

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Anthi and Keri started a partnership on 1 January 2013. On that date the partners placed the following assets and liabilities into the business:

Anthi

Goodwill	£75 000
Delivery vehicle	£9 000
Inventory	£16 000
Trade receivables	£7 000
Trade payables	£15 000

Keri

Land and building	£80 000
-------------------	---------

Additional information:

- (1) The partnership agreement stated that:
- Goodwill would **not** be maintained in the books of the partnership
 - Interest on capital would be paid at the rate of 5% per annum
 - Anthi would receive a salary of £15 000 per annum
 - Profits and losses would be shared three fifths Anthi, two fifths Keri
 - All appropriations would be recorded in a current account for each partner.
- (2) On 1 July 2013, Keri paid an additional £20 000 capital into the business bank account.
- (3) The partnership received a £50 000, 8% bank loan on 1 April 2013. The loan is repayable in five equal annual instalments on the 1 April of each year. The first repayment will be made on 1 April 2014.
- (4) Balances, other than partners' capital and current accounts, at 31 December 2013 were:

	£
Inventory	63 000
Gross profit	103 350
Land and buildings (at cost)	80 000
Delivery vehicles (at cost)	19 000
Fixtures and fittings (at cost)	14 000
Trade payables	25 900
Trade receivables	18 300
8% Bank loan	50 000
Cash and bank	7 800
Wages and salaries	47 000
Bank loan interest	2 000
Delivery vehicle expenses	12 250
Carriage inwards	500 Cr
Sundry expenses	21 900
Drawings: Anthi	5 500
Keri	6 000

- (5) At 31 December 2013:
- Wages and salaries includes the £15 000 salary paid to Anthi
 - Delivery vehicle expenses of £650 were prepaid
 - No depreciation is to be charged on land and buildings
 - An additional delivery vehicle was purchased on 1 July 2013. Depreciation is to be charged at the rate of 20% per annum using the reducing balance method. Depreciation is charged pro rata to the months of ownership in the year of purchase.
 - Fixtures are to be depreciated at the rate of 10% per annum using the straight-line method. The fixtures and fittings were purchased on 1 January 2013 and the residual value will be £2 000
 - A bad debt of £800 was to be written off as irrecoverable. A provision for doubtful debts is to be created at 4% of remaining debts.

Required:

- (a) Prepare the Journal at 1 January 2013, including narratives, to:
- (i) open the books of the partnership (3)
 - (ii) remove goodwill from the books of the partnership. (3)
- (b) Prepare for the year ended 31 December 2013, the:
- (i) Statement of Comprehensive Income and Appropriation Account (15)
 - (ii) Capital accounts of the partners (4)
 - (iii) Current accounts of the partners. (4)
- (c) Prepare the Statement of Financial Position at 31 December 2013. (15)
- (d) Evaluate the decision of the partners to **not** charge depreciation for land and buildings. (8)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 8 of the question paper.

SECTION A

1(a)(ii)

	Journal		
	Dr	CR	
	£	£	
Goodwill	75 000		
Delivery vehicle	9 000		
Inventory	16 000		
Trade receivables	7 000		
Trade payables		15 000	
Capital Anthi		92 000 ✓	
Land and buildings	80 000		
Capital Keri		80 000 ✓	
Opening assets and liabilities of the partnership			(3)
Capital Anthi	45 000		✓
Capital Keri	30 000		✓
Goodwill		75 000	
Goodwill of the partnership written off			(3)

(b)(i)

Anthi and Keri – Statement of Comprehensive Income and Appropriation Account for the year ended 31 December 2013

	£	£
Gross profit		103 350
Less expenses:		
Wages and salaries (47 000 – 15 000)	32 000	✓
Loan interest (2 000 + 1 000)	3 000	✓
Delivery vehicle expenses (12 250 – 650)	11 600	✓
Sundry expenses	21 900	✓
Depreciation – Delivery vehicles	2 800	✓
Fixtures and fittings	1 200	✓
Bad debts	800	✓
Provision for Doubtful Debts	<u>700</u>	✓
		<u>74 000</u>
Profit for the year		29 350

Interest on capital:

Anthi	2 350	√√(√of)
Keri (2 500 + 500)	<u>3 000</u>	√√ (√of)
	5 350	
Salary Anthi	15 000	√

Share of profit:

Anthi	5 400	√of if in correct ratio
Keri	<u>3 600</u>	√of if in correct ratio
	9 000	

29 350

(15)

(ii)

