

Write your name here

Surname	Other names
---------	-------------

Pearson Edexcel
International
Advanced Level

Centre Number	Candidate Number
<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>

Accounting
International Advanced Subsidiary
Paper 1: The Accounting System and Costing

Thursday 19 October 2017 – Morning 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 in Section B.
- Answer the questions in the spaces provided – *there may be more space than you need.*
- All calculations must be shown.
- Do not return 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 ►

P50730A

©2017 Pearson Education Ltd.
1/1/1/1/1/1/1/1



SECTION A

Answer BOTH questions in this section.

1 Aaron and Bitan are in partnership, sharing profits and losses equally.

On 31 July 2016, the capital account balances of the partners were:

Aaron	£50 000
Bitan	£75 000

On 1 August 2016, Aaron and Bitan agreed to admit Chaman as a partner. A Partnership Agreement was prepared as follows:

- Chaman would bring assets of £35 000 into the partnership.
- Goodwill was valued at £40 000
- Goodwill would not be retained in the books of the new partnership.
- No interest would be paid on capital.
- Interest would be charged on drawings at the rate of 5% on balances at the end of the year.
- Salaries would be paid to Bitan £15 000 and Chaman £12 000
- Profits and losses would be shared: Aaron two-fifths ($\frac{2}{5}$); Bitan two-fifths ($\frac{2}{5}$) and Chaman one-fifth ($\frac{1}{5}$).

At the end of the first year of trading, on 31 July 2017, the following balances **excluding the capital accounts** remained in the books of the partnership.

	£
Current accounts - 1 August 2016	
Aaron	1 300 Dr
Bitan	900 Cr
Drawings - Aaron	8 000
Bitan	21 000
Chaman	16 000
Revenue	377 500
Purchases	183 200
Non-current assets (cost):	
Land and buildings	100 000
Motor vehicles	80 000
Office equipment	40 000
Provision for depreciation:	
Land and buildings	4 000
Motor vehicles	24 000
Office equipment	10 000
Wages and salaries	56 500
General expenses	31 000
Allowance for doubtful debts	1 500
Inventory 1 August 2016	36 500
Carriage inwards	10 300
Carriage outwards	7 450
Insurance	3 650
Rent	12 000
Rent receivable	1 750
Motor vehicles expenses	9 800
Trade receivables	48 000
Trade payables	42 050
Bank	5 000 Dr
8% bank loan (repayable December 2025)	50 000
Bank loan interest paid	2 000

Additional information at 31 July 2017

- Inventory £40 000
- Insurance includes the annual motor vehicle renewal of £1 200 paid on 1 February 2017.
- General expenses of £4 000 were prepaid.
- Rent receivable of £750 is outstanding.
- The 8% bank loan was taken out in 2015.
- Drawings included the payment of the partner's salaries.
- Depreciation is charged at the rate of:
 - 2% per annum on the cost of land and buildings
 - 20% per annum on motor vehicles using the reducing balance method
 - 15% per annum on office equipment using the straight line method.
- The allowance for doubtful debts is to be maintained at 5%.

Required

- (a) Prepare, for the year ended 31 July 2017, the:
- (i) capital accounts of Aaron, Bitan and Chaman (5)
 - (ii) Statement of Profit or Loss and Other Comprehensive Income (including the appropriation of profit or loss) (20)
 - (iii) current accounts of Aaron, Bitan and Chaman. (6)
- (b) Prepare the Statement of Financial Position at 31 July 2017. (12)

Chaman considered setting up business as a sole trader before agreeing to join the partnership of Aaron and Bitan.

- (c) Evaluate Chaman's decision to join the partnership of Aaron and Bitan as an alternative to opening a business as a sole trader. (12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark
1 (a) (i)	<p>AO1 (1), AO2 (1), AO3 (3) AO1: One mark for posting the correct capital introduced. AO2: One mark for deriving the correct closing balances. AO3: Three marks for correctly calculating and recording the goodwill adjustment.</p>	(5)

(i)

Capital Accounts

	Aaron	Bitan	Chaman		Aaron	Bitan	Chaman
	£	£	£		£	£	£
Goodwill	16 000 (1) AO3	16 000	8 000 (1) AO3	Balance b/d	50 000	75 000	
Balance c/d	54 000	79 000	27 000	Assets			35 000 (1) AO1
				Goodwill	20 000	20 000 (1) AO3	
	<u>70 000</u>	<u>95 000</u>	<u>35 000</u>		<u>70 000</u>	<u>95 000</u>	<u>35 000</u>
				Balance b/d	54 000	79 000 (1) of AO2	27 000 All 3

(5)

(ii)

AO1 (6), AO2 (14)**AO1: Six marks for transferring balances from the list of balances to the financial statements without amendment.****AO2: Fourteen marks for adjusting balances from the list of balances and posting correctly in the financial statements.**

Aaron, Bitan and Chaman

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 July 2017

	£	£
Revenue		377 500
Less		
Opening inventory	36 500	
Purchases	183 200	
Carriage inwards	<u>10 300 (1) AO1</u>	
	230 000	
Closing inventory	<u>(40 000)</u>	
Cost of sales		<u>190 000 (1) of + w AO2</u>
Gross profit		187 500
Plus Other income:		
Rent receivable (1 750 + 750)		<u>2 500 (1) AO2</u>
		190 000
Less		
Depreciation – Land and buildings	2 000 (1) AO2	
Motor vehicles	11 200 (1) AO2	
Office equipment	6 000 (1) AO2	
Wages and salaries	56 500 (1) AO1	
General expenses (31 000 – 4 000)	27 000 (1) AO2	
Allowance for doubtful debts increase	900 (1) AO2	
Carriage outwards	7 450 (1) AO1	
Insurance (3 650 – 600)	3 050 (1) AO2	
Rent	12 000 (1) AO1	
Motor vehicle expenses	9 800 (1) AO1	
Bank loan interest (2 000 + 2 000)	<u>4 000 (1) AO2</u>	
		<u>(139 900)</u>
Profit for the year		50 100
Plus		
Interest on drawings - Aaron	400 (1) AO2	
Bitan	300 (1) AO2	
Chaman	<u>200 (1) AO2</u>	
		<u>900</u>
		51 000
Less		
Salaries- Bitan	15 000	
Chaman	<u>12 000 (1) AO1</u>	
		<u>(27 000)</u>
		24 000
Share of profit		
Aaron		9 600 (1) of AO2
Bitan		9 600
Chaman		<u>4 800 (1) of AO2</u>
		<u>24 000</u>

(20)

(iii)

AO1 (2), AO2 (4)**AO1: Two marks for transferring balances from the list of balances to the account without amendment.****AO2: Four marks for recording correct calculations from appropriation.**

Current Accounts

	Aaron	Bitan	Chaman		Aaron	Bitan	Chaman
	£	£	£		£	£	£
Balance b/d	1 300			Balance b/d		900	
Salaries paid		15 000 (1) AO2	12 000 Both	Salaries		15 000 (1) AO1	12 000 Both
Drawings	8 000 (1) AO1	6 000	4 000	Share of profit	9 600	9 600 (1) of AO2	4 800 All 3
Int on drawing	400	300 (1) of AO2	200 All 3	Balance c/d	100		
Balance c/d		4 200	600				
	<u>9 700</u>	<u>25 500</u>	<u>16 800</u>		<u>9 700</u>	<u>25 500</u>	<u>16 800</u>
Balance b/d	100			Balance b/d		4 200 (1) of AO2	600 All 3

(6)

