

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Avar is in business wholesaling high quality clothing. She does not maintain a full set of accounts but does maintain a bank account together with other memorandum records. The following information is available for the year ended 30 April 2013:

1.	Bank account		
	£	£	
Cash sales banked	13 100	Balance b/d	6 000
Cheques from customers	65 300	Payments to suppliers	46 200
Sale of fixtures and fittings	600	Loan repayment	2 000
		Fixtures and fittings	8 200
		Wages	24 000
		Rent and rates	6 600
Balance c/d	<u>17 300</u>	Sundry expenses	<u>3 300</u>
	<u>96 300</u>	Balance b/d	<u>17 300</u>

2. Avar paid the following from cash sales before banking:

	£
Wages	4 800
Cleaning of premises	6 000
New computer	1 800
Drawings	5 000

3. Contained within the wages recorded in the bank account were £2 500 of Avar’s drawings.

4. Other balances:

	At 1 May 2012	At 30 April 2013
	£	£
Inventory	17 750	20 350
5% Bank loan	10 000	8 000
Trade receivables	23 400	29 600
Trade payables	19 000	21 800
Wages prepaid	850	-
Wages accrued	-	1 450
Computer equipment (at valuation)	5 000	5 100
Fixtures and fittings (at valuation)	11 000	14 000

5. The 5% bank loan was taken out on 1 November 2011. Repayment is by five equal annual amounts on 1 November of each year. No interest has been paid on the outstanding loan for the year ended 30 April 2013.
6. The Bank Statement received from the bank showed an entry of £620 for bank overdraft charges. No entries for these charges had been made in Avar’s bank account.

7. During the year a debtor who had bought goods in September 2012 was unable to pay her debt. Avar received a cheque for £800 in February 2013, being a payment of £0.25 for every £1 of debt. The balance was immediately written off as irrecoverable.
8. A 5% provision for doubtful debts is to be created on trade receivables at 30 April 2013.

Required:

- (a) Calculate Avar's:
- (i) capital at 1 May 2012 (3)
 - (ii) revenue (sales) for the year ended 30 April 2013 (5)
 - (iii) purchases for the year ended 30 April 2013. (3)
- (b) Prepare the Wages account for the year ended 30 April 2013. (6)
- (c) Prepare the:
- (i) Statement of Comprehensive Income for the year ended 30 April 2013 (15)
 - (ii) Statement of Financial Position at 30 April 2013. (12)
- (d) Evaluate whether a sole trader such as Avar should maintain a full set of double entry accounts. (8)

(Total 52 marks)

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

Question Number	Answer	Mark																																							
1(a)(i)	<p>Capital - 1 May 2012</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Assets</td> <td style="width: 10%; text-align: right;">£</td> <td style="width: 40%;"></td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">17 750</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">23 400</td> <td></td> </tr> <tr> <td>Wages prepaid</td> <td style="text-align: right;">850</td> <td></td> </tr> <tr> <td>Computer equipment</td> <td style="text-align: right;">5 000</td> <td></td> </tr> <tr> <td>Fixtures and fittings</td> <td style="text-align: right;"><u>11 000</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">58 000/</td> <td></td> </tr> <tr> <td>Liabilities</td> <td></td> <td></td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">6 000</td> <td></td> </tr> <tr> <td>5% Bank loan</td> <td style="text-align: right;">10 000</td> <td></td> </tr> <tr> <td>Trade payables</td> <td style="text-align: right;"><u>19 000</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">(35 000)/</td> <td></td> </tr> <tr> <td>Capital</td> <td style="text-align: right;">23 000 /of</td> <td></td> </tr> </table>	Assets	£		Inventory	17 750		Trade receivables	23 400		Wages prepaid	850		Computer equipment	5 000		Fixtures and fittings	<u>11 000</u>			58 000/		Liabilities			Bank	6 000		5% Bank loan	10 000		Trade payables	<u>19 000</u>			(35 000)/		Capital	23 000 /of		(3)
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1(d)	<p>Valid points may include:</p> <p>Points for</p> <ul style="list-style-type: none"> • Time saved • Cost saving of professional accountant • Less time consuming • Can provide total of trade receivables/trade payables • Check liquidity • Can compare performance • Can calculate profit • Errors can be identified • Less cost of professional accountant/ of paperwork • More accurate <p>Points against</p> <ul style="list-style-type: none"> • Unable to accurately keep track of trade payables and trade receivables • Lack of information to prepare financial statements • Lack of information for decision making <p>NOT</p> <ul style="list-style-type: none"> • Gain more profit • Difficult to prepare • Less errors <p>// per valid point x Max two point in favour and two points against</p>	(8)

