	Asanka	Bhulo	Padman		Asanka	Bhulo	Padman
	£	£	£		£	£	£
Balance b/d		1 500		Balance b/d	600		
Int on dr'gs	290	325 (1of)	400				
Salaries paid		7 500 (1)	9 000	Int on cap	2 000 (1of)		
Drawings	5 800	6 500 (1)	8 000	Salaries		8 000 (1)	10 000
Balance c/d	<u>2 420</u>	<u>3 995</u>	<u>1 470</u>	Share of pr't	<u>5 910</u>	<u>11 820</u> (1of)	<u>8 870</u>
	<u>8 510</u>	<u>19 820</u>	<u>18 870</u>		<u>8 510</u>	<u>19 820</u>	<u>18 870</u>
				Balance b/d	2 420	3 995	1 470
						(1of)	

Balances **(1) AO1**

Appropriation, salary and drawings paid entries **(1) AO2 x 6**

Marks are for ALL three partners entries correct

Question Number	Indicative Content		Mark
6 (c)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Positive points for partnership agreement</p> <p>Partners are clear about the terms of their partnership relationship. This clarity should help to avoid disagreements or understandings at a later date.</p> <p>Negative points for partnership agreement</p> <p>If the agreement is formalised there is the cost and time of doing this. No agreement can cater for all eventualities that the partnership will face.</p> <p>Decision Candidates should conclude that a partnership agreement in some form will be valuable. Candidates should support that decision with an appropriate rationale.</p> <p>NOT General benefits of a partnership</p>		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.	
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.	
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.	