Capital Accounts

	Anthi	Keri		Anthi	Keri
	£	£		£	£
Goodwill	45 000	30 000 √	Journal	92 000	80 000 √
Balance c/d	<u>47 000</u>	<u>70 000</u>	Bank	<u>20 000</u> √	
	<u>92 000</u>	<u>100 000</u>		<u>92 000</u>	<u>100 000</u>
			Balance b/d	47 000	70 000 √of

(4)

(iii)

Current Accounts

	Anthi	Keri		Anthi	Keri
	£	£		£	£
Salary paid	15 000 √	-	Interest	2 350	3 000 √ of
Drawings	5 500	6 000 √	Salary	15 000	-
Balance c/d	<u>2 250</u>	<u>600</u>	Share of profit	<u>5 400</u>	<u>3 600</u>
	<u>22 750</u>	<u>6 600</u>		<u>22 750</u>	<u>6 600</u>
			Balance b/d	2 250	600 √of

(4)

(c)

Statement of Financial Position at 31 December 2013

	Cost	Accumulated Depreciation	Carry over
	£	£	£
<u>Non-current assets</u>			
Land and buildings			80 000
Delivery vehicles	19 000	2 800	16 200 ✓of if <19 000
Fixtures and fittings	14 000	1 200	<u>12 800</u> ✓of if <14 000
			109 000 ✓
<u>Current assets</u>			
Inventory	63 000		✓
Trade receivables	17 500		✓
Less PDD	<u>700</u>	16 800	✓of
Other receivables	650		✓
Cash and Bank	<u>7 800</u>		✓
			<u>88 250</u>
			<u>197 250</u>
<u>Capital and equity:</u>			
Capital accounts:			
Anthi	47 000		
Keri	<u>70 000</u>		
	117 000		✓of
Current accounts:			
Anthi	2 250		
Keri	<u>600</u>		
	2 850		✓of
			119 850
<u>Creditors: due in less than one year</u>			
Trade payables	25 900		✓
8% Bank loan repayment	10 000		✓
Other payables (1 000 + 500)	<u>1 500</u>		✓✓
			37 400
<u>Creditors: due in more than one year</u>			
8% Bank loan	<u>40 000</u>		✓ (✓of £50,000)
			<u>40 000</u>
			<u>197 250</u>

(15)

(d) Valid points may include:

Positive

- Land generally does not decrease in value through deterioration
- Historically land and buildings have appreciated in value
- Annual depreciation charge would be very small due to the long life of the asset

Negative

- Buildings will deteriorate with the passage of time
- Does not comply with concept of prudence, matching or going concern
- Unrealistic not to charge
- Non current assets not overstated

Do not accept higher profit, save time, make it easier

✓✓ per point x 4 - MAX 2 points positive and 2 points negative

(8)

(Total 52 marks)

2 (a)	£	£	£
	Plus	Minus	Balance
Inventory count			15 600
(1)	900		✓✓
(2)		(750)	✓✓
(3)		(500)	✓✓
(4)	800		✓✓
(5)	<u>350</u>	<u> </u>	✓✓
	2 050	1 250	
Adjusted inventory balance			<u><u>16 400</u></u>

(10)

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Gary is a sole trader. He rents a shop at Easton Golf Course where he is also a golf instructor. His inventory count (stock take) at 31 December 2013 was valued at £15 600. On inspection of his inventory records he discovered that:

- (1) Golf equipment costing £900 had been omitted from the inventory count.
- (2) An inventory sheet had been over cast by £750.
- (3) Golf clothing costing £1 000 had been damaged and could now only be sold at half of the cost price.
- (4) Golf equipment with a selling price of £1 200, on sale or return to a member, had **not** been included in the inventory count. The member had not stated an intention to buy or return the goods.
- (5) Golf equipment with a selling price of £525 had **not** been included in the inventory count.

Gary marks up all golf clothing and golf equipment by 50%.

Required:

- (a) Calculate the corrected value of the inventory at 31 December 2013 after the above adjustments (1) to (5) are made.

(10)

The Cash Book (Summary) for Gary for the year ended 31 December 2013 was as follows:

Cash Book (Summary)			
	£		£
Balance b/d	1 680	Payments to suppliers	38 900
Receipts from customers	52 960	Playing fees paid to the Course	25 000
Playing fees collected	28 800	Fixtures and fittings	400
Course salary received	4 500	Rent	1 900
Golf tuition fees	8 250	Heat and light	1 760
		Drawings	29 500
Balance c/d	<u>5 690</u>	Sundry expenses	<u>4 420</u>
	<u>101 880</u>		<u>101 880</u>
		Balance b/d	5 690

Additional information:

- (1) Gary collects playing fees on behalf of the Course and keeps 5% of all playing fees collected. The balance of 95% has to be paid to the Course.
- (2) Easton Golf Course pays Gary a salary of £5 000 per annum.
- (3) Gary keeps all the profit from the sale of golf clothing and golf equipment.
- (4) Easton Golf Course charges Gary a rent of £2 150 per annum for the shop.