Question Number	Answer	Mark																																																																																																																																												
1 (b)	<p>AO1 (4), AO2 (7), AO3 (1) AO1: Four marks for correctly transferring balances from the list of balances to the position statement without amendment. AO2: Seven marks for adjusting balances for the treatment of the item in the income statement. AO3: One mark for correctly calculating the adjusted trade receivables.</p> <p style="text-align: center;">Statement of Financial Position at 31 July 2017</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="4">Assets</td> </tr> <tr> <td colspan="4">Non-current Assets</td> </tr> <tr> <td></td> <td style="text-align: center;">Cost</td> <td style="text-align: center;">Accumulated Depreciation</td> <td style="text-align: center;">Carrying Value</td> </tr> <tr> <td></td> <td style="text-align: center;">£</td> <td style="text-align: center;">£</td> <td style="text-align: center;">£</td> </tr> <tr> <td>Land and buildings</td> <td style="text-align: right;">100 000</td> <td style="text-align: right;">6 000</td> <td style="text-align: right;">94 000 (1)of AO2</td> </tr> <tr> <td>Motor vehicles</td> <td style="text-align: right;">80 000</td> <td style="text-align: right;">35 200</td> <td style="text-align: right;">44 800 (1)of AO2</td> </tr> <tr> <td>Office equipment</td> <td style="text-align: right;"><u>40 000</u></td> <td style="text-align: right;"><u>16 000</u></td> <td style="text-align: right;"><u>24 000 (1)of AO2</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>220 000</u></td> <td style="text-align: right;"><u>57 200</u></td> <td style="text-align: right;">162 800</td> </tr> <tr> <td colspan="4">Current Assets</td> </tr> <tr> <td>Inventory</td> <td></td> <td style="text-align: right;">40 000 (1) AO1</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">48 000</td> <td></td> <td></td> </tr> <tr> <td>Less Allowance for doubtful debts</td> <td style="text-align: right;"><u>(2 400)</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">45 600 (1)of AO3</td> <td></td> </tr> <tr> <td>Other receivables: (4 000 + 750 + 600</td> <td></td> <td style="text-align: right;">5 350 (1) AO2</td> <td></td> </tr> <tr> <td>Bank</td> <td></td> <td style="text-align: right;"><u>5 000 (1) AO1</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>95 950</u></td> </tr> <tr> <td>Total Assets</td> <td></td> <td></td> <td style="text-align: right;"><u>258 750</u></td> </tr> <tr> <td colspan="4">Capital and Liabilities</td> </tr> <tr> <td colspan="4">Capital Accounts</td> </tr> <tr> <td></td> <td style="text-align: right;">Aaron</td> <td style="text-align: right;">54 000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">Bitan</td> <td style="text-align: right;">79 000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">Chaman</td> <td style="text-align: right;"><u>27 000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">160 000 (1)of AO2</td> </tr> <tr> <td colspan="4">Current Accounts</td> </tr> <tr> <td></td> <td style="text-align: right;">Aaron</td> <td style="text-align: right;">100 Dr</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">Bitan</td> <td style="text-align: right;">4 200 Cr</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">Chaman</td> <td style="text-align: right;"><u>600 Cr</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">4 700 (1)of AO2</td> </tr> <tr> <td colspan="4">Non-current Liabilities</td> </tr> <tr> <td>8% bank loan (repayable December 2025)</td> <td></td> <td></td> <td style="text-align: right;">50 000 (1) AO1</td> </tr> <tr> <td colspan="4">Current Liabilities</td> </tr> <tr> <td>Trade payables</td> <td></td> <td style="text-align: right;">42 050 (1) AO1</td> <td></td> </tr> <tr> <td>Other payables:</td> <td></td> <td style="text-align: right;"><u>2 000 (1) AO2</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>44 050</u></td> </tr> <tr> <td>Total Capital and Liabilities</td> <td></td> <td></td> <td style="text-align: right;"><u>258 750</u></td> </tr> </table>	Assets				Non-current Assets					Cost	Accumulated Depreciation	Carrying Value		£	£	£	Land and buildings	100 000	6 000	94 000 (1)of AO2	Motor vehicles	80 000	35 200	44 800 (1)of AO2	Office equipment	<u>40 000</u>	<u>16 000</u>	<u>24 000 (1)of AO2</u>		<u>220 000</u>	<u>57 200</u>	162 800	Current Assets				Inventory		40 000 (1) AO1		Trade receivables	48 000			Less Allowance for doubtful debts	<u>(2 400)</u>					45 600 (1)of AO3		Other receivables: (4 000 + 750 + 600		5 350 (1) AO2		Bank		<u>5 000 (1) AO1</u>					<u>95 950</u>	Total Assets			<u>258 750</u>	Capital and Liabilities				Capital Accounts					Aaron	54 000			Bitan	79 000			Chaman	<u>27 000</u>					160 000 (1)of AO2	Current Accounts					Aaron	100 Dr			Bitan	4 200 Cr			Chaman	<u>600 Cr</u>					4 700 (1)of AO2	Non-current Liabilities				8% bank loan (repayable December 2025)			50 000 (1) AO1	Current Liabilities				Trade payables		42 050 (1) AO1		Other payables:		<u>2 000 (1) AO2</u>					<u>44 050</u>	Total Capital and Liabilities			<u>258 750</u>	(12)
Assets																																																																																																																																														
Non-current Assets																																																																																																																																														
	Cost	Accumulated Depreciation	Carrying Value																																																																																																																																											
	£	£	£																																																																																																																																											
Land and buildings	100 000	6 000	94 000 (1)of AO2																																																																																																																																											
Motor vehicles	80 000	35 200	44 800 (1)of AO2																																																																																																																																											
Office equipment	<u>40 000</u>	<u>16 000</u>	<u>24 000 (1)of AO2</u>																																																																																																																																											
	<u>220 000</u>	<u>57 200</u>	162 800																																																																																																																																											
Current Assets																																																																																																																																														
Inventory		40 000 (1) AO1																																																																																																																																												
Trade receivables	48 000																																																																																																																																													
Less Allowance for doubtful debts	<u>(2 400)</u>																																																																																																																																													
		45 600 (1)of AO3																																																																																																																																												
Other receivables: (4 000 + 750 + 600		5 350 (1) AO2																																																																																																																																												
Bank		<u>5 000 (1) AO1</u>																																																																																																																																												
			<u>95 950</u>																																																																																																																																											
Total Assets			<u>258 750</u>																																																																																																																																											
Capital and Liabilities																																																																																																																																														
Capital Accounts																																																																																																																																														
	Aaron	54 000																																																																																																																																												
	Bitan	79 000																																																																																																																																												
	Chaman	<u>27 000</u>																																																																																																																																												
			160 000 (1)of AO2																																																																																																																																											
Current Accounts																																																																																																																																														
	Aaron	100 Dr																																																																																																																																												
	Bitan	4 200 Cr																																																																																																																																												
	Chaman	<u>600 Cr</u>																																																																																																																																												
			4 700 (1)of AO2																																																																																																																																											
Non-current Liabilities																																																																																																																																														
8% bank loan (repayable December 2025)			50 000 (1) AO1																																																																																																																																											
Current Liabilities																																																																																																																																														
Trade payables		42 050 (1) AO1																																																																																																																																												
Other payables:		<u>2 000 (1) AO2</u>																																																																																																																																												
			<u>44 050</u>																																																																																																																																											
Total Capital and Liabilities			<u>258 750</u>																																																																																																																																											

Question Number		Indicative Content
1 (c)		<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Potential arguments for Greater resources available to business. Can specialise to strengths of the partnership. Cover for holidays and sickness.</p> <p>Potential arguments against Must share profits. Cannot make decisions without referring to other partners. Need for mutual trust as joint and several liability.</p> <p>Decision Candidates may decide that the decision to join the partnership was a positive or negative move. Candidate's decisions must be supported by a rationale of key points in arriving at that conclusion.</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 Marvan extracted a trial balance on 31 August 2017. The trial balance failed to balance so Marvan opened a Suspense Account to record the difference.

