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Surname

Other names

Pearson Edexcel
International
Advanced Level

Centre Number

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Candidate Number

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Accounting

International Advanced Subsidiary

Paper 1: The Accounting System and Costing

Tuesday 16 May 2017 – Afternoon

Time: 3 hours

Paper Reference

WAC11/01

You must have:

Source Booklet (enclosed)

Total Marks

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 insert 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** Amsha owns a plumbing business that installs and maintains plumbing systems in properties.

The following balances were available from his books on 31 March 2017.

	£
Purchase of raw materials	88 100
Plumbing technicians' wages	139 200
Management salaries	75 000
Bank and cash	3 100 Dr
Inventory 1 April 2016	17 500
Trade payables	45 700
Trade receivables	70 000
Capital	65 000
Motor vehicle expenses	45 000
Electricity and gas	5 700
Rent of premises	32 000
Marketing expenses	65 000
Revenue	525 000
8% bank loan (repayable 31 May 2017)	60 000
Bank loan interest paid	3 000
Non-current assets (cost):	
Motor vehicles	180 000
Office equipment	40 000
Loose tools	38 000
Provisions for depreciation:	
Motor vehicles	72 000
Office equipment	25 000
Loose tools	8 000
Allowance for doubtful debts	900

Additional information at 31 March 2017

- Inventory £20 800
- A purchase of raw materials on credit of £2 500 made on 29 March 2017 had not been recorded in the books.
- Management salaries include drawings of £18 000 paid to Amsha.
- Rent of premises of £4 000 was prepaid and marketing expenses of £1 900 were owing.
- The 8% bank loan was taken out on 1 April 2016.
- Depreciation is charged as follows:
 - Motor vehicles at the rate of 20% per annum straight line
 - Office equipment at the rate of 15% per annum straight line
 - Loose tools by revaluation. At the year end the value was £18 000
- The allowance for doubtful debts is to be maintained at 3%.

Required

(a) Prepare the:

- (i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2017.

(17)

- (ii) Statement of Financial Position at 31 March 2017.

(13)

Amsha is considering the hourly rates that he will charge in the next financial year for his plumbing technician services. He provides you with the following information.

- Amsha will continue to employ 12 plumbing technicians each of whom is provided with a motor vehicle in order to undertake their work.
- Each plumbing technician will be paid wages of £10 000 per annum.
- Amsha will pay employment taxes at 20% of the plumbing technicians' wages.
- All of the motor vehicle depreciation relates to motor vehicles used by plumbing technicians.
- Motor vehicle expenses for **each** vehicle will be £4 000 per annum.
- Loose tools depreciation is charged equally to the 12 plumbing technicians and is estimated to be the same in the next financial year.
- Amsha applies a mark-up of 35% on costs for overheads and profit.
- Each plumbing technician works 45 hours per week for 50 weeks per year. Amsha estimates that 80% of the hours worked are undertaking work that is directly charged to the customer.

Required

(b) Calculate the:

- (i) total cost (including overheads and profit) of employing **one** plumbing technician for the next financial year

(7)

- (ii) hourly rate that Amsha should charge customers in the next financial year for plumbing technician services.

(2)

Amsha remunerates his plumbing technicians on a day work basis. He is considering changing the method of remuneration to a group bonus scheme.

(c) Explain how a group bonus scheme would operate.

(4)

(d) Evaluate, from Amsha's perspective, the use of a group bonus scheme for remunerating the plumbing technicians.

(12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark																																																																					
1 (a)(i)	<p>A01 (11), A02 (17), A03 (2) A01: Eleven marks for recording the correct balance into the financial statements without adjustment. A02: Seventeen marks for recording the correct balance into the financial statements with adjustment. A03: Two marks for calculating and applying two stage adjustment.</p> <p style="text-align: center;">Amsha</p> <p style="text-align: center;">Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2017</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th style="text-align: right;">£</th><th style="text-align: right;">£</th></tr> </thead> <tbody> <tr> <td>Revenue</td><td></td><td style="text-align: right;">525 000 (1)A01</td></tr> <tr> <td>Inventory 1 April 2016</td><td style="text-align: right;">17 500 (1)A01</td><td></td></tr> <tr> <td>Purchases</td><td></td><td></td></tr> <tr> <td>(88 100 (1)A01 + 2 500 (1)A02)</td><td style="text-align: right;"><u>90 600</u></td><td></td></tr> <tr> <td></td><td style="text-align: right;">108 100</td><td></td></tr> <tr> <td>Inventory 30 March 2017</td><td style="text-align: right;"><u>(20 800) (1)A01</u></td><td></td></tr> <tr> <td>Cost of sales</td><td></td><td style="text-align: right;"><u>(87 300)</u></td></tr> <tr> <td>Gross profit</td><td></td><td style="text-align: right;">437 700</td></tr> <tr> <td>Less</td><td></td><td></td></tr> <tr> <td>Plumbing technician's wages</td><td style="text-align: right;">139 200 (1)A01</td><td></td></tr> <tr> <td>Management salaries (75 000 - 18 000)</td><td style="text-align: right;">57 000 (1)A02</td><td></td></tr> <tr> <td>Motor vehicle running expenses</td><td style="text-align: right;">45 000 (1)A01</td><td></td></tr> <tr> <td>Electricity and gas</td><td style="text-align: right;">5 700 (1)A01</td><td></td></tr> <tr> <td>Rent of premises (32 000 - 4 000)</td><td style="text-align: right;">28 000 (1)A02</td><td></td></tr> <tr> <td>Marketing expenses (65 000 + 1 900)</td><td style="text-align: right;">66 900 (1)A02</td><td></td></tr> <tr> <td>Bank loan interest (3 000 + 1 800)</td><td style="text-align: right;">4 800 (1)A02</td><td></td></tr> <tr> <td>Provisions for depreciation:</td><td></td><td></td></tr> <tr> <td> Motor vehicles</td><td style="text-align: right;">36 000 (1)A02</td><td></td></tr> <tr> <td> Office equipment</td><td style="text-align: right;">6 000 (1)A02</td><td></td></tr> <tr> <td> Loose tools</td><td style="text-align: right;">12 000 (1)A02</td><td></td></tr> <tr> <td>Allowance for doubtful debts</td><td style="text-align: right;"><u>1 200 (1)A02</u></td><td></td></tr> <tr> <td>Profit for the year</td><td></td><td style="text-align: right;"> 401 800 <u>35 900 (1)of+w A02</u> <u>437 700</u> </td></tr> </tbody> </table>		£	£	Revenue		525 000 (1)A01	Inventory 1 April 2016	17 500 (1)A01		Purchases			(88 100 (1)A01 + 2 500 (1)A02)	<u>90 600</u>			108 100		Inventory 30 March 2017	<u>(20 800) (1)A01</u>		Cost of sales		<u>(87 300)</u>	Gross profit		437 700	Less			Plumbing technician's wages	139 200 (1)A01		Management salaries (75 000 - 18 000)	57 000 (1)A02		Motor vehicle running expenses	45 000 (1)A01		Electricity and gas	5 700 (1)A01		Rent of premises (32 000 - 4 000)	28 000 (1)A02		Marketing expenses (65 000 + 1 900)	66 900 (1)A02		Bank loan interest (3 000 + 1 800)	4 800 (1)A02		Provisions for depreciation:			Motor vehicles	36 000 (1)A02		Office equipment	6 000 (1)A02		Loose tools	12 000 (1)A02		Allowance for doubtful debts	<u>1 200 (1)A02</u>		Profit for the year		401 800 <u>35 900 (1)of+w A02</u> <u>437 700</u>	(17)
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1 (b)(i)	<p>AO1 (1), AO2 (7), AO3 (1)</p> <p>AO1: One mark for correctly including the annual wage.</p> <p>AO2: Seven marks for correctly calculating the annual costs and hourly rate.</p> <p>AO3: One mark for correctly calculating the productive hours per annum.</p> <table><tr><td></td><td>Per plumbing Technician</td></tr><tr><td></td><td>£</td></tr><tr><td>Wages</td><td>10 000 (1)AO1</td></tr><tr><td>Employment taxes</td><td>2 000 (1)AO2</td></tr><tr><td>Motor vehicle depreciation</td><td>3 000 (1)AO2</td></tr><tr><td>Motor vehicle running exp</td><td>4 000 (1)AO2</td></tr><tr><td>Loose tools depreciation</td><td><u>1 000</u> (1of)AO2</td></tr><tr><td></td><td>20 000</td></tr><tr><td>Overheads and profit</td><td><u>7 000</u> (1of)AO2</td></tr><tr><td></td><td>27 000 (1of)AO2</td></tr></table>		Per plumbing Technician		£	Wages	10 000 (1) AO1	Employment taxes	2 000 (1) AO2	Motor vehicle depreciation	3 000 (1) AO2	Motor vehicle running exp	4 000 (1) AO2	Loose tools depreciation	<u>1 000</u> (1of) AO2		20 000	Overheads and profit	<u>7 000</u> (1of) AO2		27 000 (1of) AO2	
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(7)