(5) Balances at:	1 January 2013 £	31 December 2013 £
Fixtures and fittings (at valuation)	1 700	1 650
Inventory	12 850	?
Trade receivables	6 170	6 330
Trade payables	6 700	9 350
Prepaid heat and light	300	-
Accrued heat and light	-	460

Required:

- (b) Calculate the capital of Gary at 1 January 2013. (3)
- (c) Prepare the:
 - (i) Statement of Comprehensive Income for the year ended 31 December 2013 (13)
 - (ii) Statement of Financial Position at 31 December 2013. (12)
- (d) Calculate for Gary, the current ratio at:
 - (i) 1 January 2013 (3)
 - (ii) 31 December 2013. (3)
- (e) Evaluate the liquidity of Gary's business. (8)

(Total 52 marks)**Answer space for question 2 is on pages 9 to 16 of the question paper.**

(d) Valid points may include:

Positive

- Land generally does not decrease in value through deterioration
- Historically land and buildings have appreciated in value
- Annual depreciation charge would be very small due to the long life of the asset

Negative

- Buildings will deteriorate with the passage of time
- Does not comply with concept of prudence, matching or going concern
- Unrealistic not to charge
- Non current assets not overstated

Do not accept higher profit, save time, make it easier

✓✓ per point x 4 - MAX 2 points positive and 2 points negative

(8)

(Total 52 marks)

2 (a)	£	£	£
	Plus	Minus	Balance
Inventory count			15 600
(1)	900		✓✓
(2)		(750)	✓✓
(3)		(500)	✓✓
(4)	800		✓✓
(5)	<u>350</u>	<u> </u>	✓✓
	2 050	1 250	
Adjusted inventory balance			<u><u>16 400</u></u>

(10)

(b)

	£
Assets	
Bank	1 680
Fixtures	1 700
Inventory	12 850
Trade receivables	6 170
Prepaid	<u>300</u>
	22 700 ✓
Less	
Liabilities	
Trade payables	<u>(6 700) ✓</u>
Capital	16 000 ✓of

(3)

(c)(i)

Gary - Statement of Comprehensive Income for the year ended 31 December 2013

	£	£
Revenue	52 960 – 6 170 + 6 330	53 120 ✓✓
Less		
Cost of sales:		
Opening inventory	12 850	
Purchases	38 900 – 6 700 + 9 350	<u>41 550</u> ✓✓
	54 400	
Closing inventory	<u>(16 400)</u>	✓of
Cost of sales		<u>38 000</u>
Gross profit		15 120
Plus Other income		
Playing fees	28 800 x 5%	1 440 ✓
Club salary	4 500 + 500	5 000 ✓
Golf tuition fees	8 250	✓
		<u>14 690</u>
		29 810
Less Expenses		
Rent	2 150	✓
Heat and light	1 760 + 300 + 460	2 520 ✓✓
Sundry expenses	4 420	✓
Depreciation – Fixtures and fittings	<u>450</u>	✓
		<u>9 540</u>
Profit for the year		<u>20 270</u>

(13)

(ii)

Statement of Financial Position at 31 December 2013

	£	£
<u>Non-current assets</u>		
Fixtures and fittings		1 650 ✓
 <u>Current assets</u>		
Inventory	16 400	✓of
Trade receivables	6 330	✓
Other receivables	<u>500</u>	✓
		<u>23 230</u>
		<u>24 880</u>
	£	£
<u>Capital and equity:</u>		
Capital	16 000	✓of
Profit for the year	<u>20 270</u>	✓of
	36 270	
Drawings	<u>(29 500)</u>	✓
		6 770
<u>Current liabilities</u>		
Trade payables	9 350	✓
Other payables	2 360 + 250 + 460	3 070 ✓✓✓
Bank overdraft	<u>5 690</u>	✓
		<u>18 110</u>
		<u>24 880</u>
		(12)

(d)(i)(ii)

	1 January	
Current ratio – Current assets	<u>12 850 + 6 170 + 300 + 1 680</u>	= <u>21 000</u> ✓ = 3.13:1 ✓of
Current liabilities	6 700	6 700 ✓
		(3)

	31 December	
Current assets	<u>16 400 of + 6 330 + 500</u>	= <u>23 230</u> of ✓ = 1.28:1 ✓of
Current liabilities	9 350 + 2 360 of + 250 of +460 +5 690	18 110 of ✓
		(3)