On inspection of the books and draft financial statements, Marvan discovered the following errors:

- (1) The Sales Day Book had been under-cast by £3 250
- (2) Purchases on credit from Gayesha of £850, had been recorded in the ledger account of Gihan.
- (3) On 31 August 2017, a page from the inventory count (stock-take), for a total of £900, had been omitted.
- (4) Discount allowed of £280 had been credited to the Discount Allowed Account.
- (5) Rent of £6 000 had been paid for the period 1 May - 31 October 2017. The full amount had been charged to the Statement of Profit or Loss and Other Comprehensive Income.
- (6) Telephone expenses of £750 had been correctly recorded in the Bank Account but had been recorded in the Telephone Expenses Account as £570
- (7) The purchase of a new computer, £5 000, had been recorded in the Computer Expenses Account. Depreciation was charged on computers at the rate of 25% per annum using the straight line method.

Required

- (a) Identify which of the above errors could be corrected by using the Suspense Account. (3)
- (b) Prepare the journal entries to record the correction of all errors. Narratives are **not** required. (16)
- (c) Prepare the Suspense Account after the correction of all errors, showing the opening balance. (5)

On the 31 August 2017, the following balances were recorded in the ledger **before** the correction of errors.

Inventory Account	£41 600
Discount Allowed Account	£1 320
Computer Expenses Account	£12 300

Required

(d) Prepare the following corrected ledger accounts:

- (i) Inventory Account (3)

- (ii) Discount Allowed Account (3)

- (iii) Computer Expenses Account. (3)

Although the trial balance had failed to balance, Marvan prepared draft financial statements that showed a draft profit for the year of £23 350

- (e) Calculate the revised profit or loss for the year **after** the correction of all errors by completing the table in your Question Paper. (10)

- (f) Evaluate the usefulness of preparing draft financial statements when it is known that there are errors in the books. (12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Although the trial balance had failed to balance, Marvan prepared draft financial statements that showed a draft profit for the year of £23 350

- (e) Calculate the revised profit or loss for the year **after** the correction of all errors by completing the table.

(10)

			£
Draft profit for the year			23 350
	Increase	Decrease	
	£	£	
(1) The Sales Day Book had been under-cast by £3 250			
(2) Purchases on credit from Gayesha £850, had been recorded in the ledger account of Gihan.			
(3) On 31 August 2017, a page from the inventory count (stock-take), for a total of £900, had been omitted.			
(4) Discount allowed of £280 had been credited to the Discount Allowed Account.			
(5) Rent of £6 000 had been paid for the period 1 May – 31 October 2017. The full sum had been charged to the Statement of Profit or Loss and Other Comprehensive Income.			
(6) Telephone expenses of £750, had been correctly recorded in the Bank Account but had been recorded in the Telephone Expenses Account as £570			
(7) The purchase of a new computer, £5 000, had been recorded in the Computer Expenses Account. Depreciation was charged on computers at the rate of 25% per annum using the straight line method.			
Sub total			
Revised profit for the year			

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



Question Number	Answer	Mark
2 (a)	<p>AO2 (3) AO2: Three marks for correctly identifying the errors requiring a suspense account.</p> <p>(1) (1) AO2 (4) (1) AO2 (6) (1) AO2</p>	(3)

Question Number	Answer	Mark																																																																																
2 (b)	<p>AO1 (3), AO2 (13) AO1: Three marks for correctly identifying the account. AO2: Thirteen marks for correctly identifying the account and the entry and value.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Dr</th> <th style="text-align: center;">Journal</th> <th></th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">Cr</th> <th></th> </tr> <tr> <th></th> <th></th> <th style="text-align: center;">£</th> <th></th> </tr> </thead> <tbody> <tr> <td>Suspense</td> <td style="text-align: right;">3 250</td> <td></td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">3 250</td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Gihan</td> <td style="text-align: right;">850</td> <td></td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Gayesha</td> <td></td> <td style="text-align: right;">850</td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">900</td> <td></td> <td style="text-align: right;">(1) AO1</td> </tr> <tr> <td>Income statement</td> <td></td> <td style="text-align: right;">900</td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Discount Allowed</td> <td style="text-align: right;">560</td> <td></td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Suspense</td> <td style="text-align: right;">(1) AO1</td> <td style="text-align: right;">560</td> <td></td> </tr> <tr> <td>Rent</td> <td style="text-align: right;">2 000</td> <td></td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Income statement</td> <td style="text-align: right;">(1) AO1</td> <td style="text-align: right;">2 000</td> <td></td> </tr> <tr> <td>Telephone Expenses</td> <td style="text-align: right;">180</td> <td></td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Suspense</td> <td></td> <td style="text-align: right;">180</td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Computer</td> <td style="text-align: right;">5 000</td> <td></td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Computer Expenses</td> <td></td> <td style="text-align: right;">5 000</td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Income statement/</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">1 250</td> <td></td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Provision for depreciation</td> <td></td> <td style="text-align: right;">1 250</td> <td style="text-align: right;">(1) AO2</td> </tr> </tbody> </table>		Dr	Journal			£	Cr				£		Suspense	3 250		(1) AO2	Revenue		3 250	(1) AO2	Gihan	850		(1) AO2	Gayesha		850	(1) AO2	Inventory	900		(1) AO1	Income statement		900	(1) AO2	Discount Allowed	560		(1) AO2	Suspense	(1) AO1	560		Rent	2 000		(1) AO2	Income statement	(1) AO1	2 000		Telephone Expenses	180		(1) AO2	Suspense		180	(1) AO2	Computer	5 000		(1) AO2	Computer Expenses		5 000	(1) AO2	Income statement/				Depreciation	1 250		(1) AO2	Provision for depreciation		1 250	(1) AO2	(16)
	Dr	Journal																																																																																
	£	Cr																																																																																
		£																																																																																
Suspense	3 250		(1) AO2																																																																															
Revenue		3 250	(1) AO2																																																																															
Gihan	850		(1) AO2																																																																															
Gayesha		850	(1) AO2																																																																															
Inventory	900		(1) AO1																																																																															
Income statement		900	(1) AO2																																																																															
Discount Allowed	560		(1) AO2																																																																															
Suspense	(1) AO1	560																																																																																
Rent	2 000		(1) AO2																																																																															
Income statement	(1) AO1	2 000																																																																																
Telephone Expenses	180		(1) AO2																																																																															
Suspense		180	(1) AO2																																																																															
Computer	5 000		(1) AO2																																																																															
Computer Expenses		5 000	(1) AO2																																																																															
Income statement/																																																																																		
Depreciation	1 250		(1) AO2																																																																															
Provision for depreciation		1 250	(1) AO2																																																																															

Question Number	Answer	Mark															
2 (c)	<p>AO1 (2), AO2 (3) AO1: Two marks for establishing the opening balance of the account. AO2: Three marks for posting the correct narrative and value.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 35%; text-align: center;">Suspense Account</td> <td style="width: 35%;"></td> </tr> <tr> <td style="text-align: right;">Revenue</td> <td style="text-align: right;">£ 3 250 (1) AO2</td> <td style="text-align: right;">£ 2 510 (2) / (1) of AO1</td> </tr> <tr> <td></td> <td style="text-align: right;">Telephone expenses</td> <td style="text-align: right;">180 (1) AO2</td> </tr> <tr> <td></td> <td style="text-align: right;">Discount allowed</td> <td style="text-align: right;"><u>560 (1) AO2</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>3 250</u></td> <td style="text-align: right;"><u>3 250</u></td> </tr> </table>		Suspense Account		Revenue	£ 3 250 (1) AO2	£ 2 510 (2) / (1) of AO1		Telephone expenses	180 (1) AO2		Discount allowed	<u>560 (1) AO2</u>		<u>3 250</u>	<u>3 250</u>	(5)
	Suspense Account																
Revenue	£ 3 250 (1) AO2	£ 2 510 (2) / (1) of AO1															
	Telephone expenses	180 (1) AO2															
	Discount allowed	<u>560 (1) AO2</u>															
	<u>3 250</u>	<u>3 250</u>															