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Giant Burgers is in business manufacturing and selling packs of vegetable burgers. The following balances were available for the year ended 30 April 2013:

	£
Purchases of raw materials	62 000
Production wages	280 000
Salaries – Production management	53 000
Administration staff	84 500
Machinery and equipment repairs	28 650
Packaging	27 000
Marketing	52 900
Rent and rates	22 000
Electricity and gas	15 500
Sundry expenses – Production	18 750
Administration	26 000
Non-current assets (at cost):	
Machinery and equipment	125 000
Fixtures and fittings	80 000
Provisions for depreciation:	
Machinery and equipment	75 000
Fixtures and fittings	14 000
Inventory at 1 May 2012:	
Raw materials	4 500
Work in progress	6 000
Finished goods 12 000 packs of	24 000

Additional information at 30 April 2013:

- Inventory:

Raw materials	£7 500
Work in progress	£4 000
Finished goods	18 000 packs at transfer value
- On 1 January 2013 packaging was purchased for £12 000. Half of this packaging remained on hand at 30 April 2013.
- Electricity and gas of £500 is accrued. Marketing of £1 800 is prepaid.
- Rent and rates, electricity and gas are to be apportioned 70% to production and 30% to administration.
- Depreciation is charged as follows:

Machinery and equipment	30% per annum reducing balance method
Fixtures and fittings	15% per annum straight line method.
- During the year 288 000 packs of vegetable burgers were produced and transferred to finished goods at an agreed transfer value of £2 per pack.

7. Giant Burgers markets vegetable burgers for £3 per pack. Sales were made to three types of customer and were as follows:

Farmers' markets	66 000 packs at £3 per pack
Sales on internet	140 000 packs at £3 per pack less 10% trade discount
Tulip Supermarkets	76 000 packs at £3 per pack less 25% trade discount

Required:

- (a) Prepare the Manufacturing Account for the year ended 30 April 2013, clearly showing the profit or loss on manufacture. (14)
- (b) Calculate, for the year ended 30 April 2013, the:
- (i) Prime cost of producing **one pack** of vegetable burgers (3)
- (ii) Production cost of producing **one pack** of vegetable burgers. (3)
- (c) State **one** reason why Giant Burgers may wish to transfer production to finished goods at an agreed transfer price. (2)
- (d) Prepare the Statement of Comprehensive Income for the year ended 30 April 2013. (18)
- (e) Explain why the depreciation recorded in the Statement of Comprehensive Income is an example of both the **going concern** and the **consistency** accounting concepts. (4)
- Tulip Supermarkets has offered to double its order to 152 000 packs next year if Giant Burgers increases the trade discount on the total order to 35%.
- (f) Evaluate this offer from Tulip Supermarkets. (8)

(Total 52 marks)

Answer space for question 2 is on pages 9 to 15 of the question paper.