(e) Valid points may include:

Note : OF Rule applies

Positive

- Although current ratio is low, it is still just sufficient but not 2:1
- A significant profit is still being made if drawings can be reduced liquidity will rise

Negative

- Current ratio has deteriorated significantly during the year
- A positive bank balance has now become an overdraft
- Most of the current assets are in inventory
- Drawings are greater than profit for the year, draining cash
- Trade payables have increased significantly due to lack of cash to pay them

v/v per point x 4 - MAX 2 points positive and 2 points negative

(8)

(Total 52 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Vaso Technology manufactures components for the electronics industry. The following balances are available from the books on 31 December 2013:

	£
Inventory 1 January 2013:	
Raw materials	30 000
Work in progress	52 000
Finished goods	78 000
Purchases of raw materials	195 000
Production wages	134 000
Packaging	25 000
Management salaries:	
Production	85 000
Office	106 000
Production equipment (at cost)	110 000
Production equipment provision for depreciation	46 000
Premises rent	30 000
Sundry expenses	24 000
Revenue (sales)	650 000
Office computers (at cost)	?
Office computers provision for depreciation	?

Additional information at 31 December 2013:

- (1) Vaso Technology values the inventory on the First In First Out (FIFO) basis.

The following summary relates to the raw materials:

1 January 2013	Inventory	15 000 items @ £2 each
January – June	Purchases	30 000 items @ £2.50 each
July – December	Purchases	40 000 items @ £3 each
January – December	Issues	60 000 items

Work in progress was valued at £49 000

Finished goods were valued at £63 000

- (2) Production wages accrued £6 500.
- (3) Packaging is 70% direct and 30% indirect.
- (4) Premises rent and sundry expenses are to be apportioned 75% to production and 25% to the office.
- (5) Depreciation is charged on production equipment at the rate of 25% per annum reducing balance method.
- (6) Vaso Technology transfers production to finished goods at £5 per item. During the year 96 000 items were completed and transferred.

Required:

- (a) Prepare the Manufacturing Account for the year ended 31 December 2013. (18)

The following information relates to the office computers:

1 January 2011	Purchased office computers for £20 000
30 June 2013	Sold office computers costing £6 000 for £2 500
1 October 2013	Purchased office computers for £8 000 paying by cheque

Vaso Technology has the following depreciation policy:

- Office computers are depreciated at the rate of 20% per annum using the straight-line method
- Depreciation is charged pro rata to the months of ownership in the year of purchase or sale
- Vaso Technology uses a disposal account for the sale of office computers.

- (b) Prepare the following ledger accounts for the year ended 31 December 2013:
- (i) Office Computers Account (6)
- (ii) Office Computers Provision for Depreciation Account. (8)
- (c) Prepare the Statement of Comprehensive Income for the year ended 31 December 2013, showing clearly the gross profit and the profit for the year. (12)
- (d) Evaluate the use of the straight-line method of depreciation for office computers. (8)

(Total 52 marks)

Answer space for question 3 is on pages 17 to 22 of the question paper.

3(a)

Vaso Technology

Manufacturing Account for the year ended 31 December 2013

	£	£	
Opening inventory of raw materials	30 000		√
Purchases of raw materials	<u>195 000</u>		√
	225 000		
Less Closing inventory of raw materials	<u>(75 000)</u>		√√
Cost of raw materials consumed		150 000	√
Production wages (134 000 + 6 500)		140 500	√
Packaging (25 000 x 70%)		<u>17 500</u>	√
Prime cost		308 000	√ of +w
Plus overheads:			
Packaging (25 000 x 30%)	7 500		√
Production salaries	85 000		√
Depreciation – Production equipment	16 000		√
Premises rent	22 500		√
Sundry expenses	<u>18 000</u>		√
		<u>149 000</u>	
		457 000	
Work in progress at start	52 000		√
at end	<u>(49 000)</u>		√
		<u>3 000</u>	
Production cost		460 000	√ of +w
Profit on manufacture		<u>20 000</u>	√ (of)
Transfer to trading account		<u>480 000</u>	√ of +w
		(18)	

(b)

Office Computers Account

	£		£
1 Jan Balance b/d	20 000 √	30 June Disposal √	6 000 √
1 Oct Bank	<u>8 000</u> √	31 Dec Balance c/d	<u>22 000</u> √
	<u>28 000</u>		<u>28 000</u>
1 Jan Balance b/d	22 000 √ of		

(6)