Question Number	Answer	Mark
2 (d) (i)	AO1 (3) AO1: Three marks for recording the correction or balancing the account.	(3)

Inventory Account

2017		£	2017		£
31 Aug	Balance b/d	41 600 (1) AO1	31 Aug	Balance c/d	42 500
	Income Statement	900 (1) AO1			
		<u>42 500</u>			<u>42 500</u>
1 Sept	Balance b/d	42 500 (1)of AO1			

(3)

Question Number	Answer	Mark
2 (d) (ii)	AO1 (3) AO1: Three marks for recording the correction or balancing the account.	(3)

Discount Allowed Account

2017		£	2017		£
31 Aug	Balance b/d	1 320 (1) AO1	31 Aug	Balance c/d	1 880
	Suspense	560 (1) AO1			
		<u>1 880</u>			<u>1 880</u>
1 Sept	Balance b/d	1 880 (1)of AO1			

(3)

Question Number	Answer	Mark
2 (d) (iii)	AO1 (3) AO1: Three marks for recording the correction or balancing the account.	(3)

Computer Expenses Account

2017		£	2017		£
31 Aug	Balance b/d	12 300 (1) AO1	31 Aug	Computer Account	5 000 (1) AO1
			31 Aug	Balance c/d	7 300
		<u>12 300</u>			<u>12 300</u>
1 Sept	Balance b/d	7 300 (1)of AO1			

(3)

Question Number	Answer	Mark
2 (e)	AO2 (9), AO3 (1) AO2: Nine marks for identifying the correct effect of the error. AO3: One mark for correctly calculating the depreciation.	(10)

			£
Draft profit for the year			23 350
	Increase	Decrease	
	£	£	
(1) The Sales Day Book had been under-cast by £3 250.	3 250 (1) AO2		
(2) Purchases on credit from Gayesha £850, had been recorded in the ledger account of Gihan.	No effect (1) AO2		
(3) On 31 August 2017, a page from the inventory count (stock-take), for a total of £900, had been omitted.	900 (1) AO2		
(4) Discount allowed of £280 had been credited to the Discount Allowed Account.		560 (1) AO2	
(5) Rent of £6 000 had been paid for the period 1 May - 31 October 2017. The full amount had been charged to the Statement of Profit or Loss and Other Comprehensive Income.	2 000 (1) AO2		
(6) Telephone expenses of £750, had been correctly recorded in the Bank Account but had been recorded in the Telephone Expenses Account as £570.		180 (1) AO2	
(7) The purchase of a new computer, £5 000, had been recorded in the Computer Expenses Account. Depreciation is charged on computers at the rate of 25% per annum using the straight line method.	5 000 (1) AO2	1 250 (1) AO3	
Sub total	11 150	1 990	
Revised profit for the year			32 510 (2)/(1)of AO2

Question Number	Indicative Content	Mark
2 (f)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Potential arguments for Prepares draft figures for use. Gives a reasonable estimate of profit. Assists the making of decisions. Easier to adjust draft statements to prepare final statements.</p> <p>Potential arguments against Reliance cannot be placed upon the information which is not accurate. Work has to be repeated – time and cost. Can lead to incorrect decisions.</p> <p>NOT Any discussion of errors such as type, location, identification etc. Check accuracy.</p> <p>Decision Candidates may decide that the decision to prepare financial statements when there are errors in the books was a positive or negative move. Candidate's decisions must be supported by a rationale of key points in arriving at that conclusion.</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.

SECTION B

Answer THREE questions from this section.

- 3** Bebi is a sole trader buying and selling goods for cash and on credit. When she commenced business she decided not to keep a formal set of books.

Bebi is now required to calculate her profit or loss for the year and seeks your help.

In discussion with Bebi the following information is available:

- (1) At the start of the year, on 1 October 2016, her assets and liabilities were:
- inventory £13 600
 - motor van for business use £11 400 (at valuation)
 - trade receivables £10 400
 - trade payables £8 000
 - bank overdraft £1 700
- (2) Cheque receipts during the year from trade receivables were £106 000 for credit sales and a further £9 200 was owed by trade receivables at 30 September 2017.
- (3) Bebi banked £3 000 from cash sales **after** she had paid for the following in cash:
- motor van expenses £7 800
 - wages £14 000
 - personal drawings £9 200
- (4) Credit purchases of £95 000 were paid by cheque during the year and £15 000 was owed to trade payables at 30 September 2017.
- (5) Bebi marked up all goods by $33\frac{1}{3}\%$
- (6) The motor van was valued at £8 300 at 30 September 2017.
- (7) Bebi paid £6 500 by cheque for general expenses during the year.
- (8) At 30 September 2017, wages of £900 were accrued and general expenses of £400 were prepaid.

Required

- (a) Calculate, for the year ended 30 September 2017, the:
- (i) total revenue (4)
 - (ii) total purchases. (3)
- (b) Calculate, at 30 September 2017, the:
- (i) closing inventory (3)
 - (ii) bank balance. (3)
- (c) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2017. (7)
- Bebi is considering merging her business and personal bank account.
- (d) Explain the accounting concept that would be broken if Bebi records all business and personal transactions in a single bank account. (2)
- (e) Explain the method of depreciation used for the motor van. (2)
- (f) Evaluate Bebi's decision not to maintain a formal set of books. (6)

(Total for Question 3 = 30 marks)

Level 4	10 - 12	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario.</p> <p>A coherent and logical chain of reasoning, showing causes and effects.</p> <p>Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.</p>
---------	---------	---

Question Number	Answer	Mark																					
3 (a) (i)	<p>AO2 (4) AO2: Four marks for completing the calculations.</p> <p>Revenue</p> <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: center;">£</td> <td></td> </tr> <tr> <td>Cash receipts</td> <td style="text-align: right;">34 000</td> <td>(1) AO2</td> </tr> <tr> <td>Cheque receipts</td> <td style="text-align: right;">106 000</td> <td>(1) AO2</td> </tr> <tr> <td>Trade receivables at end</td> <td style="text-align: right;"><u>9 200</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">149 200</td> <td></td> </tr> <tr> <td>Trade receivables at start</td> <td style="text-align: right;"><u>(10 400)</u></td> <td>(1) AO2</td> </tr> <tr> <td>Revenue</td> <td style="text-align: right;">138 800</td> <td>(1) of AO2</td> </tr> </table>		£		Cash receipts	34 000	(1) AO2	Cheque receipts	106 000	(1) AO2	Trade receivables at end	<u>9 200</u>			149 200		Trade receivables at start	<u>(10 400)</u>	(1) AO2	Revenue	138 800	(1) of AO2	(4)
	£																						
Cash receipts	34 000	(1) AO2																					
Cheque receipts	106 000	(1) AO2																					
Trade receivables at end	<u>9 200</u>																						
	149 200																						
Trade receivables at start	<u>(10 400)</u>	(1) AO2																					
Revenue	138 800	(1) of AO2																					

Question Number	Answer	Mark																		
3 (a) (ii)	<p>AO2 (3) AO2: Three marks for completing the calculations.</p> <p>Purchases</p> <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: center;">£</td> <td></td> </tr> <tr> <td>Cheque payments</td> <td style="text-align: right;">95 000</td> <td>(1) AO2</td> </tr> <tr> <td>Trade payables at end</td> <td style="text-align: right;"><u>15 000</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">110 000</td> <td></td> </tr> <tr> <td>Trade payables at start</td> <td style="text-align: right;"><u>(8 000)</u></td> <td>(1) AO2</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">102 000</td> <td>(1) of AO2</td> </tr> </table>		£		Cheque payments	95 000	(1) AO2	Trade payables at end	<u>15 000</u>			110 000		Trade payables at start	<u>(8 000)</u>	(1) AO2	Purchases	102 000	(1) of AO2	(3)
	£																			
Cheque payments	95 000	(1) AO2																		
Trade payables at end	<u>15 000</u>																			
	110 000																			
Trade payables at start	<u>(8 000)</u>	(1) AO2																		
Purchases	102 000	(1) of AO2																		