Question Number	Answer	Mark	
2(a)	Giant Burgers		
	Manufacturing Account for the year ended 30 April 2013		
		£ £	
	Opening inventory	4 500	
	Purchases of raw materials	<u>62 000</u>	
		66 500	
	Closing inventory	<u>7 500</u>	
	Cost of raw materials consumed	59 000	✓
	Production wages	280 000	✓
	Packaging (27 000 - 6 000)	<u>21 000</u>	✓
	PRIME COST		360 000 ✓w+f
	Plus		
	Production overheads:		
	Production management salaries	53 000	✓
	Machine repairs	28 650	✓
	Rent and rates (22 000 x 70%)	15 400	✓
	Electricity and gas (15 500 + 500 x 70%)	11 200	✓
	Sundry expenses	18 750	✓
	Depreciation - machinery and equipment	<u>15 000</u>	✓
			<u>142 000</u>
		502 000	
Work in progress:			
At 1 May 2012	6 000		
At 30 April 2013	<u>(4 000)</u>	✓	
PRODUCTION COST (288 000 packs)		<u>504 000</u> ✓w+of	
Profit on production		<u>72 000</u> ✓of	
TRANSFER TO FINISHED GOODS (288 000 packs)		<u>576 000</u> ✓w+f	

(14)

Question Number	Answer	Mark
2(b)(i)	<p><u>Prime cost</u> £360 000 /of = £1.25 per pack /of</p> <p>Packs produced 288 000 /</p>	(3)

Question Number	Answer	Mark
2(b)(ii)	<p><u>Production cost</u> £504 000 /of =£1.75 per pack /of</p> <p>Packs produced 288 000 /</p>	(3)

Question Number	Answer	Mark
2(c)	<p>Reasons:</p> <ul style="list-style-type: none"> • <u>Measure efficiency</u> of production and selling activities. • A <u>notional profit</u> can be generated in the production department • Can <u>compare cost of manufacture</u> with purchasing the product <p>// x one point</p>	(2)

Question Number	Answer	Mark																																																																																																																								
2(d)	<p style="text-align: center;">Statement of Comprehensive Income for the year ended 30 April 2013</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%; text-align: right;">Packs</th> <th style="width: 10%; text-align: right;">£</th> <th style="width: 10%; text-align: right;">£</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Sales revenue:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Farmers markets</td> <td style="text-align: right;">66 000</td> <td style="text-align: right;">198 000</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td style="padding-left: 20px;">Sales on line</td> <td style="text-align: right;">140 000</td> <td style="text-align: right;">378 000</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td style="padding-left: 20px;">Tulip Supermarkets</td> <td style="text-align: right;"><u>76 000</u></td> <td style="text-align: right;"><u>171 000</u></td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td></td> <td style="text-align: right;">282 000</td> <td></td> <td style="text-align: right;">747 000</td> <td></td> </tr> <tr> <td>less</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Opening inventory of finished goods</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">24 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">Transfer from production</td> <td style="text-align: right;"><u>288 000</u></td> <td style="text-align: right;"><u>576 000</u></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td style="text-align: right;">300 000</td> <td style="text-align: right;">600 000</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Closing inventory of finished goods</td> <td style="text-align: right;"><u>18 000</u></td> <td style="text-align: right;"><u>(36 000)</u></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">Cost of sales</td> <td style="text-align: right;">282 000</td> <td></td> <td style="text-align: right;"><u>564 000</u></td> <td style="text-align: right;">✓w+of</td> </tr> <tr> <td style="padding-left: 20px;">Gross profit</td> <td></td> <td></td> <td style="text-align: right;">183 000</td> <td></td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Administrative salaries</td> <td></td> <td style="text-align: right;">84 500</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">Marketing (52 900- 1 800)</td> <td></td> <td style="text-align: right;">51 100</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">Rent and rates (22 000 x 30%)</td> <td></td> <td style="text-align: right;">6 600</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">Electricity and gas (15 500 + 500 x 30%)</td> <td></td> <td style="text-align: right;">4 800</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation - 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Question Number	Answer	Mark
2(e)	<p>Going concern - Assumes, unless the contrary is known, that the business will have a <u>life of unlimited duration</u>.//</p> <p>Consistency - that a consistent method of depreciating the non-current asset should be <u>used throughout its life</u>.//</p>	(4)