Office Computers – Provision for Depreciation Account

	£		£
30 June Disposal √	3 000 √	1 Jan Balance b/d	8 000 √
31 Dec Balance c/d	8 800 √	31 Dec Income statement/deprec.	
	<u>11 800</u>	(600 + 400 + 2 800)	<u>3 800</u> √√√ (√ of)
			<u>11 800</u>
		1 Jan Balance b/d	8 800 √ of

(8)

(c)

Statement of Comprehensive Income for the year ended 31 December 2013

	£	£	
Sales		650 000	✓
Opening inventory of finished goods	78 000		✓
Goods transferred from manufacturing	<u>480 000</u>		✓ of
	558 000		
Less Closing inventory of finished goods	<u>(63 000)</u>		✓
Cost of sales		<u>495 000</u>	
Gross profit		155 000	✓ of
Less			
Office salaries	106 000		✓
Premises rent	7 500		✓
Sundry expenses	6 000		✓
Depreciation office computers	3 800		✓ of
Loss on sale of office computers	<u>500</u>		✓ of
		<u>(123 800)</u>	
		31 200	
Plus Profit on manufacture		<u>20 000</u>	✓ of
Profit for the year		<u><u>51 200</u></u>	✓ w + of
			(12)

(d) Valid points may include:

Positive

- Office computers will give equal benefit to the business in each year
- Profit will not be distorted over the early years

Negative

- Office computers will lose most of their value in the early years
- Office computers will not be accurately valued in the Financial Position Statement
- The cost of the office computers will increase as repairs are required
- Straight line is not accepted by the tax authorities.

DO NOT ACCEPT easy to calculate or consistency.

✓✓ per point x 4 - MAX 2 points positive and 2 points negative

(8)

(Total 52 marks)

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Ranatunga maintains double-entry records and also control accounts.

(1) On 1 January 2013 he had the following balances on his Purchases Ledger Control Account:

£430 Dr
£78 000 Cr

(2) Ranatunga extracted the following balances from his Ledger on 31 December 2013:

	£
Cheques paid to suppliers	497 000
Refund from supplier	4 000
Discount received	8 200
Cash purchases	24 600
Sales ledger contra/Purchases ledger contra	2 150
Credit purchases	505 000
Returns outwards	15 600

(3) After extracting the balances in (2) above, the following errors were discovered:

- A discount received of £200 had been debited to the Discount Received Account
- A purchase of goods from Archana, £750, had been correctly entered in the Purchases Day Book but had been recorded in Archana's account at £570
- The Purchases Day Book had been undercast by £2 500
- A purchase from C. Vissing, £300, had been entered into the account of B. Vincent.

(4) On 1 January 2014 the Purchases Ledger Control Account had the following balances:

£650 Dr
? Cr

Required:

- (a) Prepare the Journal correcting the errors in (3) above. Narratives are **not** required. (8)
- (b) Prepare the Purchases Ledger Control Account for the year ended 31 December 2013, following the correction of all errors. (16)
- (c) Suggest **two** possible reasons for a debit balance in the Purchases Ledger Control Account. (4)
- (d) Evaluate the use of control accounts. (4)

(Total 32 marks)

Answer space for question 4 is on pages 23 to 25 of the question paper.

SECTION B

4 (a)

Journal			
	Dr	Cr	
	£	£	
Suspense	400		✓
Discount received		400	✓
Suspense	180		✓
Archana		180	✓
Purchases	2 500		✓
Suspense		2 500	✓
B Vincent	300		✓
C Vissing		300	✓
			(8)

(b)

Purchases Ledger Control Account			
	£		£
Balance b/d	430	Balance b/d	78 000
Payments to creditors	497 000 v√	Refund	4 000 v√
Discount rec'd (8 200v+400v)	8 600 v	Credit purchases	
Sales ledger contra	2 150 v√	(505 000v+2 500v)	507 500 v
Returns outwards	15 600 v√		
Balance c/d	<u>66 370</u>	Balance c/d	<u>650</u>
	<u>590 150</u>		<u>590 150</u>
Balance b/d	650 v	Balance b/d	66 370 vof
			(16)

(c)

- Goods returned after payment made
- Discount received not posted
- Overpayment to creditor
- Contra from sales ledger

2 marks x 2 points

(4)

(d) Valid points may include:

Positive

- Tests arithmetical accuracy
- Helps to identify areas where errors exist
- Through separation of duties protects against fraud
- Provides total of trade payables or trade receivables.

Negative

- Time consuming
- Requires double entry accounting and a high level of staff skill
- Some errors are not discovered by control accounts e.g errors of omission.