Question Number	Answer	Mark
3 (b) (i)	<p>AO3 (3) AO3: Three marks for calculations for closing inventory.</p> <p>Closing inventory</p> <p>Sales 138 800 x $\frac{100}{133 \frac{1}{3}}$ = Cost of sales 104 100 (1)of AO3</p> <p>(13 600 + Purchases 102 000 of) = 115 600 (1)of AO3 - Cost of sales 104 100 = 11 500 (1)of AO3</p>	(3)

Question Number	Answer	Mark																				
3 (b) (ii)	<p>AO1 (2), AO2 (1) AO1: Two marks for establishing receipts and payments. AO2: One mark for adjusting the calculations for opening balance.</p> <p>Bank</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">£</th> <th></th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Receipts</td> <td></td> <td>Payments</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">106 000</td> <td>Trade receivables</td> <td style="text-align: right;">95 000 (1)</td> </tr> <tr> <td>Cash sales</td> <td style="text-align: right;"><u>3 000</u></td> <td>General expenses</td> <td style="text-align: right;"><u>6 500</u> AO1</td> </tr> <tr> <td></td> <td style="text-align: right;">109 000 (1) AO1</td> <td></td> <td style="text-align: right;">101 500</td> </tr> </tbody> </table> <p>Opening balance (1 700) + 109 000 – 101 500 = 5 800 (1)of AO2</p>		£		£	Receipts		Payments		Trade receivables	106 000	Trade receivables	95 000 (1)	Cash sales	<u>3 000</u>	General expenses	<u>6 500</u> AO1		109 000 (1) AO1		101 500	(3)
	£		£																			
Receipts		Payments																				
Trade receivables	106 000	Trade receivables	95 000 (1)																			
Cash sales	<u>3 000</u>	General expenses	<u>6 500</u> AO1																			
	109 000 (1) AO1		101 500																			

Question Number	Answer	Mark																																													
3 (c)	<p>AO1 (4), AO2 (3) AO1: Four marks for transferred balances. AO2: Three marks adjusting balances to be included.</p> <p style="text-align: center;">Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2017</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;">138 800 (1)of AO1</td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">13 600</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>102 000</u> of</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">115 600</td> <td></td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;"><u>(11 500)</u> (1)of AO1</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>104 100</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">34 700 (1)of AO2</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Motor van expenses</td> <td style="text-align: right;">7 800 (1) AO1</td> <td></td> </tr> <tr> <td>Wages (14 000 + 900)</td> <td style="text-align: right;">14 900 (1) AO2</td> <td></td> </tr> <tr> <td>Motor van depreciation</td> <td style="text-align: right;">3 100 (1) AO1</td> <td></td> </tr> <tr> <td>General expenses (6 500 – 400)</td> <td style="text-align: right;"><u>6 100</u> (1) AO2</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>31 900</u></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;"><u>2 800</u></td> </tr> </tbody> </table>		£	£	Revenue		138 800 (1)of AO1	Opening inventory	13 600		Purchases	<u>102 000</u> of			115 600		Closing inventory	<u>(11 500)</u> (1)of AO1		Cost of sales		<u>104 100</u>	Gross profit		34 700 (1)of AO2	Less			Motor van expenses	7 800 (1) AO1		Wages (14 000 + 900)	14 900 (1) AO2		Motor van depreciation	3 100 (1) AO1		General expenses (6 500 – 400)	<u>6 100</u> (1) AO2				<u>31 900</u>	Profit for the year		<u>2 800</u>	(7)
	£	£																																													
Revenue		138 800 (1)of AO1																																													
Opening inventory	13 600																																														
Purchases	<u>102 000</u> of																																														
	115 600																																														
Closing inventory	<u>(11 500)</u> (1)of AO1																																														
Cost of sales		<u>104 100</u>																																													
Gross profit		34 700 (1)of AO2																																													
Less																																															
Motor van expenses	7 800 (1) AO1																																														
Wages (14 000 + 900)	14 900 (1) AO2																																														
Motor van depreciation	3 100 (1) AO1																																														
General expenses (6 500 – 400)	<u>6 100</u> (1) AO2																																														
		<u>31 900</u>																																													
Profit for the year		<u>2 800</u>																																													

Question Number	Answer	Mark
3 (d)	<p>AO1 (1), AO3 (1) AO1: One mark for stating the meaning of the concept. AO3: One mark for naming the concept.</p> <p>Accounting/Business entity (1) AO3 the owner and the business will have a separate identity (1) AO1.</p>	(2)

Question Number	Answer	Mark
3 (e)	<p>AO1 (2) AO1: Two marks for explaining the method and its application.</p> <p>Revaluation method (1) AO1 based on the reduction in the market value over the accounting period. (1) AO1</p>	<p>(2)</p>

Question Number	Indicative Content		Mark
3 (f)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive points for maintaining a set of books Balances of personal accounts available at all times. Profit can be ascertained. Assists decision making.</p> <p>Potential arguments for not maintaining a set of books Cost and employment of accounting specialist. More time to run the business.</p> <p>NOT Decision about errors.</p> <p>Decision Candidates may decide that maintaining a formal set of books is a positive or negative move. Candidate's decisions must be supported by a rationale of key points in arriving at that conclusion.</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 The Statement of Financial Position of Hoppe Electricals at 30 June 2016, showed the following:

Non-current Asset	Cost	Accumulated Depreciation	Carrying Value
	£	£	£
Land and buildings	250 000	80 000	170 000
Motor vehicles	72 000	30 000	42 000
Loose tools	15 000	5 000	10 000
Total	337 000	115 000	222 000

- (1) During the year ended 30 June 2017, the following non-current asset transactions took place:

- An extension to the building costing £60 000 was completed and occupied.
- New motor vehicles were purchased at a cost of £23 000
- Existing motor vehicles with a cost of £25 000, were sold for their carrying value of £5 000
- Additional loose tools were purchased for £6 000. Loose tools were valued on 30 June 2017 at £14 000

- (2) Hoppe Electricals has the following depreciation policy:

- Land and buildings are depreciated at the rate of 10% per annum using the straight line method.
- Motor vehicles are depreciated at the rate of 25% per annum using the reducing balance method.
- Loose tools are depreciated using the revaluation method.
- A full year's depreciation is charged on all non-current assets owned at the end of the year.

Required

- (a) State how the following accounting concepts apply to depreciation:

(i) going concern

(2)

(ii) consistency.

(2)

- (b) Calculate the depreciation to be charged for each type of non-current asset for the year ended 30 June 2017:
- (i) land and buildings (2)
 - (ii) motor vehicles (3)
 - (iii) loose tools. (3)
- (c) Complete the schedule of non-current assets in your Question Paper. (12)
- (d) Evaluate the depreciation policy of Hoppe Electricals for land and buildings. (6)

(Total for Question 4 = 30 marks)

(c) Complete the schedule of non-current assets.