Question Number	Answer	Mark
2(f)	<p>Valid points may include:</p> <p>Points for</p> <ul style="list-style-type: none"> • Increased market share/sales • Fixed costs can be shared over a larger number of units of production/sales • Economies of sale • Expansion with a known and reliable customer • Gives a positive contribution on extra output <p>Points against</p> <ul style="list-style-type: none"> • Profit on extra packs sold to Tulip Supermarkets would be very low • Profit on existing packs sold to Tulip supermarkets would be lowered • Very small profit margin per pack of burgers sold to Tulip Supermarkets • Probably higher fixed costs • Other customers may request same discounts <p>NOT</p> <ul style="list-style-type: none"> • Increased wastage • Lower quality <p>// per valid point x Max two point in favour and two points against</p>	(8)

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. The following balances remained in the books of Arena Sports Club after completion of the Income and Expenditure Account for the year ended 30 April 2013:

	£
Accumulated fund	25 400
Surplus of income over expenditure	900
Clubhouse (at cost)	30 000
Provision for depreciation of clubhouse	4 200
Equipment (at cost)	4 500
Provision for depreciation of equipment	1 100
Subscriptions in arrears	220
Subscriptions in advance	1 400
Trade payables	8 700
Inventory of refreshments	1 700
Bank	5 100 Dr
Other payables – sundry expenses	600
Suspense account	780 Dr

After completion of the Income and Expenditure Account the following were discovered:

1. A payment of £790 to a creditor, Eastern Drinks, had been correctly recorded in the Bank Account, but had been recorded as £610 in the Eastern Drinks Account.
2. An entry for cash sales of refreshments, £1 850, had been correctly entered in the Revenue (Sales) Account, but recorded as £1 250 in the Bank Account.
3. A credit purchase of equipment from ESB Sports, £1 500, had been omitted from the books. Depreciation of £300 would be chargeable at 30 April 2013 on this equipment.
4. A cheque for £100 for a subscription paid in advance had been dishonoured by the Bank.
5. An invoice from Mali Supplies for sundry expenses, £3 090, was received on 5 May 2013. The sundry expenses related to the year ended 30 April 2013.
6. A stock sheet of refreshments, £630, had been omitted from the inventory count (stock take) on 30 April 2013.

Required:

- (a) Prepare the Journal entries to correct items (1) to (6) above. Narratives are **not** required. (14)
- (b) Calculate the revised surplus/deficit for the year ended 30 April 2013. (6)
- (c) Prepare the Statement of Financial Position at 30 April 2013. (15)

The Committee of Arena Sports Club has decided to offer a 10 year membership at the rate of £700 per member in the year ending 30 April 2014. The current annual membership subscription is £100 per member.

It is estimated that the offer will be accepted by 30 members, who have not yet paid their annual subscriptions for the year ending 30 April 2014.

(d) Calculate the net effect that this proposal would have upon the:

- (i) subscriptions recorded in the Income and Expenditure Account for the year ending 30 April 2014
- (ii) bank balance recorded in the Statement of Financial Position at 30 April 2014.

(4)

(e) Prepare the 10 year Membership Subscription Account as it will appear for the year ending 30 April 2014.

(5)

(f) Evaluate the Committee of Arena Sports Club's decision to offer a 10 year membership for £700.

(8)

(Total 52 marks)

Answer space for question 3 is on pages 16 to 20 of the question paper.

