

Centre No.						Paper Reference						Surname	Initial(s)	
Candidate No.						6	0	0	1	/	0	1	Signature	

Paper Reference(s)

6001/01

Examiner's use only

# London Examinations GCE

# Accounting (Modular Syllabus)

## Advanced Subsidiary

# Unit 1: The Accounting System and Costing

Tuesday 8 January 2013 – Afternoon

Time: 3 hours

Team Leader's use only

[illegible]

### Materials required for examination

Nil

### Items included with question papers

Source booklet

## Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.

Check that you have the correct question paper.

Answer FIVE questions, choosing TWO from Section A and THREE from Section B.

Indicate which question you are answering by marking the box (☒).

If you change your mind, put a line through the box (~~⊗~~) and then indicate your new question with a cross (⊗).

All calculations must be shown.

Write your answers in the spaces provided in this question paper.

Do not return the insert with the question paper.

## Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2).

There are 7 questions in this question paper. The total mark for this paper is 200.

There are 36 pages in this question paper. Any blank pages are indicated.

Calculators may be used.

**The source material for use with questions 1 to 7 is in the enclosed source booklet.**

## Advice to Candidates

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Write your answers neatly and in good English.

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## SECTION A

## SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Organic Farm Shop has three departments: greengrocery, bakery and The Café. The following balances were extracted from the books for the year ended 31 December 2012:

	£
Revenue:	
Greengrocery	190 000
Bakery	96 000
The Café	81 000
Inventory 1 January 2012:	
Greengrocery	8 150
Bakery	4 700
The Café	850
Purchases:	
Greengrocery	126 000
Bakery	60 500
The Café	40 250
Wages:	
Greengrocery	32 000
Bakery	21 000
The Café	16 000
Manager's salary	18 350
Electricity and gas	9 820
General running expenses	2 750
Rent (for 9 months)	8 100
Refurbishment costs of The Café	15 000
Non-current assets at cost:	
Equipment	20 000
Fixtures and fittings	10 000
Provisions for depreciation:	
Equipment	8 000
Fixtures and fittings	2 000
Trade receivables	32 000
Trade payables	46 870
Bank	43 000 Dr
Capital	60 000
Drawings	16 800
Provision for doubtful debts	1 400

**Additional information at 31 December 2012:**

1. Inventory:
 

Greengrocery	£9 450
Bakery	£3 600
The Café	£1 100
2. During the year, goods were transferred to The Café from the other two departments. The value, at cost, of the transfers was: Greengrocery £5 700, Bakery £4 300.
3. General running expenses prepaid £250.
4. The refurbishment costs of The Café consisted of new fixtures and fittings £10 000 and redecoration £5 000.
5. On 1 December 2012 the owner of Organic Farm Shop purchased the shop premises from Global Property for the purchase price of £250 000. On the same day a 6% Bank loan was received from Ascot Bank for £200 000, repayable on 30 November 2022. The Bank also charged an arrangement fee of £4 250 for the loan. No entries had been made in the books to record these transactions.
6. Depreciation is to be charged on all non-current assets owned at the end of the year, on the following basis:
 

Shop premises	No depreciation
Equipment	30% per annum reducing balance method
Fixtures and fittings	10% per annum straight line method
7. A debt owed to Organic Farm Shop of £800 was considered irrecoverable. A provision for doubtful debts is to be maintained at the rate of 5% on the remaining debts.