(12)

Schedule of Non-current Assets at 30 June 2017

	Land and buildings	Motor vehicles	Loose tools
	£	£	£
Cost at 30 June 2016	250 000	72 000	15 000
Additions for year			
Disposals for year			
Total non-current asset cost			
Less depreciation			
Provision at 30 June 2016	80 000	30 000	5 000
Depreciation on non-current asset disposals			
Depreciation for the year ended 30 June 2017			
Total accumulated depreciation			
Carrying value at 30 June 2017			

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



Question Number	Answer	Mark
4 (a) (i)	<p>AO1 (2) AO1: Two marks for stating how the concepts apply to depreciation.</p> <p>Going concern It is assumed that the business will have perpetual life (1) AO1 Therefore the cost of non-current assets should be matched to each accounting period over the useful life of the asset. (1) AO1</p>	(2)

Question Number	Answer	Mark
4 (a) (ii)	<p>AO1 (2) AO1: Two marks for stating how the concepts apply to depreciation.</p> <p>Consistency Whichever method of depreciation and rate has been chosen for a non-current asset it should be consistently applied to the non-current assets' useful life (1) AO1 to avoid distortion of profit. (1) AO1</p>	(2)

Question Number	Answer	Mark
4 (b) (i)	<p>AO2 (2) AO2: Two marks for completing the calculations.</p> <p>Land and buildings</p> <p>$250\,000 + 60\,000 = 310\,000$ (1) AO2 x 10% $= 31\,000$ (1) of AO2</p>	(2)

Question Number	Answer	Mark
4 (b) (ii)	<p>AO2 (2), AO3 (1) AO2: Two marks for completing the calculations. AO3: One mark for adjusting the calculations for disposals.</p> <p>Motor vehicles</p> <p>Carrying value after disposal 37 000 (1) AO3 + 23 000 = 60 000 (1) AO2 x 25% = 15 000 (1) of AO2</p> <p>OR</p> <p>((42 000 – 5 000 (1) AO3) + 23 000 (1) AO2)) x 25% = 15 000 (1) of</p>	(3)

Question Number	Answer	Mark
4 (b) (iii)	<p>AO2 (1), AO3 (2) AO2: One mark for completing the calculations. AO3: Two marks for adjusting the calculations for disposals.</p> <p>Loose tools</p> <p>15 000 + 6 000 = 21 000 (1) AO2 – 14 000 = 7 000 (1) AO3 – 5000 = 2 000 (1) AO3</p>	(3)

Question Number	Answer	Mark																																																
4 (c)	<p>AO1 (5), AO2 (7) AO1: Five marks for inserting figures in the table. AO2: Seven marks for applying provision for depreciation correctly.</p> <p style="text-align: center;">Schedule of Non-current Assets at 30 June 2017.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Land and buildings</th> <th style="text-align: center;">Motor vehicles</th> <th style="text-align: center;">Loose tools</th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Cost at 30 June 2016</td> <td style="text-align: right;">250 000</td> <td style="text-align: right;">72 000</td> <td style="text-align: right;">15 000</td> </tr> <tr> <td>Additions for year</td> <td style="text-align: right;">60 000 (1) AO1</td> <td style="text-align: right;">23 000 (1) AO1</td> <td style="text-align: right;">6 000 (1) AO2</td> </tr> <tr> <td>Disposals for year</td> <td style="text-align: right;">(-)</td> <td style="text-align: right;">(25 000) (1) AO2</td> <td style="text-align: right;">(-)</td> </tr> <tr> <td>Total non-current asset cost</td> <td style="text-align: right;">310 000</td> <td style="text-align: right;">70 000</td> <td style="text-align: right;">21 000</td> </tr> <tr> <td>Less depreciation</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Provision at 30 June 2016</td> <td style="text-align: right;">(80 000)</td> <td style="text-align: right;">(30 000)</td> <td style="text-align: right;">(5 000)</td> </tr> <tr> <td>Depreciation on non-current asset disposals</td> <td style="text-align: right;">-</td> <td style="text-align: right;">20 000 (1) AO2</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Depreciation for the year ended 30 June 2017</td> <td style="text-align: right;">(31 000) (1) of AO2</td> <td style="text-align: right;">(15 000) (2) (1) of AO2</td> <td style="text-align: right;">(2 000) (1) of AO2</td> </tr> <tr> <td>Total accumulated depreciation</td> <td style="text-align: right;">(111 000)</td> <td style="text-align: right;">(25 000)</td> <td style="text-align: right;">(7 000)</td> </tr> <tr> <td>Carrying value at 30 June 2017</td> <td style="text-align: right;">199 000 (1) of AO1</td> <td style="text-align: right;">45 000 (1) of AO1</td> <td style="text-align: right;">14 000 (1) of AO1</td> </tr> </tbody> </table>		Land and buildings	Motor vehicles	Loose tools		£	£	£	Cost at 30 June 2016	250 000	72 000	15 000	Additions for year	60 000 (1) AO1	23 000 (1) AO1	6 000 (1) AO2	Disposals for year	(-)	(25 000) (1) AO2	(-)	Total non-current asset cost	310 000	70 000	21 000	Less depreciation				Provision at 30 June 2016	(80 000)	(30 000)	(5 000)	Depreciation on non-current asset disposals	-	20 000 (1) AO2	-	Depreciation for the year ended 30 June 2017	(31 000) (1) of AO2	(15 000) (2) (1) of AO2	(2 000) (1) of AO2	Total accumulated depreciation	(111 000)	(25 000)	(7 000)	Carrying value at 30 June 2017	199 000 (1) of AO1	45 000 (1) of AO1	14 000 (1) of AO1	(12)
	Land and buildings	Motor vehicles	Loose tools																																															
	£	£	£																																															
Cost at 30 June 2016	250 000	72 000	15 000																																															
Additions for year	60 000 (1) AO1	23 000 (1) AO1	6 000 (1) AO2																																															
Disposals for year	(-)	(25 000) (1) AO2	(-)																																															
Total non-current asset cost	310 000	70 000	21 000																																															
Less depreciation																																																		
Provision at 30 June 2016	(80 000)	(30 000)	(5 000)																																															
Depreciation on non-current asset disposals	-	20 000 (1) AO2	-																																															
Depreciation for the year ended 30 June 2017	(31 000) (1) of AO2	(15 000) (2) (1) of AO2	(2 000) (1) of AO2																																															
Total accumulated depreciation	(111 000)	(25 000)	(7 000)																																															
Carrying value at 30 June 2017	199 000 (1) of AO1	45 000 (1) of AO1	14 000 (1) of AO1																																															

Question Number	Indicative Content		Mark
4 (d)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for the policy Buildings will require depreciation because they will deteriorate. Accruals/matching concepts are being applied. Prudence concept has been applied. Straight line method is the same depreciation each year and does not distort profit.</p> <p>Potential negative points for the policy Land is not normally depreciated. At 10% the rate is too high for matching/accruals concept. The book value may not be near to the market value.</p> <p>NOT Less time to calculate. Less errors.</p> <p>Decision Candidates may decide that the application of 10% straight line depreciation to land and buildings is appropriate or not appropriate. Candidate's decisions must be supported by a rationale of key points in arriving at that conclusion.</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 Ding Repairs is in business as a car body repair workshop. The business has three departments: Metal shop, Paint shop and Administration. The following information is available:

(1) Raw materials – car parts and paint.

All car parts and paint to repair cars are purchased to order and will be charged to the customer at cost plus 20%

(2) Labour

Metal shop employees are paid £7.50 per hour.

Paint shop employees are paid £10.00 per hour.

Metal shop employees work 45 hours per week for 50 weeks per year.

80% of all employee working hours are charged directly to customer repair jobs.

Paint shop employees work 48 hours per week for 50 weeks per year.

75% of all employee working hours are charged directly to customer repair jobs.

(3) Overheads

Allocated overheads:

	£
• Metal shop	39 000
• Paint shop	53 000
• Administration	24 000

Other overheads:

	£
Rent and rates	20 000
Depreciation of equipment	28 000
Insurance	7 000
Management salaries	45 000

Additional information

	Metal shop	Paint shop	Administration
Floor area (sq m)	600	300	100
Employees (number)	5	3	1
Equipment value (£)	20 000	100 000	20 000

The total overhead for Administration is reallocated: 75% Metal Shop, 25% Paint Shop.