Question Number	Answer	Mark																																																																
3(a)	<p style="text-align: center;">Journal</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 15%; text-align: center;">Dr</th> <th style="width: 15%; text-align: center;">Cr</th> <th style="width: 10%;"></th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th></th> </tr> </thead> <tbody> <tr> <td>Eastern Drinks</td> <td style="text-align: right;">180</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Suspense</td> <td></td> <td style="text-align: right;">180</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">600</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Suspense</td> <td></td> <td style="text-align: right;">600</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Equipment</td> <td style="text-align: right;">1 500</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>ESB Sports</td> <td></td> <td style="text-align: right;">1 500</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Income and expenditure</td> <td style="text-align: right;">300</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Provision for depreciation - equipment/ Depreciation</td> <td></td> <td style="text-align: right;">300</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Subscriptions</td> <td style="text-align: right;">100</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Bank</td> <td></td> <td style="text-align: right;">100</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Income and expenditure/Sundry expenses</td> <td style="text-align: right;">3 090</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Mali Supplies</td> <td></td> <td style="text-align: right;">3 090</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Inventory / Refreshments</td> <td style="text-align: right;">630</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Income and expenditure account/ Trading account</td> <td></td> <td style="text-align: right;">630</td> <td style="text-align: right;">✓</td> </tr> </tbody> </table>		Dr	Cr			£	£		Eastern Drinks	180		✓	Suspense		180	✓	Bank	600		✓	Suspense		600	✓	Equipment	1 500		✓	ESB Sports		1 500	✓	Income and expenditure	300		✓	Provision for depreciation - equipment/ Depreciation		300	✓	Subscriptions	100		✓	Bank		100	✓	Income and expenditure/Sundry expenses	3 090		✓	Mali Supplies		3 090	✓	Inventory / Refreshments	630		✓	Income and expenditure account/ Trading account		630	✓	(14)
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3(b)	<p>Corrected surplus/(deficit)</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> <th style="width: 20%; text-align: center;">£</th> </tr> <tr> <th></th> <th style="text-align: center;">Increase</th> <th style="text-align: center;">Decrease</th> <th></th> </tr> </thead> <tbody> <tr> <td>Original surplus</td> <td></td> <td></td> <td style="text-align: right;">900 /</td> </tr> <tr> <td>Depreciation</td> <td></td> <td style="text-align: right;">300</td> <td style="text-align: right;">/</td> </tr> <tr> <td>Sundry expenses</td> <td></td> <td style="text-align: right;">3 090</td> <td style="text-align: right;">/</td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;"><u>630</u></td> <td style="text-align: center;">_____</td> <td style="text-align: right;">/</td> </tr> <tr> <td></td> <td style="text-align: right;">630</td> <td style="text-align: right;">(3 390)</td> <td style="text-align: center;">_____</td> </tr> <tr> <td>Corrected deficit</td> <td></td> <td></td> <td style="text-align: right;"><u>(1 860) // (/of)</u></td> </tr> </tbody> </table>		£	£	£		Increase	Decrease		Original surplus			900 /	Depreciation		300	/	Sundry expenses		3 090	/	Inventory	<u>630</u>	_____	/		630	(3 390)	_____	Corrected deficit			<u>(1 860) // (/of)</u>	(6)
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4(a)	<p>The partner's <u>loan is paid at 5% interest</u> unless otherwise agreed</p> <p>The <u>interest is charged</u> to the main body of the <u>income statement</u></p> <p>In the financial <u>position statement</u> it will appear as a <u>creditor due</u> in less than or over one year</p> <p>✓✓ x 2 points</p>	(4)

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Ashraf, Bashar and Chung are in partnership. The partnership agreement states:

- Interest is charged on drawings at the rate of 4% per annum
- Interest is paid on capital at the rate of 6% per annum
- Chung is entitled to a salary of £16 000 per annum
- The residue of profits or losses is shared in the ratio 4:2:3.