✓✓ per point x 2 - MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)

5 (a)

Allocation occurs where a cost is wholly identifiable with one cost centre ✓✓

Apportionment occurs where costs are shared and must be apportioned across the cost centres on some equitable basis ✓✓

(4)

(b) (i)

	East Town £000's	Weststead £000's	Northerton £000's	
Marketing	90	36	54	✓✓✓✓
Premises running costs	70	50	60	✓✓✓✓
Management salaries	550	125	225	✓✓✓✓
Depreciation	<u>36</u>	<u>12</u>	<u>24</u>	✓✓✓✓
	746	223	363	

(16)

(ii)

Profit for the year	750	260	500	✓✓
Less revised overheads	<u>746</u>	<u>223</u>	<u>363</u>	✓✓ of
Revised profit for the year	4	37	137	✓✓✓✓(✓✓of)

(8)

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Simply Luxury is a business with a Head Office and three stores: East Town, Weststead and Northerton. For many years the cost of operating the Head Office has been allocated to the three stores on a set basis.

The following information is available for the year ended 30 November 2013:

- (1) Draft financial statement:

	East Town £000's	Weststead £000's	Northerton £000's	Head Office £000's
Profit before Head Office costs	750	260	500	-
Less Set Head Office costs	<u>(500)</u>	<u>(350)</u>	<u>(482)</u>	<u>(1 332)</u>
Profit/(loss) after Head Office costs	250 profit	(90) loss	18 profit	

- (2) Head Office overheads costs were:

Marketing	£180 000
Premises running costs	£180 000
Management salaries	£900 000
Depreciation	<u>£72 000</u>
	£1 332 000

- (3) Other information:

	East Town	Weststead	Northerton
Staff (number)	22	5	9
Floor area (sq m)	700	500	600
Computers & fixtures (£000's)	18	6	12
Sales revenue (£000's)	1 500	600	900

Required:

- (a) Distinguish between **allocation** and **apportionment** as used in overhead recovery. (4)

Simply Luxury is considering allocating Head Office overheads for each store on the most appropriate basis.

- (b) (i) Using the most appropriate basis, calculate the Head Office overheads for each store. (16)

(ii) Calculate the revised profit/loss for each store for the year. (8)

It has been suggested that the profit for the year of Simply Luxury would increase if the Weststead store is closed.

- (c) Evaluate this statement. (4)

(Total 32 marks)

Answer space for question 5 is on pages 26 to 30 of the question paper.

(d) Valid points may include:

Positive

- Tests arithmetical accuracy
- Helps to identify areas where errors exist
- Through separation of duties protects against fraud
- Provides total of trade payables or trade receivables.

Negative

- Time consuming
- Requires double entry accounting and a high level of staff skill
- Some errors are not discovered by control accounts e.g errors of omission.

✓✓ per point x 2 - MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)

5 (a)

Allocation occurs where a cost is wholly identifiable with one cost centre ✓✓

Apportionment occurs where costs are shared and must be apportioned across the cost centres on some equitable basis ✓✓

(4)

(b) (i)

	East Town £000's	Weststead £000's	Northerton £000's	
Marketing	90	36	54	✓✓✓✓
Premises running costs	70	50	60	✓✓✓✓
Management salaries	550	125	225	✓✓✓✓
Depreciation	<u>36</u>	<u>12</u>	<u>24</u>	✓✓✓✓
	746	223	363	

(16)

(ii)

Profit for the year	750	260	500	✓✓
Less revised overheads	<u>746</u>	<u>223</u>	<u>363</u>	✓✓ of
Revised profit for the year	4	37	137	✓✓✓✓(✓✓of)

(8)

(c) Valid points may include:

Positive

- Weststead is carrying the least overhead which may be able to be saved
- Less overall management control required

Negative

- Weststead is making the second highest profit
- Some of the costs will be fixed and will need to be charged to other stores if Weststead is closed
- Loses profit
- Reduce their customer base

✓✓ per point x 2 - MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)

6 (a)(i) Mark up $\frac{\text{Gross profit}}{\text{Cost of sales}} \frac{75\,000 \checkmark \times 100 \checkmark}{250\,000 \checkmark} \checkmark = 30\% \checkmark$

(4)

(ii) Profit for the year as a Percentage of Revenue (Sales) $\frac{\text{Profit for the year}}{\text{Revenue (Sales)}} \frac{10\,000 \checkmark \times 100 \checkmark}{325\,000 \checkmark} \checkmark = 3.1\% \checkmark$

(4)

(b) Prices are higher than last year

Cost of sales is lower due to market conditions or more efficient buying

Change in selling mix

2 x ✓✓ per point

(4)