Required

- (a) Explain the accounting terms:
- (i) semi-variable cost (2)
 - (ii) overhead allocation (2)
 - (iii) absorption of overheads. (2)
- (b) Calculate the **total** overhead cost (including the reallocation of Administration), of the:
- Metal shop
 - Paint shop. (7)
- (c) Calculate the overhead recovery rates per labour hour for the:
- (i) Metal shop (2)
 - (ii) Paint shop. (2)

A customer has requested a quotation for the repair of his car. Ding Repairs will purchase the car parts and paint for £250. The repair will take 16 hours in the Metal shop and 20 hours in the Paint shop. Ding Repairs will include an additional charge of £150 on the total cost for profit.

Required

- (d) Prepare the quotation for the customer. (7)
- (e) Evaluate the usefulness of apportioning overheads to departments. (6)

(Total for Question 5 = 30 marks)

Question Number	Answer	Mark
5 (a) (i)	<p>AO1 (2) AO1: Two marks for explaining the terms.</p> <p>Semi-variable cost</p> <p>The cost includes a fixed (1) AO1 and a variable component (1) AO1 OR Electricity, telephone charges where there is a fixed cost (standing charge) (1) and a variable cost (cost of calls or electricity usage) (1).</p>	(2)

Question Number	Answer	Mark
5 (a) (ii)	<p>AO1 (2) AO1: Two marks for explaining the terms.</p> <p>Overhead allocation</p> <p>Costs which are wholly identifiable (1) AO1 with one cost centre. (1) AO1</p>	(2)

Question Number	Answer	Mark
5 (a) (iii)	<p>AO1 (2) AO1: Two marks for explaining the terms.</p> <p>Absorption of overheads</p> <p>A basis of recovering the total costs of a cost centre by the jobs that pass through them (1) AO1. This may be by a labour hour rate or machine hour rate. (1) AO1</p> <p>OR</p> <p>The money charged for customers jobs (1) based on the calculated budgeted overhead absorption rate (1)</p>	(2)

Question Number	Answer	Mark																																								
5 (b)	<p>AO1 (2), AO2 (4), AO3 (1) AO1: Two marks for transferring the allocated overheads and totalling. AO2: Four marks for identifying the correct basis of apportionment and carrying out the apportionment. AO3: One mark for apportioning depreciation.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Metal shop</th> <th style="text-align: center;">Paint shop</th> <th style="text-align: center;">Administration</th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Allocated overheads</td> <td style="text-align: right;">39 000</td> <td style="text-align: right;">53 000</td> <td style="text-align: right;">24 000 (1) AO1</td> </tr> <tr> <td>Rent and rates</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">6 000</td> <td style="text-align: right;">2 000 (1) AO2</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">4 000</td> <td style="text-align: right;">20 000</td> <td style="text-align: right;">4 000 (1) AO3</td> </tr> <tr> <td>Insurance</td> <td style="text-align: right;">1 000</td> <td style="text-align: right;">5 000</td> <td style="text-align: right;">1 000 (1) AO2</td> </tr> <tr> <td>Management salaries</td> <td style="text-align: right;"><u>25 000</u></td> <td style="text-align: right;"><u>15 000</u></td> <td style="text-align: right;"><u>5 000</u> (1) AO2</td> </tr> <tr> <td></td> <td style="text-align: right;">81 000</td> <td style="text-align: right;">99 000</td> <td style="text-align: right;">36 000</td> </tr> <tr> <td>Reallocation</td> <td style="text-align: right;"><u>27 000</u></td> <td style="text-align: right;"><u>9 000</u></td> <td style="text-align: right;">(1)of AO2</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">108 000</td> <td style="text-align: right;">108 000</td> <td style="text-align: right;">(1)of AO1</td> </tr> </tbody> </table>		Metal shop	Paint shop	Administration		£	£	£	Allocated overheads	39 000	53 000	24 000 (1) AO1	Rent and rates	12 000	6 000	2 000 (1) AO2	Depreciation	4 000	20 000	4 000 (1) AO3	Insurance	1 000	5 000	1 000 (1) AO2	Management salaries	<u>25 000</u>	<u>15 000</u>	<u>5 000</u> (1) AO2		81 000	99 000	36 000	Reallocation	<u>27 000</u>	<u>9 000</u>	(1)of AO2	Total	108 000	108 000	(1)of AO1	(7)
	Metal shop	Paint shop	Administration																																							
	£	£	£																																							
Allocated overheads	39 000	53 000	24 000 (1) AO1																																							
Rent and rates	12 000	6 000	2 000 (1) AO2																																							
Depreciation	4 000	20 000	4 000 (1) AO3																																							
Insurance	1 000	5 000	1 000 (1) AO2																																							
Management salaries	<u>25 000</u>	<u>15 000</u>	<u>5 000</u> (1) AO2																																							
	81 000	99 000	36 000																																							
Reallocation	<u>27 000</u>	<u>9 000</u>	(1)of AO2																																							
Total	108 000	108 000	(1)of AO1																																							

Question Number	Answer	Mark
5 (c) (i)	<p>A02 (1), A03 (1) A02: One mark for calculating the hourly rate. A03: One mark for calculating the annual hours chargeable to customer's jobs.</p> <p>Metal shop</p> $\frac{\pounds 108\,000}{9\,000} = \pounds 12 \text{ (1) of A02}$ <p style="text-align: center;">9 000 (1) A03</p>	(2)

Question Number	Answer	Mark
5 (c) (ii)	<p>A02 (1), A03 (1) A02: One mark for calculating the hourly rate. A03: One mark for calculating the annual hours chargeable to customer's jobs.</p> <p>Paint shop</p> $\frac{\pounds 108\,000}{5\,400} = \pounds 20 \text{ (1) of A02}$ <p style="text-align: center;">5 400 (1) A03</p>	(2)

Question Number	Answer	Mark																																							
5 (d)	<p>AO1 (1), AO2 (6) AO1: One mark for transferring the profit figure to the quotation. AO3: Six marks for calculating the corrected figure and then correctly inserting it into the quotation.</p> <p style="text-align: center;">Quotation</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">£</th> <th style="width: 20%; text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Raw materials £250 + 20%</td> <td></td> <td style="text-align: right;">300 (1) AO2</td> </tr> <tr> <td colspan="3">Direct labour</td> </tr> <tr> <td>Metal shop 16 x £7.5</td> <td style="text-align: right;">120 (1) AO2</td> <td></td> </tr> <tr> <td>Paint shop 20 x £10</td> <td style="text-align: right;"><u>200</u> (1) AO2</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">320</td> </tr> <tr> <td colspan="3">Overheads</td> </tr> <tr> <td>Metal shop 16 x £12</td> <td style="text-align: right;">192 (1) of AO2</td> <td></td> </tr> <tr> <td>Paint shop 20 x £20</td> <td style="text-align: right;"><u>400</u> (1) of AO2</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>592</u></td> </tr> <tr> <td>Total</td> <td></td> <td style="text-align: right;">1 212</td> </tr> <tr> <td>Profit</td> <td></td> <td style="text-align: right;"><u>150</u> (1) AO1</td> </tr> <tr> <td>Quotation price</td> <td></td> <td style="text-align: right;"><u>1 362</u> (1) of AO2</td> </tr> </tbody> </table>		£	£	Raw materials £250 + 20%		300 (1) AO2	Direct labour			Metal shop 16 x £7.5	120 (1) AO2		Paint shop 20 x £10	<u>200</u> (1) AO2				320	Overheads			Metal shop 16 x £12	192 (1) of AO2		Paint shop 20 x £20	<u>400</u> (1) of AO2				<u>592</u>	Total		1 212	Profit		<u>150</u> (1) AO1	Quotation price		<u>1 362</u> (1) of AO2	(7)
	£	£																																							
Raw materials £250 + 20%		300 (1) AO2																																							
Direct labour																																									
Metal shop 16 x £7.5	120 (1) AO2																																								
Paint shop 20 x £10	<u>200</u> (1) AO2																																								
		320																																							
Overheads																																									
Metal shop 16 x £12	192 (1) of AO2																																								
Paint shop 20 x £20	<u>400</u> (1) of AO2																																								
		<u>592</u>																																							
Total		1 212																																							
Profit		<u>150</u> (1) AO1																																							
Quotation price		<u>1 362</u> (1) of AO2																																							

Question Number	Indicative Content		Mark
5 (e)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for apportionment A realistic estimate of the usage of specific costs by each department. A departmental rate can be calculated for quotations.</p> <p>Potential negative points for apportionment Only an estimate. Cost may not be reduced if the department is removed or under performs. Costly, time consuming, requires skill.</p> <p>Decision Candidates may decide that apportionment is useful or not useful. Candidate's decisions must be supported by a rationale of key points in arriving at that conclusion.</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.	