The following information is available for the year ended 31 March 2013:

1. Balances 1 April 2012:

	Capital accounts	Current accounts
	£	£
Ashraf	25 000	1 420 Cr
Bashar	15 000	860 Cr
Chung	50 000	200 Dr

2. Drawings (excluding salary paid) for the year:

	£
Ashraf	9 000
Bashar	3 500
Chung	4 000

3. Halfway through the year, on 30 September 2012, Chung decided to reduce his involvement in the partnership. The partners agreed that:

- Chung would reduce his capital to £30 000, withdrawing £8 000 by cheque. The other £12 000 would remain in the partnership as a loan receiving 5% interest per annum
- Chung would no longer receive a salary
- The new ratio for sharing profits and losses would be 2:2:1
- All partners would continue to be charged interest on drawings at the rate of 4% per annum and receive interest on capital at 6% per annum.

4. The profit for the year was £30 140, after charging interest on the loan from Chung. The profit was generated evenly throughout the year.

Required:

- (a) Explain how a loan made by a partner, over and above the agreed capital, will be treated in the financial statements. (4)
- (b) Prepare, for the year ended 31 March 2013, the:
- (i) appropriation section of the Statement of Comprehensive Income (15)
 - (ii) Capital Account of Chung (3)
 - (iii) Current Account of Chung. (6)
- (c) Evaluate the need for a partnership agreement. (4)

(Total 32 marks)

Answer space for question 4 is on pages 21 to 24 of the question paper.

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SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Home Oil buys and sells heating oil. The following purchases and sales of oil took place in the three months ended 31 March 2013:

1 January	Balance b/d	8 000 litres @ £0.80 per litre
January	Purchases	15 000 litres @ £1.00 per litre
	Sales	12 000 litres
February	Purchases	15 000 litres @ £1.25 per litre
	Sales	16 000 litres
March	Purchases	12 000 litres @ £1.50 per litre
	Sales	8 000 litres

Additional information for the three months ended 31 March 2013:

- Home Oil marked up the cost of the heating oil to cover distribution costs and administration costs. Home Oil sold to customers at the following rates:

January	£1.50 per litre
February	£1.75 per litre
March	£2.00 per litre
- Home Oil uses the First In First Out (FIFO) perpetual inventory method of inventory valuation
- Distribution costs were £4 750. Administration costs were £8 300.

Required:

- (a) Distinguish between **inventory rotation** and **inventory valuation**. (4)
- (b) Calculate the value of the closing inventory at 31 March 2013. (6)
- (c) Prepare the Statement of Comprehensive Income for the three months ended 31 March 2013. (10)

Home Oil has been considering changing the method of inventory valuation to Last In First Out (LIFO) perpetual inventory.

- (d) (i) Calculate the value of the inventory at 31 March 2013 if the Last in First Out (LIFO) perpetual inventory method had been used. (6)
- (ii) State the effect on the gross profit if Home Oil had used the Last In First Out (LIFO) method. (2)
- (e) Evaluate the potential effect of the change to Last In First Out (LIFO) perpetual inventory. (4)

(Total 32 marks)

Answer space for question 5 is on pages 25 to 28 of the question paper.

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4(b)(iii)	<p style="text-align: center;">Current Account of Chung</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 10%;"></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">200</td> <td>Interest on capital</td> <td style="text-align: right;">2 400</td> <td style="text-align: right;">✓ of</td> </tr> <tr> <td>Int on drawings</td> <td style="text-align: right;">160</td> <td>Salary</td> <td style="text-align: right;">8 000</td> <td></td> </tr> <tr> <td>Drawings</td> <td style="text-align: right;">4 000</td> <td>Loan interest</td> <td style="text-align: right;">300</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Salary paid</td> <td style="text-align: right;">8 000</td> <td>Share of profit</td> <td style="text-align: right;">4 800</td> <td style="text-align: right;">✓ of</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>3 140</u></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>15 500</u></td> <td></td> <td style="text-align: right;"><u>15 500</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: right;">3 140</td> <td style="text-align: right;">✓ of</td> </tr> </table>		£		£		Balance b/d	200	Interest on capital	2 400	✓ of	Int on drawings	160	Salary	8 000		Drawings	4 000	Loan interest	300	✓	Salary paid	8 000	Share of profit	4 800	✓ of	Balance c/d	<u>3 140</u>					<u>15 500</u>		<u>15 500</u>				Balance b/d	3 140	✓ of	(6)								
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4(c)	<p>Valid points may include:</p> <p>Points for</p> <ul style="list-style-type: none"> • Clarity upon the distribution of profit • Avoids disputes at a later date <p>Points against</p> <ul style="list-style-type: none"> • Formality of creating the agreement • Cost of preparation <p>NOT</p> <ul style="list-style-type: none"> • Cover for absence/holidays • Wide expertise available • Time consuming <p>✓✓ per valid point x Max one point in favour and one point against</p>	(4)																																																
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Question Number	Answer	Mark
5(d)(ii)	The closing inventory will be £14 400 compared to the present £20 500. Therefore profit will be lower ✓✓ by £6 100	(2)