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1 (b)(ii)	<table><tr><td>Total cost</td><td><u>27 000 of</u></td></tr><tr><td>Productive hours per annum</td><td>1 800 hours per annum (45 x 50 x 80%) (1)AO3</td></tr><tr><td></td><td>£15 per hour (1of)AO2</td></tr></table>	Total cost	<u>27 000 of</u>	Productive hours per annum	1 800 hours per annum (45 x 50 x 80%) (1)AO3		£15 per hour (1of)AO2	(2)
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Question Number	Answer	Mark
1 (c)	<p>AO1 (4) AO1: Four marks for describing a group incentive scheme.</p> <p>A standard time would be established for each job (1)AO1 All of the jobs undertaken by all of the plumbing technicians would be allocated a standard time. The total standard time to complete all jobs for all technicians could then be established. (1)AO1</p> <p>This would be compared with the actual time taken to complete all jobs to establish the time saved. (1)AO1 The plumbing technicians would then share a percentage (usually 50%) of the monetary value of time saved. (1)AO1</p> <p>NOT Benefits and disadvantages of a group incentive</p>	(4)

Question Number		Indicative Content
1(d)		<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Potential arguments for</p> <ul style="list-style-type: none"> • Technicians may complete the job in less time • More efficient use of time, more jobs completed • Cost of each job reduces • Fixed overheads spread over more jobs • Quick completion of jobs would make the business more competitive, gaining customers • Improved team work. <p>Potential arguments against</p> <ul style="list-style-type: none"> • Quality issues/more supervision required • Some technicians may not work more efficiently but may leave others to complete the task more quickly • Possible reduction in customer service • More efficient technicians may see the bonus scheme as unfair and become demotivated. <p>Decision Candidates may conclude that the arguments for or against outweigh the counter arguments. Having reached a decision the rationale for that position should be developed.</p> <p style="text-align: right;">(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 The following balances were extracted from the books of Aviana Gym Club on 30 April 2017.

	£
Members' subscriptions	5 300
Income from rental of equipment	1 050
Refreshment sales	2 400
Refreshment purchases	960
Non-current assets (cost):	
Gym equipment	8 500
Office fixtures	3 000
Provisions for depreciation:	
Gym equipment	2 500
Office fixtures	800
Rent of premises	2 000
Heating and lighting	1 100
Trade payable – refreshments	570
Sundry expenses	1 600
Cash	80
Bank overdraft	4 000
Gym equipment maintenance	950
Inventory of refreshments 1 May 2016	480

Required

- (a) Using only the above list of balances, prepare the Trial Balance at 30 April 2017 and show the value of the accumulated fund.

(10)

Additional information at 30 April 2017

- Members had prepaid subscriptions of £350. Subscriptions in arrears were £230. It was agreed that £140 of the subscriptions in arrears was now irrecoverable and would be written off.
- A purchase of refreshments, £60 on credit, had been omitted from the books.
- Depreciation is charged on all non-current assets owned at the end of the year as follows:
 - gym equipment 20% per annum reducing balance
 - office fixtures 10% per annum straight line.
- On 25 March 2017, gym equipment that had cost £1 500, and had a carrying value of £600, was sold for £800 cash. On 30 March 2017, new gym equipment costing £4 600 was purchased by cheque. No entries had been made in the books to record these transactions.
- Inventory of refreshments was £570.