6 Yaso is in business buying and selling goods on credit. He is concerned that although his business is making a good profit, his balance at the bank is not increasing. The following information is available:

(1) At 1 September 2016, the bank balance was £40 000, and the inventory was £35 000

(2) Summarised bank transactions for the year ended 31 August 2017.

	£
Receipts from trade receivables	625 000
Payments to trade payables	580 000
Non-current assets purchased	250 000
6% loan taken out by Yaso	300 000
Expenses paid	125 000
Drawings	40 000

(3) Asset and liabilities at 31 August 2017.

	£
Trade receivables	160 000
Trade payables	60 000
Inventory	45 000
Expenses prepaid	20 000
Non-current assets	320 000
6% bank loan (repayable December 2022)	300 000
Bank	To be calculated

(4) Credit transactions in the year ended 31 August 2017.

	£
Purchases	570 000
Revenue	800 000

Required

(a) Explain the accounting terms:

(i) profitability (2)

(ii) liquidity. (2)

(b) Calculate the bank balance at 31 August 2017. (4)

- (c) Calculate, for the year ended 31 August 2017, the:
- (i) inventory turnover (times) (2)
 - (ii) current ratio (2)
 - (iii) liquid (acid test) ratio (2)
 - (iv) trade payables payment period (in days) (2)
 - (v) trade receivables collection period (in days) (2)
 - (vi) revenue to non-current assets. (2)

The following information is available for Yaso's business for the previous year, ended 31 August 2016, and for the sector average for that year.

	Yaso For the year ended 31 August 2016	Sector average For the year ended 31 August 2016
Inventory turnover	11 times	12 times
Current ratio	1.9:1	2:1
Liquid (acid test) ratio	1.1:1	1:1
Trade payables payment period (in days)	40 days	45 days
Trade receivables collection period (in days)	50 days	35 days
Revenue to non-current assets	2:1	2.5:1

- (d) Evaluate the liquidity of Yaso's business at 31 August 2017. (6)

A friend of Yaso's stated that you cannot judge the success of a business by the financial factors alone. You must also consider non-financial factors.

- (e) Identify **four** non-financial factors that could be important when judging the success of Yaso's business. (4)

(Total for Question 6 = 30 marks)

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

Question Number	Answer	Mark
6 (a) (i)	<p>AO1 (2) AO1: Two marks for explaining the terms.</p> <p>Profitability – The amount of profit earned (1) AO1 by a business for every £ of capital/sales invested in it. (1) AO1</p>	(2)

Question Number	Answer	Mark
6 (a) (ii)	<p>AO1 (2) AO1: Two marks for explaining the terms.</p> <p>Liquidity – The ability of the business to meet financial commitments/current liabilities (1) AO1 turning current assets into cash. (1) AO1</p>	(2)

Question Number	Answer	Mark
6 (b)	<p>AO1 (1), AO2 (3) AO1: One mark for using the opening bank balance. AO2: Three marks for calculating the total receipts and expenditure and calculating the closing balance.</p>	(4)

Receipts	£	Payments	£
Receipts from trade receivables	625 000	Payments to trade payables	580 000
6% Loan taken out by Yaso	300 000	Non-current assets	250 000
		Expenses paid	125 000
		Drawings	<u>40 000</u>
	<u>925 000</u>		995 000

Balance 40 000 **(1)** **AO1** + 925 000 **(1)** **AO2** – 995 000 **(1)** **AO2** = 30 000 overdraft **(1)** **of AO2**

Question Number	Answer	Mark
6 (c) (i)	<p>AO2 (1), AO3 (1) AO2: One mark for the correct answer with descriptor. AO3: One mark for calculating the corrected figure and then correctly inserting it into the ratio.</p> <p style="text-align: center;">Inventory turnover (times)</p> <p style="text-align: center;">$\frac{560\,000}{(35\,000 + 45\,000)/2}$ (1) AO3 = 14 times (1) of AO2</p>	(2)

Question Number	Answer	Mark
6 (c) (ii)	<p>AO2 (1), AO3 (1) AO2: One mark for the correct answer with descriptor. AO3: One mark for calculating the corrected figure and then correctly inserting it into the ratio.</p> <p style="text-align: center;">Current ratio</p> <p style="text-align: center;">$\frac{45\,000 + 160\,000 + 20\,000}{60\,000 + 30\,000}$ (1) AO3 = 2.50:1 (1) of AO2</p>	(2)

Question Number	Answer	Mark
6 (c) (iii)	<p>AO2 (2) AO2: Two marks for calculating the correct answer with descriptor.</p> <p>Liquid (acid test) ratio</p> $\frac{160\,000 + 20\,000}{60\,000 + 30\,000} = 2:1 \text{ (1) of AO2}$ <p>of (1) AO2</p>	(2)

Question Number	Answer	Mark
6 (c) (iv)	<p>AO2 (2) AO2: Two marks for calculating the correct answer with descriptor.</p> <p>Trade payables payment period (in days)</p> $\frac{60\,000 \times 365}{570\,000} = 38.42 \text{ days (1) AO2}$ <p>(1) AO2</p>	(2)

Question Number	Answer	Mark
6 (c) (v)	<p>AO2 (2) AO2: Two marks for calculating the correct answer with descriptor.</p> <p>Trade receivables collection period (in days)</p> $\frac{160\,000 \times 365}{800\,000} = 73 \text{ days (1) AO2}$	(2)

Question Number	Answer	Mark
6 (c) (vi)	<p>AO2 (1), AO3 (1) AO2: One mark for the correct answer with descriptor. AO3: One mark for calculating the corrected figure and then correctly inserting it into the ratio.</p> <p>Revenue to non-current assets</p> $\frac{800\,000}{320\,000} = 2.5:1 \text{ (1) AO3}$ <p>OR</p> <p>250% (1)</p>	(2)

Question Number	Indicative Content	Mark
6 (d)	<p>AO2 (1), AO3 (2), AO4 (3) Own figure rule applies</p> <p>Potential positive arguments for liquidity The current and liquid (acid test) ratio are higher than the accepted benchmark. Inventory is being turned over quicker than last year or the sector average. The current and liquid (acid test) ratio are higher than last year and the sector average. Trade payables payment period is slightly better than last year and the sector average.</p> <p>Potential negative points for liquidity The current and liquid (acid test) ratio mainly consist of outstanding trade receivables. The trade receivables collection at 73 days is too high and debt collection procedures need reviewing. Trade receivables collection has worsened and is more than twice the sector average. Although the revenue to non-current assets is comparable with last year and the sector average. The purchase of £320 000 of new non-current assets has had an effect on the availability of cash.</p> <p>Decision Candidates may decide that the liquidity is sufficient or insufficient. Candidate's decisions must be supported by a rationale of key points in arriving at that conclusion.</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.
---------	-----	---

Question Number	Answer	Mark
6 (e)	<p>AO1 (4) A01: Four marks for listing non-financial factors.</p> <p>Skill of the staff Management Product range Product development Location of the business Reputation/goodwill Customer loyalty Relationship with suppliers Competitive environment</p> <p>4 x (1) A01</p>	(4)