Question Number	Answer	Mark
5(e)	<p>Valid points may include:</p> <p>Points for</p> <ul style="list-style-type: none"> • Profit will be more prudently lower • Issues to customers more accurately reflect replacement value <p>Points against</p> <ul style="list-style-type: none"> • Not approved by the tax authorities • Inventory does not reflect market replacement value • Does not reflect rotation <p>✓✓ per valid point x Max one point in favour and one point against</p>	(4)

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Shopalot purchased a building which it converted into a shopping centre with ten separate shops of equal floor area. The building also has walkways and seating areas between the shops.

On 30 April 2013 Shopalot completed its first year of trading. The following information is available:

1. Purchase price of the building £500 000
Conversion of the building £200 000
Purchase of computer network £150 000
2. On 1 May 2012, Shopalot invested £400 000 cash and obtained a 10 year 8% Bank loan of £550 000. Interest is charged on the loan on 30 April each year.
3. Nine of the ten shops were rented out throughout the year. The tenth shop was unoccupied throughout the year.
4. Shopalot received the following income:
 - Rental of £4 000 per quarter (three months) per shop
 - A service charge of £1 500 per quarter (three months) per occupied shop for security and cleaning
 - 2% of the revenue (sales) of each shop
5. The total revenue (sales) of the nine occupied shops for the year was £1 350 000.
6. Depreciation was charged as follows:
 - Building – 2% per annum straight line method
 - Conversion of building – equal instalments over a 10 year period
 - Computer network – 30% reducing balance method
7. Other expenses paid:

	£
Security	30 000
Cleaning	21 000
Administration	24 500
Electricity	9 700
Government rates	17 500
8. On 30 April 2013 the following were owing to Shopalot:
 - Rent by two shops for the last quarter (three months) of the year
 - Service charge by two shops for the last quarter (three months) of the year
9. On 30 April 2013 the following was owed by Shopalot:
 - Government rates £9 000.

Required:

- (a) Prepare for Shopalot, for the year ended 30 April 2013, the:
- (i) Statement of Comprehensive Income (12)
 - (ii) summarised Bank Account. (8)
- (b) Prepare the Statement of Financial Position extract, showing the Non-current Assets and Current Assets sections only. (4)
- (c) Calculate the return on capital employed for Shopalot. (4)
- (d) Evaluate the financial position of Shopalot. (4)

(Total 32 marks)

Answer space for question 6 is on pages 29 to 32 of the question paper.