Required

- (b) Explain **two** differences between a **trial balance** and a **statement of financial position**. (4)
- (c) Prepare for the year ended 30 April 2017 the:
- (i) Subscriptions Account (5)
 - (ii) Gym Equipment Account (4)
 - (iii) Gym Equipment - Provision for Depreciation Account (4)
 - (iv) Refreshment Trading Account (3)
 - (v) Income and Expenditure Account. (7)
- (d) Prepare an extract of the Statement of Financial Position at 30 April 2017 **showing the assets** of the Aviana Gym Club. (6)
- The Management Committee of the Aviana Gym Club is proposing to purchase its own gym premises rather than renting premises.
- (e) Evaluate the proposal of the Management Committee. (12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Question Number	Answer	Mark																																																																		
2 (a)	<p>AO1 (8), AO2 (2) AO1: Eight marks for correctly locating the balances in the trial balance. AO2: Two marks for correctly calculating the accumulated fund and applying the balances to the trial balance.</p> <p style="text-align: center;">Aviana Gym Club Trial Balance at 30 April 2017</p> <table> <thead> <tr> <th></th><th style="text-align: center;">Dr £</th><th style="text-align: center;">Cr £</th></tr> </thead> <tbody> <tr> <td>Members' subscriptions</td><td></td><td>5 300 (1)AO1</td></tr> <tr> <td>Equipment rental income</td><td></td><td>1 050 (1)AO1</td></tr> <tr> <td>Refreshment sales</td><td></td><td>2 400</td></tr> <tr> <td>Refreshment purchase</td><td>960</td><td></td></tr> <tr> <td>Non-current assets (cost)</td><td></td><td></td></tr> <tr> <td> Gym equipment</td><td>8 500 (1)AO1</td><td></td></tr> <tr> <td> Office fixtures</td><td>3 000</td><td></td></tr> <tr> <td>Provisions for depreciation</td><td></td><td></td></tr> <tr> <td> Gym equipment</td><td></td><td>2 500 (1)AO1</td></tr> <tr> <td> Office fixtures</td><td></td><td>800</td></tr> <tr> <td> Rent of premises</td><td>2 000</td><td></td></tr> <tr> <td>Heating and lighting</td><td>1 100</td><td></td></tr> <tr> <td>Trade payable –refreshment</td><td></td><td>570 (1)AO1</td></tr> <tr> <td>Sundry expenses</td><td>1 600</td><td></td></tr> <tr> <td>Cash</td><td>80 (1)AO1</td><td></td></tr> <tr> <td>Bank overdraft</td><td></td><td>4 000 (1)AO1</td></tr> <tr> <td>Gym equipment maintenance</td><td>950 (1)AO1</td><td></td></tr> <tr> <td>Inventory of refreshments</td><td></td><td></td></tr> <tr> <td> 1 May 2016</td><td>480</td><td></td></tr> <tr> <td>Accumulated fund</td><td>_____</td><td><u>2 050</u>(2)AO2/(1)of AO2</td></tr> <tr> <td></td><td><u>18 670</u></td><td><u>18 670</u></td></tr> </tbody> </table>		Dr £	Cr £	Members' subscriptions		5 300 (1) AO1	Equipment rental income		1 050 (1) AO1	Refreshment sales		2 400	Refreshment purchase	960		Non-current assets (cost)			Gym equipment	8 500 (1) AO1		Office fixtures	3 000		Provisions for depreciation			Gym equipment		2 500 (1) AO1	Office fixtures		800	Rent of premises	2 000		Heating and lighting	1 100		Trade payable –refreshment		570 (1) AO1	Sundry expenses	1 600		Cash	80 (1) AO1		Bank overdraft		4 000 (1) AO1	Gym equipment maintenance	950 (1) AO1		Inventory of refreshments			1 May 2016	480		Accumulated fund	_____	<u>2 050</u> (2) AO2/(1)of AO2		<u>18 670</u>	<u>18 670</u>	(10)
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2 (c) (i)	<p>AO1 (3), AO2 (23), AO3 (3)</p> <p>AO1: Three marks for recording the correct opening balances.</p> <p>AO2: Twenty three marks for correctly applying the balances to the accounts</p> <p>AO3: Three marks for calculating and applying the correct adjustment to the correct account for the disposal of gym equipment.</p> <table><tr><th colspan="6">Subscriptions Account</th></tr><tr><th>Date</th><th>Details</th><th>£</th><th>Date</th><th>Details</th><th>£</th></tr><tr><td>2017 30 April</td><td>Income and expenditure</td><td>5 180 (1of)AO2</td><td>2017</td><td>Bank/members subscriptions/R & P</td><td>5 300 (1)AO2</td></tr><tr><td></td><td></td><td></td><td>30 April</td><td>Bad debts/irrecoverable debts/written off</td><td>140 (1)AO2</td></tr><tr><td>30 April</td><td>Balance c/d</td><td><u>350</u></td><td>30 April</td><td>Balance c/d</td><td><u>90</u></td></tr><tr><td></td><td></td><td><u>5 530</u></td><td></td><td></td><td><u>5 530</u></td></tr><tr><td>1 May</td><td>Balance b/d</td><td>90 (1)AO2</td><td>1 May</td><td>Balance b/d</td><td>350 (1)AO2</td></tr></table>	Subscriptions Account						Date	Details	£	Date	Details	£	2017 30 April	Income and expenditure	5 180 (1of)AO2	2017	Bank/members subscriptions/R & P	5 300 (1)AO2				30 April	Bad debts/irrecoverable debts/written off	140 (1)AO2	30 April	Balance c/d	<u>350</u>	30 April	Balance c/d	<u>90</u>			<u>5 530</u>			<u>5 530</u>	1 May	Balance b/d	90 (1)AO2	1 May	Balance b/d	350 (1)AO2	
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2 (c) (iv)	<p style="text-align: center;">Avianna Gym Club Refreshment Trading Account for the year ended 30 April 2017</p> <table> <tr> <td></td><td style="text-align: right;">£</td><td style="text-align: right;">£</td></tr> <tr> <td>Revenue</td><td></td><td style="text-align: right;">2 400</td></tr> <tr> <td>Less</td><td></td><td></td></tr> <tr> <td>Opening inventory</td><td style="text-align: right;">480</td><td></td></tr> <tr> <td>Purchases (960 + 60)</td><td style="text-align: right;"><u>1 020</u> (1)AO2</td><td></td></tr> <tr> <td></td><td style="text-align: right;">1 500</td><td></td></tr> <tr> <td>Closing inventory</td><td style="text-align: right;"><u>(570)</u></td><td></td></tr> <tr> <td>Cost of sales</td><td></td><td style="text-align: right;">930 (1of + w)AO2</td></tr> <tr> <td>Trading profit</td><td></td><td style="text-align: right;"><u>1 470</u> (1of+ w)AO2</td></tr> <tr> <td></td><td></td><td style="text-align: right;"><u>2 400</u></td></tr> </table>		£	£	Revenue		2 400	Less			Opening inventory	480		Purchases (960 + 60)	<u>1 020</u> (1)AO2			1 500		Closing inventory	<u>(570)</u>		Cost of sales		930 (1of + w)AO2	Trading profit		<u>1 470</u> (1of+ w)AO2			<u>2 400</u>	(3)
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2 (d)	<div>Statement of Financial Position (Extract) at 30 April 2017</div> <div>Non-current Assets</div> <table><thead><tr><th></th><th>Cost</th><th>Accumulated Depreciation</th><th>Carrying value</th></tr><tr><th></th><th>£</th><th>£</th><th>£</th></tr></thead><tbody><tr><td>Gym equipment</td><td>11 600 (1)AO2</td><td>3 600</td><td>8 000 (1)AO2</td></tr><tr><td>Office fixtures</td><td><u>3 000</u></td><td><u>1 100</u></td><td><u>1 900</u> (1)AO2</td></tr><tr><td></td><td><u>14 600</u></td><td><u>4 700</u></td><td>9 900</td></tr></tbody></table> <div>Current Assets</div> <div>Inventory of refreshments</div> <div>Subscriptions in arrears(230 – 140)</div> <div>Cash (80 + 800)</div> <table><tbody><tr><td></td><td>570 (1)AO2</td><td></td></tr><tr><td></td><td>90 (1)AO2</td><td></td></tr><tr><td></td><td><u>880</u> (1)AO1</td><td></td></tr><tr><td></td><td></td><td><u>1 540</u></td></tr><tr><td></td><td></td><td><u>11 440</u></td></tr></tbody></table>		Cost	Accumulated Depreciation	Carrying value		£	£	£	Gym equipment	11 600 (1)AO2	3 600	8 000 (1)AO2	Office fixtures	<u>3 000</u>	<u>1 100</u>	<u>1 900</u> (1)AO2		<u>14 600</u>	<u>4 700</u>	9 900		570 (1)AO2			90 (1)AO2			<u>880</u> (1)AO1				<u>1 540</u>			<u>11 440</u>	(6)
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Question Number	Indicative Content	Mark
2 (e)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Potential arguments for</p> <ul style="list-style-type: none"> • The club will have control of the premises • The club can change premises to meet their needs • Potential additional source of income through renting • Will no longer have to pay rent which will reduce the expenses of the club. <p>Potential arguments against</p> <ul style="list-style-type: none"> • The costs involved in purchase – large long term loan • Long term nature of purchase • All running costs will fall on the club • The club is making a loss, can it support such a long term project. <p>Decision Candidates may conclude that the arguments for or against outweigh the counter arguments. Having reached a decision the rationale for that position should be developed</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.
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.