(c)(i) Owners capital refers to the personal investment/equity of the owner(s) in the business ✓✓

Capital employed refers to the total long term capital used by the owner(s) to generate profit. This may include owners' capital, plus long term loans ✓✓ (4)

(ii) $\frac{\text{Profit for the year } \checkmark \text{ before interest } \checkmark}{\text{Owners capital} + \text{Long term liabilities } \checkmark} \times 100 = \text{ \%}$
(Capital employed)

(3)

(iii) Return on capital employed

Profit for the year(working 1) $\frac{23\,000 \checkmark \times 100 \checkmark}{100\,000 + 100\,000 \checkmark} \checkmark = 11.5\% \checkmark$ of

Capital employed

Working 1: £75 000 - £60 000 = 15 000 + 8 000 = 23 000

(4)

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Nemesh is considering the purchase of the Value Store. The following information relates to the Value Store for the last financial year:

	£
Inventory 1 December 2012	30 000
Inventory 30 November 2013	25 000
Revenue (sales)	325 000
Purchases	245 000
Expenses (including depreciation)	65 000

Required:

- (a) Calculate, for the year ended 30 November 2013, the:
- (i) Percentage mark-up (4)
 - (ii) Profit for the year as a percentage of Revenue (Sales). (4)

The owner of the Value Store had stated that he planned to use a mark-up of 25% for the year.

- (b) Suggest **two** possible reasons for any variance in the mark-up between planned and actual. (4)

The purchase price of the business is £200 000. Nemesh would fund the purchase by using his £100 000 personal savings plus a £100 000 8% bank loan. He estimates that his expenses for the first year of trading would be £60 000 (including depreciation and bank loan interest).

- (c) (i) Distinguish between **owner's capital** and **capital employed**. (4)
- (ii) State the formula used when calculating return on capital employed. (3)
- (iii) Calculate the return on capital employed if Nemesh purchases the Value Store. (4)

Nemesh finds that the net tangible assets of the business are £150 000.

- (d) (i) Name the term used to describe the £50 000 that Nemesh must pay above the value of the net tangible assets. (1)
- (ii) Explain **two** reasons why Nemesh might make this payment to the seller. (4)
- (e) Evaluate whether Nemesh should purchase the Value Store. (4)

(Total 32 marks)

Answer space for question 6 is on pages 32 to 35 of the question paper.

(c) Valid points may include:

Positive

- Weststead is carrying the least overhead which may be able to be saved
- Less overall management control required

Negative

- Weststead is making the second highest profit
- Some of the costs will be fixed and will need to be charged to other stores if Weststead is closed
- Loses profit
- Reduce their customer base

✓✓ per point x 2 - MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)

6 (a)(i) Mark up $\frac{\text{Gross profit}}{\text{Cost of sales}} \frac{75\,000 \checkmark \times 100 \checkmark}{250\,000 \checkmark} \checkmark = 30\% \checkmark$

(4)

(ii) Profit for the year as a Percentage of Revenue (Sales) $\frac{\text{Profit for the year}}{\text{Revenue (Sales)}} \frac{10\,000 \checkmark \times 100 \checkmark}{325\,000 \checkmark} \checkmark = 3.1\% \checkmark$

(4)

(b) Prices are higher than last year

Cost of sales is lower due to market conditions or more efficient buying

Change in selling mix

2 x ✓✓ per point

(4)

(c)(i) Owners capital refers to the personal investment/equity of the owner(s) in the business ✓✓

Capital employed refers to the total long term capital used by the owner(s) to generate profit. This may include owners' capital, plus long term loans ✓✓ (4)

(ii) $\frac{\text{Profit for the year } \checkmark \text{ before interest } \checkmark}{\text{Owners capital} + \text{Long term liabilities } \checkmark} \times 100 = \text{ \%}$
(Capital employed)

(3)

(iii) Return on capital employed

Profit for the year(working 1) $\frac{23\,000 \times 100 \checkmark}{100\,000 + 100\,000 \checkmark} \checkmark = 11.5\% \checkmark$ of
Capital employed

Working 1: £75 000 - £60 000 = 15 000 + 8 000 = 23 000

(4)

(d)(i) Goodwill ✓ (1)

(ii) Location

Customer base

Reputation

✓✓ x 2 points

(4)

(e) Valid points may include:

OF Rule applies

Positive

- Established business with good mark-up
- Return on capital employed high
- Goodwill/reputation

Negative

- Raising the capital from a bank
- Risk of using all his savings
- Profit to revenue is low at 3.1%

✓✓ per point x 2 - MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)

7(a)