Question Number	Answer	Mark																																																																				
6(a)(i)	<p style="text-align: center;">Shopalot Statement of Comprehensive Income for the year ended 30 April 2013</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> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Revenue - Rent (£4 000 x 4 x 9)</td> <td style="text-align: right;">144 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td> Service charge (£1 500 x 4 x 9)</td> <td style="text-align: right;">54 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td> 2% in income</td> <td style="text-align: right;"><u>27 000</u></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">225 000</td> <td></td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Security</td> <td style="text-align: right;">30 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Cleaning</td> <td style="text-align: right;">21 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Administration</td> <td style="text-align: right;">24 500</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Electricity</td> <td style="text-align: right;">9 700</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Government rates</td> <td style="text-align: right;">26 500</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Depreciation - Building</td> <td style="text-align: right;">10 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td> Conversion</td> <td style="text-align: right;">20 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td> Computers</td> <td style="text-align: right;">45 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Loan interest</td> <td style="text-align: right;"><u>44 000</u></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>230 700</u></td> <td></td> </tr> <tr> <td>Loss for the year</td> <td></td> <td style="text-align: right;"><u>(5 700)</u></td> <td></td> </tr> </tbody> </table>		£	£		Revenue - Rent (£4 000 x 4 x 9)	144 000		✓	Service charge (£1 500 x 4 x 9)	54 000		✓	2% in income	<u>27 000</u>		✓			225 000		Less				Security	30 000		✓	Cleaning	21 000		✓	Administration	24 500		✓	Electricity	9 700		✓	Government rates	26 500		✓	Depreciation - Building	10 000		✓	Conversion	20 000		✓	Computers	45 000		✓	Loan interest	<u>44 000</u>		✓			<u>230 700</u>		Loss for the year		<u>(5 700)</u>		(12)
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SOURCE MATERIAL FOR USE WITH QUESTION 7

7. Adnam buys and sells goods on credit. The following balances were available at 31 March 2013:

	£
Capital	35 000
Inventory	37 000
Trade payables	35 000
Trade receivables	13 000
Non-current assets	25 000
Bank overdraft	5 000

Adnam used a mark-up of 50% for the year ended 31 March 2013.

Required:

(a) Calculate the:

(i) Current ratio (3)

(ii) Liquid (acid test) ratio. (3)

(b) Comment upon the adequacy of the ratios in (a) above. (2)

Creditors are threatening to withhold supplies of inventory unless Adnam reduces his debt to them. He proposes the following actions:

- Action 1 Hold a sale of inventory by reducing his mark-up to 25%. He estimates that revenue (sales) will be £20 000, half of which will be on credit and half paid by cheque.
- Action 2 Offer trade receivables at 31 March 2013 a cash discount of 10%. He estimates that trade receivables of £5 000 will accept the offer.
- Action 3 Pay trade payables valued at £12 000, less 5% cash discount.

Required:

- (c) Complete the following chart in the answer booklet, showing the effect of each of these actions upon the:
 - (i) Current Assets
 - (ii) Current Liabilities

	Current Assets		Current Liabilities	
	plus/minus/no effect	Value (£)	plus/minus/no effect	Value (£)
Action 1				
Action 2				
Action 3				

(12)

- (d) Prepare the Statement of Financial Position extract at 31 March 2013 of Adnam, showing the (i) Current Assets and (ii) Current Liabilities if all the Actions 1 to 3 were implemented. (8)
- (e) Evaluate the financial position of Adnam after implementing all the Actions 1 to 3. (4)

(Total 32 marks)

Answer space for question 7 is on pages 33 to 36 of the question paper.

Leave blank

(c) Complete the following chart in the answer booklet, showing the effect of each of these actions upon the:

- (i) Current Assets
- (ii) Current Liabilities

	Current Assets		Current Liabilities	
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Question Number	Answer				Mark	
7(c)	Current Assets		Current Liabilities		(12)	
		Plus, minus ,no effect	Value (£)	Plus, minus ,no effect		Value (£)
	Action 1	Minus √	1 000 √	Minus √		£5 000 √
	Action 2	Minus √	5 000 √	Minus √		£4 500 √
	Action 3	No effect √	£0 √	Minus √		£600 √

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7(e)	<p>Valid points may include:</p> <p>Points for</p> <ul style="list-style-type: none"> • Inventory is reduced • Trade payables reduced • Liquidity has improved <p>Points against</p> <ul style="list-style-type: none"> • Still no funds in the bank (of) • Trade receivables increased and need to recover debts <p>√√ per valid point x Max one point in favour and one point against</p>	(4)