SECTION B**Answer THREE questions from this section.**

- 3** Gihan is a retailer who buys and sells goods. The following information was available for the month of April 2017.

- Balances of the Trade Receivables Control Account on 1 April 2017 were:

£
 3 450 Dr
 50 Cr

- Summary of transactions for April 2017 (before corrections):

	£
Sales: Cash	1 900
Credit	7 830
Sales returns	470
Discount allowed	520
Cheques received from trade receivables	6 695
Refund to credit customer by cheque	210
Interest charged on overdue account	95

- On inspection of the books, Gihan found the following errors in the account of Mille Street Stores:
 - a return of goods, £70, from Mille Street Stores had not been recorded in the books
 - trade discount had been allowed by Gihan on a sale of goods at the rate of 25%. The sale should have been allowed trade discount at the rate of 10%. Mille Street Stores were charged £225 after trade discount
 - Gihan's Trade Receivables Ledger on 30 April 2017 (before correction of Mille Street Stores Account) contained the following balances:

	Dr	Cr
	£	£
Muttiah	1 000	-
Nalak	-	150
Southsyde Trading	2 300	-
Mille Street Stores	700	-

Required

- (a) Explain how the **Trade Receivables Ledger** differs from the **Sales Day Book**. (4)
- (b) Prepare the journal entries to correct the two errors. Narratives are **not** required. (6)
- (c) Calculate the **corrected** closing balance on the account of Mille Street Stores at 30 April 2017. (4)
- (d) Prepare the Trade Receivables Ledger Control Account for the month of April 2017. (10)
- (e) Evaluate the usefulness of preparing control accounts. (6)

(Total for Question 3 = 30 marks)

Question Number	Answer	Mark
3 (a)	<p>AO1 (4) AO1: Four marks for stating the difference between trade receivable ledger and sales day book.</p> <p>The trade receivables ledger consists of the individual accounts (1)AO1 of customers to whom we have sold goods or services on credit (1)AO1.</p> <p>The sales day book lists all of the credit sales (1)AO1 made in a day/specific period. (1)AO1 before it is totalled and posted to the ledger.</p> <p>Accept The trade receivables ledger is not a book of prime entry (1) the sales day book is a book of prime entry (1)</p> <p>NOT All sales (must be credit)</p>	(4)

Question Number	Answer	Mark															
3 (b)	<p>AO1 (2), AO2 (4) AO1: Two mark for identifying the account. AO2: Four marks for calculating the figure and inserting this correctly in the journal.</p> <p style="text-align: center;">Journal</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th style="text-align: center;">Dr £</th><th style="text-align: center;">Cr £</th></tr> </thead> <tbody> <tr> <td>Sales returns/TRCA (1)AO1</td><td style="text-align: right;">70 (1)AO2</td><td></td></tr> <tr> <td>Mill Street Stores</td><td></td><td style="text-align: right;">70 (1)AO2</td></tr> <tr> <td>Mill Street Stores</td><td style="text-align: right;">45 (1)AO2</td><td></td></tr> <tr> <td>Revenue (Sales)/TRCA (1)AO1</td><td></td><td style="text-align: right;">45 (1)AO2</td></tr> </tbody> </table>		Dr £	Cr £	Sales returns/TRCA (1)AO1	70 (1)AO2		Mill Street Stores		70 (1)AO2	Mill Street Stores	45 (1)AO2		Revenue (Sales)/TRCA (1)AO1		45 (1)AO2	(6)
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Revenue (Sales)/TRCA (1)AO1		45 (1)AO2															