Bourne Cricket Club – Trial Balance at 31 December 2013

	Dr	Cr
	£	£
Accumulated fund		30 200 ✓
Subscriptions (8 850 – 250)		8 600 ✓✓
Competition fees		1 000 ✓
Donations		250 ✓
Purchases of refreshments	14 650	✓
Sales of refreshments		30 250 ✓
Clubhouse (at cost)	35 000	✓
Equipment (at cost) (4 800 – 1 800)	3 000	✓
Provision for depreciation –		
Equipment (3 200 – 1 100)		2 100 ✓
Profit on sale of equipment		100 ✓
Wages and salaries	18 950	✓
Other expenses	10 550	✓
Trade payables		9 850 ✓
Bank (-600 + 800)	<u>200</u>	<u>✓✓</u>
	<u>82 350</u>	<u>82 350</u>

(16)

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. The Treasurer of the Bourne Cricket Club extracted the following balances from the Club's books on the 31 December 2013, before completing the Income and Expenditure Account:

	£
Accumulated fund	30 200
Subscriptions	8 850
Competition fees received	1 000
Purchases of refreshments	14 650
Sales of refreshments	30 250
Clubhouse (at cost)	35 000
Equipment (at cost)	4 800
Provision for depreciation – equipment	3 200
Wages and salaries	18 950
Other expenses	10 550
Trade payables	9 850
Bank overdraft	600

Additional information:

1. The books contained the following errors and omissions:
 - (i) Donations received of £250 had been recorded as subscriptions
 - (ii) Equipment costing £1 800 with a carry over (net book value) of £700 was sold in December for £800. The receipt was by cheque. No entries had been made in the books to record this transaction.

Required:

- (a) Prepare the Trial Balance of Bourne Cricket Club at 31 December 2013, after all adjustments have been made.

(16)

Additional information:

Subscriptions paid in advance and in arrears at 31 December 2013:

Paid in advance £1 410 In arrears £1 360

- (b) (i) Prepare the Subscriptions Account for the year ended 31 December 2013. (8)
- (ii) Explain why subscriptions require adjustment for sums paid in advance and in arrears. (4)

The Committee of the Bourne Cricket Club has been considering offering a five-year membership at a discount as an alternative to the current annual membership. The Treasurer informed members at the Annual General Meeting that in his opinion the five-year discounted membership would bring no benefits to the Club.

- (c) Evaluate the Treasurer's statement. (4)

(Total 32 marks)

Answer space for question 7 is on pages 36 to 39 of the question paper.

(d)(i) Goodwill ✓ (1)

(ii) Location

Customer base

Reputation

✓✓ x 2 points

(4)

(e) Valid points may include:

OF Rule applies

Positive

- Established business with good mark-up
- Return on capital employed high
- Goodwill/reputation

Negative

- Raising the capital from a bank
- Risk of using all his savings
- Profit to revenue is low at 3.1%

✓✓ per point x 2 - MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)

7(a)

Bourne Cricket Club – Trial Balance at 31 December 2013

	Dr	Cr
	£	£
Accumulated fund		30 200 ✓
Subscriptions (8 850 – 250)		8 600 ✓✓
Competition fees		1 000 ✓
Donations		250 ✓
Purchases of refreshments	14 650	✓
Sales of refreshments		30 250 ✓
Clubhouse (at cost)	35 000	✓
Equipment (at cost) (4 800 – 1 800)	3 000	✓
Provision for depreciation –		
Equipment (3 200 – 1 100)		2 100 ✓
Profit on sale of equipment		100 ✓
Wages and salaries	18 950	✓
Other expenses	10 550	✓
Trade payables		9 850 ✓
Bank (-600 + 800)	<u>200</u>	<u>✓✓</u>
	<u>82 350</u>	<u>82 350</u>

(16)

(b) (i)

Subscriptions Account			
	£		£
Donations	250	✓	Bank/Balance/
Income and expenditure	8 550	✓	Subscriptions
Balance c/d	<u>1 410</u>	✓	Balance c/d
	<u>10 210</u>		<u>10 210</u>
Balance b/d	1 360	✓	Balance b/d
			1 410

(8)

(ii) The matching concept ✓✓ must apply to ensure that the income for the period is matched against the expenditure of the period.✓✓

(4)

(c)

Valid points may include:

Positive

- Five year membership would increase short term cash flow
- Tie members into the club long term
- Save annual collection fees
- Reduce bad debts
- May attract more members

Negative

- The discount will reduce the overall income
- Commitment to providing services long term

✓✓ per point x 2 - MAX 1 points positive and 1 points negative

(4)

(Total 32 marks)