Question Number	Answer	Mark																		
3 (c)	<p>AO1 (2), AO2 (2) AO1: Two marks for recording the opening and closing balances. AO2: Two marks for making the correct adjustments.</p> <p style="text-align: center;">Mill Street Stores</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th style="text-align: center;">£</th><th></th></tr> </thead> <tbody> <tr> <td>Balance b/d</td><td style="text-align: right;">700</td><td>(1)AO1</td></tr> <tr> <td>Less Returns</td><td style="text-align: right;"><u>(70)</u></td><td>(1)AO2</td></tr> <tr> <td></td><td style="text-align: right;">630</td><td></td></tr> <tr> <td>Plus Trade discount</td><td style="text-align: right;"><u>45</u></td><td>(1of from (b))AO2</td></tr> <tr> <td>Corrected balance</td><td style="text-align: right;"><u>675</u></td><td>(1of)AO1</td></tr> </tbody> </table>		£		Balance b/d	700	(1)AO1	Less Returns	<u>(70)</u>	(1)AO2		630		Plus Trade discount	<u>45</u>	(1of from (b))AO2	Corrected balance	<u>675</u>	(1of)AO1	(4)
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Question Number	Answer	Mark																																								
3 (d)	<p>AO1 (1), AO2 (6), AO3 (3)</p> <p>A01: One mark for recording the correct closing credit balance.</p> <p>A02: Six marks for correctly applying the monthly balances to the account.</p> <p>A03: Three marks for calculating the corrected figure from the journal adjustment before applying the corrected figure to the account.</p>	(10)																																								
<div>Trade Receivables Control Account</div> <table><thead><tr><th></th><th>£</th><th></th><th>£</th><th></th></tr></thead><tbody><tr><td>Balance b/d</td><td>3 450</td><td>Balance b/d</td><td>50</td><td></td></tr><tr><td>Revenue7830(1)AO2 + 45</td><td>7 875 (1)AO3</td><td>Sales returns 470(1)AO2 + 70</td><td>540 (1)AO3</td><td></td></tr><tr><td>Bank (cash refund)</td><td>210 (1)AO2</td><td>Discount allowed</td><td>520 (1)AO2</td><td></td></tr><tr><td>Interest charged</td><td>95 (1)AO2</td><td>Bank (receipts)</td><td>6 695 (1)AO2</td><td></td></tr><tr><td>Balance c/d</td><td><u>150</u></td><td>Balance c/d</td><td><u>3 975</u></td><td></td></tr><tr><td></td><td><u>11 780</u></td><td></td><td><u>11 780</u></td><td></td></tr><tr><td>Balance b/d</td><td>3 975 (1)AO3</td><td>Balance b/d</td><td>150 (1)AO1</td><td></td></tr></tbody></table>				£		£		Balance b/d	3 450	Balance b/d	50		Revenue7830 (1)AO2 + 45	7 875 (1)AO3	Sales returns 470 (1)AO2 + 70	540 (1)AO3		Bank (cash refund)	210 (1)AO2	Discount allowed	520 (1)AO2		Interest charged	95 (1)AO2	Bank (receipts)	6 695 (1)AO2		Balance c/d	<u>150</u>	Balance c/d	<u>3 975</u>			<u>11 780</u>		<u>11 780</u>		Balance b/d	3 975 (1)AO3	Balance b/d	150 (1)AO1	
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Question Number	Answer	Mark
3 (e)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for control accounts</p> <ul style="list-style-type: none"> • Checking device on the double entry • Facilitates total balances for financial statement preparation • Restricts fraud • Owner can see total trade payables and trade receivables <p>Potential negative points against control accounts</p> <ul style="list-style-type: none"> • Additional resources required to prepare. • Require an experienced book-keeper to prepare • Not all errors will be revealed. <p>Decision Candidates may conclude that the arguments for or against outweigh the counter arguments. Having reached a decision the rationale for that position should be developed.</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 Easi Spend's summarised Statement of Financial Position at 1 May 2016 was:

Assets	£
Non-current assets	30 000
Inventory	40 000
Trade receivables	25 000
Bank	<u>5 000</u>
	<u>100 000</u>
Capital and liabilities	
Capital	85 000
Trade payables	<u>15 000</u>
	<u>100 000</u>

Required

- (a) Explain the importance of **liquidity** to a business. (4)
- (b) Calculate for Easi Spend, at 1 May 2016, the:
- (i) current ratio (2)
- (ii) liquid (acid test) ratio. (2)

The following information related to the year ended 30 April 2017.

- Sales of £135 000 were all made on credit.
- Purchases of £72 000 were all made on credit.
- The average inventory for the year was £32 500
- Cheque receipts from trade receivables were £123 000
- Cheque payments to trade payables were £80 000
- Expenses of £33 000 were paid by cheque.
- Depreciation on non-current assets for the year was £4 500

Required

- (c) Complete in the question paper the summarised financial statements for the year ended 30 April 2017. (10)
- (d) Calculate, for the year ended 30 April 2017, the:
- (i) inventory turnover (2)
- (ii) trade receivables collection period (2)
- (iii) trade payables payment period. (2)
- (e) Evaluate the liquidity position of Easi Spend at 30 April 2017. (6)

(Total for Question 4 = 30 marks)

- (c) Complete below the summarised financial statements for the year ended 30 April 2017.

(10)

Easi Spend**Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2017**

	Workings	£	£
Revenue			
Opening inventory			
Purchases			
Closing inventory			
Cost of sales			
Gross profit			
Expenses			
Depreciation			
Profit for the year			



DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Statement of Financial Position at 30 April 2017

	Workings	£	£
Assets			
Non-current assets			
Inventory			
Trade receivables			
Bank			
Capital and liabilities			
Capital			
Trade payables			



Question Number	Answer	Mark
4 (a)	<p>AO1 (4)</p> <p>AO1: Four marks for stating the importance of liquidity.</p> <p>Liquidity is the ability of a business to meet its short term debts. (1) AO1 Failure to meet short term debts will result in the delay/failure to provide supplies (1) AO1 which the business can resell at a profit (1) AO1. This could lead to bankruptcy/cease trading (1) AO1. Need to have good cash flow to meet obligations (1) AO1. Ability to convert inventory to cash in a short period of time (1) AO1. The liquidity of the business should be within the range 1.4 - 2:1 for the current ratio or 0.7 – 1:1 for the acid test ratio (1) AO1.</p> <p>Max 4</p>	(4)

Question Number	Answer	Mark
4 (b)(i)	<p>AO1 (2)</p> <p>AO1: Two marks for applying the formula correctly.</p> <p><u>Current assets</u> $\frac{70\,000}{15\,000} = 4.67:1$ (1) AO1</p> <p>Current liabilities 15 000 (1) AO1</p>	(2)

Question Number	Answer	Mark
4 (b) (ii)	<p>AO1 (2)</p> <p>AO1: Two marks for applying the formula correctly.</p> <p><u>Current assets – inventory</u> $\frac{70\,000 - 40\,000}{15\,000}$ (1) AO1 = 2:1 (1) AO1</p>	(2)

Question Number	Answer	Mark																																																																																																												
4 (c)	<p>AO1 (1), AO2 (12), AO3 (3) AO1: One mark for recording the given expense in the account without adjustment. AO2: Twelve marks for calculating the figure and inserting this correctly in the statement. AO3: Three marks for calculating the corrected figure from a number of adjustments before applying the figure to the correct statement.</p> <table><tr><th colspan="4">Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2017</th></tr><tr><th></th><th>Workings</th><th>£</th><th>£</th></tr><tr><td>Revenue</td><td></td><td></td><td>135 000</td></tr><tr><td>less</td><td></td><td></td><td>(1)AO1</td></tr><tr><td>Opening inventory</td><td></td><td>40 000</td><td>(1)AO1</td></tr><tr><td>Purchases</td><td></td><td><u>72 000</u></td><td>(1)AO1</td></tr><tr><td>less</td><td></td><td>112 000</td><td></td></tr><tr><td>Closing inventory</td><td></td><td><u>(25 000)</u></td><td></td></tr><tr><td>Cost of sales</td><td></td><td></td><td><u>(87 000)</u></td></tr><tr><td>Gross profit</td><td></td><td></td><td>48 000</td></tr><tr><td>Expenses</td><td></td><td>33 000</td><td>(1)AO1</td></tr><tr><td>Depreciation</td><td></td><td><u>4 500</u></td><td>(1)AO2</td></tr><tr><td></td><td></td><td></td><td><u>37 500</u></td></tr><tr><td>Profit for the year</td><td></td><td></td><td><u>10 500</u></td></tr><tr><td></td><td></td><td></td><td></td></tr></table> <table><tr><th colspan="4">Statement of Financial Position at 30 April 2017</th></tr><tr><th></th><th>Workings</th><th>£</th><th>£</th></tr><tr><td>Assets</td><td></td><td></td><td></td></tr><tr><td>Non-current assets</td><td>30000-4 500</td><td>25 500</td><td>(1)AO2</td></tr><tr><td>Inventory</td><td></td><td>25 000</td><td></td></tr><tr><td>Trade receivables</td><td>25 000+135 000 - 123 000</td><td>37 000</td><td>(1)AO3</td></tr><tr><td>Bank</td><td>5 000-33 000+ 123 000-80 000</td><td><u>15 000</u></td><td>(1)AO3</td></tr><tr><td></td><td></td><td><u>102 500</u></td><td></td></tr><tr><td>Capital and liabilities</td><td></td><td></td><td></td></tr><tr><td>Capital</td><td>85 000 +10 500</td><td>95 500</td><td>(1)AO2</td></tr><tr><td>Trade payables</td><td>15 000+72 000 - 80 000</td><td><u>7 000</u></td><td>(1)AO3</td></tr><tr><td></td><td></td><td><u>102 500</u></td><td></td></tr></table>	Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2017					Workings	£	£	Revenue			135 000	less			(1)AO1	Opening inventory		40 000	(1)AO1	Purchases		<u>72 000</u>	(1)AO1	less		112 000		Closing inventory		<u>(25 000)</u>		Cost of sales			<u>(87 000)</u>	Gross profit			48 000	Expenses		33 000	(1)AO1	Depreciation		<u>4 500</u>	(1)AO2				<u>37 500</u>	Profit for the year			<u>10 500</u>					Statement of Financial Position at 30 April 2017					Workings	£	£	Assets				Non-current assets	30000-4 500	25 500	(1)AO2	Inventory		25 000		Trade receivables	25 000+135 000 - 123 000	37 000	(1)AO3	Bank	5 000-33 000+ 123 000-80 000	<u>15 000</u>	(1)AO3			<u>102 500</u>		Capital and liabilities				Capital	85 000 +10 500	95 500	(1)AO2	Trade payables	15 000+72 000 - 80 000	<u>7 000</u>	(1)AO3			<u>102 500</u>		
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(10)

Question Number	Answer	Mark
4 (d) (i)	AO2 (2) A02: Two marks for applying the formula correctly. $\frac{\text{Cost of sales}}{\text{Average inventory}} = \frac{87\,000}{32\,500} \text{ (1of) AO2} = 2.68 \text{ times (1of) AO2}$	(2)

Question Number	Answer	Mark
4 (d) (ii)	AO2 (2) A02: Two marks for applying the formula correctly. $\frac{\text{Trade receivables} \times 365}{\text{Credit sales}} = \frac{37\,000 \text{ of } \times 365 \text{ (1of) AO2}}{135\,000} = 100 \text{ days/3.29 months (1of) AO2}$	(2)

Question Number	Answer	Mark
4 (d) (iii)	AO2 (2) A02: Two marks for applying the formula correctly. $\frac{\text{Trade payables} \times 365}{\text{Credit purchases}} = \frac{7\,000 \text{ (1of) AO2} \times 365}{72\,000} = 35 \text{ days/1.17 months (1of) AO2}$	(2)

Question Number	Indicative Content	Mark
4 (e)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Own figure rules apply</p> <p>Potential positive arguments for Easi Spend</p> <ul style="list-style-type: none"> • Trade payables have a reasonable settlement period of just over a month • The level of inventory has fallen during the year • High current ratio/ Quick ratio. (This could also be seen as a negative point). <p>Potential negative points for Easi Spend</p> <ul style="list-style-type: none"> • It is taking a long while (100 days) to collect the debts • Inventory levels are still high only turning over every 4 months. For most businesses this is a low rate of inventory turnover. <p>Decision</p> <p>Candidates may conclude that the arguments for or against outweigh the counter arguments. Having reached a decision the rationale for that position should be developed.</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.

5 John purchased the Sunshine Villa, a property that he rents to customers for holidays.

The Sunshine Villa, including furniture and equipment, was purchased on 1 May 2016 for £200 000. John used £60 000 of his own savings and a 4% bank loan of £140 000, repayable in 20 years, to fund the purchase.

After the first year of trading ended on the 30 April 2017, the following information is available.

- There were 20 bookings in the year, for a total of 250 days, at a rental of £125 per day.
- In addition to the interest on the bank loan, the costs of the Sunshine Villa were:
 - Electricity £50 every month plus £20 per day when the villa is rented
 - Water and gas £200 per month
 - Cable TV and internet £75 per month
 - Insurance £800 per annum
 - Management and marketing costs £1 000 per annum plus £50 per booking
 - Repairs and maintenance £100 per month plus £100 per booking
 - Villa cleaning £100 per booking.
- The furniture and equipment is valued at £30 000, half of which will need to be replaced in 5 years and half will need to be replaced in 10 years.

Required

- (a) Explain the terms:
- (i) fixed cost (2)
 - (ii) semi-fixed cost. (2)
- (b) Explain, with the use of appropriate accounting concepts and conventions, how the furniture and equipment depreciation will be charged to the total cost of the Sunshine Villa for the year. (4)
- (c) Calculate for the Sunshine Villa, for the year ended 30 April 2017, the:
- (i) total costs (10)
 - (ii) profit or loss (3)
 - (iii) return on capital employed. (3)
- Before purchasing the Sunshine Villa a friend of John advised him of alternative investments for his savings. The friend advised that he could have deposited the money in a bank and obtained interest of 3% per annum.
- (d) Evaluate John's decision to purchase the Sunshine Villa. (6)

(Total for Question 5 = 30 marks)

Question Number	Answer	Mark
5 (a) (i)	AO1 (2) AO1: Two marks for defining fixed costs Fixed costs – costs which are constant for a period of time or range of output. (1) AO1 They are unaffected by the volume of output (1) AO1	(2)

Question Number	Answer	Mark
5 (a) (ii)	AO1 (2) AO1: Two marks for defining semi-fixed costs. Semi-fixed costs- costs which are fixed for a range of production and then step increase (1) AO1 where they are fixed for a further range of production (1) AO1 until a further step increase is required.	(2)

Question Number	Answer	Mark
5 (b)	AO1 (4) AO1: Four marks for stating how depreciation will be calculated and identifying two concepts. Accruals (matching) concept (1) AO1 each year should be charged with a proportion of the cost (1) AO1 Consistency (1) AO1 each year should be charged with depreciation calculated on the same basis with previous years (1) AO1 Going concern (1) AO1 concepts will assume that this business has continuity into the future (1) AO1 Two concepts x 2 marks	(4)

Question Number	Answer	Mark																						
5 (c) (i)	<p>AO1 (1), AO2 (12), AO3 (3)</p> <p>AO1: One mark for recording the given expense in the total running costs without adjustment.</p> <p>AO2: Twelve marks for calculating the figure and inserting this correctly in the total running costs.</p> <p>AO3: Three marks for calculating the correct figure requiring a two stage calculation before applying the figure to the total running costs.</p> <table><tr><td>Total running cost</td><td>£</td></tr><tr><td>4% loan interest</td><td>5 600 (1) AO2</td></tr><tr><td>Electricity 600 + 5 000</td><td>5 600 (1) AO2</td></tr><tr><td>Water and gas</td><td>2 400 (1) AO2</td></tr><tr><td>Cable TV and internet</td><td>900 (1) AO2</td></tr><tr><td>Insurance</td><td>800 (1) AO1</td></tr><tr><td>Management and marketing costs 1 000 + 1 000</td><td>2 000 (1) AO2</td></tr><tr><td>Repairs and maintenance 1 200 + 2 000</td><td>3 200 (1) AO3</td></tr><tr><td>Villa cleaning 100 x 20</td><td>2 000 (1) AO2</td></tr><tr><td>Depreciation 3 000 + 1 500</td><td><u>4 500</u> (1) AO3</td></tr><tr><td></td><td>27 000 (1of) AO2</td></tr></table>	Total running cost	£	4% loan interest	5 600 (1) AO2	Electricity 600 + 5 000	5 600 (1) AO2	Water and gas	2 400 (1) AO2	Cable TV and internet	900 (1) AO2	Insurance	800 (1) AO1	Management and marketing costs 1 000 + 1 000	2 000 (1) AO2	Repairs and maintenance 1 200 + 2 000	3 200 (1) AO3	Villa cleaning 100 x 20	2 000 (1) AO2	Depreciation 3 000 + 1 500	<u>4 500</u> (1) AO3		27 000 (1of) AO2	
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(10)

Question Number	Answer	Mark									
5 (c)(ii)	<table><tr><td>Income</td><td>250 x 125</td><td>31 250 (1)AO2</td></tr><tr><td>Total running costs</td><td><u>27 000</u></td><td>(1)ofAO2</td></tr><tr><td>Profit for the year</td><td>4 250</td><td>(1)ofAO2</td></tr></table>	Income	250 x 125	31 250 (1)AO2	Total running costs	<u>27 000</u>	(1)ofAO2	Profit for the year	4 250	(1)ofAO2	(3)
Income	250 x 125	31 250 (1)AO2									
Total running costs	<u>27 000</u>	(1)ofAO2									
Profit for the year	4 250	(1)ofAO2									

Question Number	Answer	Mark
5 (c)(iii)	<div><div><div>Profit before interest x 100</div><div>Capital + Non-current liabilities</div></div><div><div>=</div><div><div><div>4 250 of + 5600</div><div>60 000 + 140 000</div></div></div><div><div>=</div><div><div><div>9 850 (1of) AO2</div><div>200 000 (1) AO2</div></div><div>= 4.93% (1)of AO2</div></div></div></div></div>	(3)

Question Number	Answer	Mark
5 (d)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Own figure rule applies</p> <p>Potential positive arguments for Sunshine Villa</p> <ul style="list-style-type: none"> • The project makes a profit and a reasonable ROCE • In the long term residential property prices tend to rise • Bookings may increase next year with repeat business. <p>Potential negative points for Sunshine Villa</p> <ul style="list-style-type: none"> • A major capital investment for low returns • Risk that the property may lose value due to economic conditions • Economic conditions may reduce income if bookings reduce. <p>Decision</p> <p>Candidates may conclude that the arguments for or against outweigh the counter arguments. Having reached a decision the rationale for that position should be developed</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.
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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.

- 6 Banwell Products manufactures goods using steel. The price of steel is currently variable.

The following information is available for the year ended 31 March 2017.

- Raw material:

Inventory 1 April 2016 120 tons at £800 per ton

Date	Receipts	Issues
April – June 2016	80 tons at £750	90 tons
July – September 2016	70 tons at £700	60 tons
October – December 2016	100 tons at £650	80 tons
January – March 2017	60 tons at £600	70 tons

Banwell Products issues raw materials to production using the First In First Out (FIFO) perpetual inventory valuation method.

- Wages and salaries:
 - Manufacturing machinist wages £93 000
 - Production management salaries £84 000
 - Indirect manufacturing wages £16 800
 - Administration wages and salaries £102 000
 - Manufacturing assembly wages £83 500
 - Manufacturing assembly wages prepaid at 31 March 2017 £6 500
- Other costs and expenses:
 - Depreciation on manufacturing equipment £45 000
 - Depreciation on administration equipment £16 000
 - Rent of premises £37 000
 - Rent owing at 31 March 2017 £5 500
(80% of the rent relates to the factory)
 - Insurance £40 000
 - Insurance prepaid at 31 March 2017 £5 000
(60% of the insurance relates to the factory)
 - Marketing expenses £60 000
- Inventories at:

	1 April 2016	31 March 2017
Raw materials	To be calculated	To be calculated
Work in progress	£55 000	£47 300
Finished goods	£82 000	£73 000
- Banwell Products transferred production to finished goods at an agreed value of £640 000

Required

- (a) Calculate the value of the inventory of raw materials at 31 March 2017 using the First In First Out (FIFO) perpetual inventory valuation method. (4)
- (b) Prepare the Manufacturing Account for the year ended 31 March 2017. (14)
- (c) Explain how the following would be accounted for in the Statement of Financial Position at 31 March 2017:
- (i) manufacturing assembly wages prepaid (2)
 - (ii) depreciation for the year on manufacturing equipment (2)
 - (iii) provision for unrealised profit on manufacture. (2)
- The business is considering changing its method of valuing raw materials inventory to Last In First Out (LIFO).
- (d) Evaluate the use of Last In First Out (LIFO) as a method of valuing the inventory of raw materials. (6)

(Total for Question 6 = 30 marks)

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

Question Number	Answer	Mark																												
6 (a)	<p>AO2 (4) A02: Four marks for selecting the units and prices remaining in the inventory at the end of each quarter.</p> <table><tr><th>Date</th><th>Receipts</th><th>Issues</th><th>Balance</th></tr><tr><td>Opening balance</td><td></td><td></td><td>120 @ £800</td></tr><tr><td>April - June 2016</td><td>80 @ £750</td><td>90 @ £800</td><td>30 @ £800 80 @ £750 (1)AO2</td></tr><tr><td>July – September 2016</td><td>70 @ £700</td><td>30 @ £800 30 @ £750</td><td>50 @ £750 70 @ £700 (1)AO2</td></tr><tr><td>October – December 2016</td><td>100 @ £650</td><td>50 @ £750 30 @ £700</td><td>40 @ £700 100 @ £650 (1)AO2</td></tr><tr><td>January – March 2017</td><td>60 @ £600</td><td>40 @ £700 30 @ £650</td><td>70 @ £650 60 @ £600 (1)AO2</td></tr><tr><td>Closing balance</td><td></td><td></td><td>£81 500</td></tr></table>	Date	Receipts	Issues	Balance	Opening balance			120 @ £800	April - June 2016	80 @ £750	90 @ £800	30 @ £800 80 @ £750 (1)AO2	July – September 2016	70 @ £700	30 @ £800 30 @ £750	50 @ £750 70 @ £700 (1)AO2	October – December 2016	100 @ £650	50 @ £750 30 @ £700	40 @ £700 100 @ £650 (1)AO2	January – March 2017	60 @ £600	40 @ £700 30 @ £650	70 @ £650 60 @ £600 (1)AO2	Closing balance			£81 500	(4)
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6 (b)	<p>AO1 (5), AO2 (6), AO3 (3) A01: Five marks for recording the given expense in the account without adjustment. A02: Six marks for calculating the figure and inserting this correctly in the account. A03: Three marks for calculating the corrected figure and then carrying out the correct apportionment before applying the figure to the correct section of the account.</p> <p style="text-align: center;">Banwell Products Manufacturing Account for the year ended 31 April 2017</p> <table style="width: 100%;"> <thead> <tr> <th></th><th style="text-align: right;">£</th><th style="text-align: right;">£</th></tr> </thead> <tbody> <tr> <td>Opening inventory</td><td></td><td style="text-align: right;">96 000</td></tr> <tr> <td>Purchases</td><td></td><td style="text-align: right;"><u>210 000</u> (1)AO2</td></tr> <tr> <td></td><td></td><td style="text-align: right;">306 000</td></tr> <tr> <td>Closing inventory</td><td></td><td style="text-align: right;"><u>(81 500)</u> (1)of AO1</td></tr> <tr> <td>Cost of raw materials</td><td></td><td style="text-align: right;">224 500</td></tr> <tr> <td>Machinists wages</td><td></td><td style="text-align: right;">93 000 (1)AO1</td></tr> <tr> <td>Assembly wages (83 500 – 6 500)</td><td></td><td style="text-align: right;"><u>77 000</u> (1)AO2</td></tr> <tr> <td>Prime cost</td><td></td><td style="text-align: right;">394 500 (1)of AO2w+f</td></tr> <tr> <td>Manufacturing overheads:</td><td></td><td></td></tr> <tr> <td>Production management salaries</td><td style="text-align: right;">84 000 (1)AO1</td><td></td></tr> <tr> <td>Indirect manufacturing wages</td><td style="text-align: right;">16 800 (1)AO1</td><td></td></tr> <tr> <td>Depreciation on equipment</td><td style="text-align: right;">45 000 (1)AO1</td><td></td></tr> <tr> <td>Rent</td><td style="text-align: right;">34 000 (1)AO3</td><td></td></tr> <tr> <td>Insurance</td><td style="text-align: right;"><u>21 000</u> (1)AO3</td><td></td></tr> <tr> <td></td><td></td><td style="text-align: right;"><u>200 800</u></td></tr> <tr> <td></td><td></td><td style="text-align: right;">595 300 (1)AO2</td></tr> <tr> <td>Work in progress:</td><td></td><td></td></tr> <tr> <td>Opening inventory 1 April 2016</td><td style="text-align: right;">55 000</td><td></td></tr> <tr> <td>Closing inventory 31 March 2017</td><td style="text-align: right;"><u>(47 300)</u></td><td></td></tr> <tr> <td></td><td></td><td style="text-align: right;"><u>7 700</u> (1)AO2</td></tr> <tr> <td>Cost of production</td><td></td><td style="text-align: right;">603 000</td></tr> <tr> <td>Manufacturing profit</td><td></td><td style="text-align: right;"><u>37 000</u> (1)of AO3</td></tr> <tr> <td>Transfer to trading account</td><td></td><td style="text-align: right;"><u>640 000</u> (1)AO2w+f</td></tr> </tbody> </table>		£	£	Opening inventory		96 000	Purchases		<u>210 000</u> (1) AO2			306 000	Closing inventory		<u>(81 500)</u> (1) of AO1	Cost of raw materials		224 500	Machinists wages		93 000 (1) AO1	Assembly wages (83 500 – 6 500)		<u>77 000</u> (1) AO2	Prime cost		394 500 (1) of AO2w+f	Manufacturing overheads:			Production management salaries	84 000 (1) AO1		Indirect manufacturing wages	16 800 (1) AO1		Depreciation on equipment	45 000 (1) AO1		Rent	34 000 (1) AO3		Insurance	<u>21 000</u> (1) AO3				<u>200 800</u>			595 300 (1) AO2	Work in progress:			Opening inventory 1 April 2016	55 000		Closing inventory 31 March 2017	<u>(47 300)</u>				<u>7 700</u> (1) AO2	Cost of production		603 000	Manufacturing profit		<u>37 000</u> (1) of AO3	Transfer to trading account		<u>640 000</u> (1) AO2w+f	(14)
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Question Number	Answer	Mark
6 (c) (i)	<p>AO1 (4), AO2 (2) A01: Four marks for demonstrating knowledge of the treatment of prepaid expenses and depreciation. A02: Two marks for applying knowledge of unrealised profits to profits on manufacture.</p> <p>The value of the prepaid wages would be recorded under the heading of Other receivables (1)AO1 under current assets. (1)AO1</p>	(2)

Question Number	Answer	Mark
6 (c) (ii)	The annual depreciation would be added to the accumulated depreciation and deducted from the cost (1)AO1 to establish the carrying (Net Book) value. (1)AO1	(2)

Question Number	Answer	Mark
6 (c) (iii)	The value of the inventory of finished goods (1)AO2 would be reduced by the balance of the provision for unrealised profit. (1)AO2	(2)

Question Number	Answer	Mark
6 (d)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for LIFO</p> <ul style="list-style-type: none"> When prices are falling issues will be close to current replacement cost Product/sales will not be overpriced in current market conditions. <p>Potential negative points for LIFO</p> <ul style="list-style-type: none"> Not accepted by tax authorities or IAS When prices are falling remaining inventory will become increasingly over-valued LIFO may under state cost of sales which is against the prudence concept. <p>NOT</p> <p>An evaluation of inventory rotation</p> <p>Decision</p> <p>Candidates may conclude that the arguments for or against outweigh the counter arguments. Having reached a decision the rationale for that position should be developed.</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.