**Required:**

- (a) Prepare the:
    - (i) Journal entries to record the purchase of the shop premises in 5. above. Narratives are **not** required (6)
    - (ii) Departmental Trading Account of Organic Farm Shop showing the profit/loss of each department for the year ended 31 December 2012 (8)
    - (iii) Statement of Comprehensive Income for the business as a whole for the year ended 31 December 2012 (16)
    - (iv) Statement of Financial Position at 31 December 2012. (14)
  - (b) Evaluate the owner's decision to purchase the shop premises as an alternative to renting. (8)
- (Total 52 marks)**

**Answer space for question 1 is on pages 2 to 7 of the question paper.**

Question Number	Answer	Mark																																								
1(a)(i)	<div>Journal</div> <table><thead><tr><th></th><th>Dr £</th><th>Cr £</th><th></th></tr></thead><tbody><tr><td>Shop premises</td><td>250 000</td><td></td><td>✓</td></tr><tr><td>Global Property</td><td></td><td>250 000</td><td>✓</td></tr><tr><td>Bank</td><td>200 000</td><td></td><td>✓</td></tr><tr><td>6% Bank loan – Ascot bank</td><td></td><td>200 000</td><td>✓</td></tr><tr><td>Arrangement fee expenses/Bank charges</td><td>4 250</td><td></td><td>✓</td></tr><tr><td>Bank</td><td></td><td>4 250</td><td>✓</td></tr><tr><td>Global Property</td><td>250 000</td><td></td><td>✓</td></tr><tr><td>Bank</td><td></td><td>250 000</td><td>✓</td></tr><tr><td></td><td></td><td>MAX 6 x</td><td>✓</td></tr></tbody></table>		Dr £	Cr £		Shop premises	250 000		✓	Global Property		250 000	✓	Bank	200 000		✓	6% Bank loan – Ascot bank		200 000	✓	Arrangement fee expenses/Bank charges	4 250		✓	Bank		4 250	✓	Global Property	250 000		✓	Bank		250 000	✓			MAX 6 x	✓	(6)
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<b>1(b)</b>	<p>Valid answers may include:</p> <p>Points for</p> <ul style="list-style-type: none"> <li>• Will have ownership control of premises without having to seek landlord's permission for renovations</li> <li>• Security of tenure guaranteed</li> <li>• An investment for the long term future of the business as property tends to rise in price</li> <li>• Savings in rent</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>• Major capital outlay</li> <li>• Converts a healthy cash balance into an overdraft</li> <li>• The interest on the loan is greater than the rent</li> <li>• Capital employed increases and return decreases</li> <li>• Responsible for maintenance of the premises</li> <li>• More depreciation</li> <li>• More bank interest</li> <li>• Burden of a bank loan</li> </ul> <p>√√ per valid point x 4 points. MAX 2 points for and MAX two points against.</p> <p>Note: do <b>NOT</b> accept</p> <ul style="list-style-type: none"> <li>• More non-current assets</li> <li>• Increased profit</li> <li>• More payment for utilities</li> </ul>	<b>(8)</b>

**SOURCE MATERIAL FOR USE WITH QUESTION 2**

2. The following balances were in the ledger of Arpan on 1 January 2012:

	£
Sundry expenses	600 Dr
Premises repairs	250 Dr
Rent receivable	300 Dr

The following were the transactions for the year ended 31 December 2012. All payments and receipts were made by cheque:

1. Sundry expense payments:

		£
14 May	Paid	500
30 October	Paid	900 for the six months to 31 March 2013

2. Premises repairs payments:

		£
8 January	Paid	450
1 April	Paid	900
18 August	Paid	875

On 31 December 2012 it was estimated that £340 was owing for premises repairs.

3. Rent receivable:

		£
6 February	Received	1 200
26 June	Received	900

The rent receivable for the year was £1 600.

**Required:**

- (a) Explain the meaning of the debit balance on the Rent receivable account on 1 January 2012. (4)
- (b) Prepare the following accounts for the year ended 31 December 2012, including the appropriate transfer to the financial statements:
- (i) Sundry expenses account (4)
- (ii) Premises repairs account (4)
- (iii) Rent receivable account. (4)



On 1 January 2012 Arpan had the following additional balances in his ledger:

	£
Machine at cost	36 000
Machine – provision for depreciation	?

All machinery was purchased on 1 January 2010 and has a residual value of £2 000. Arpan has depreciated his machinery over a five-year period using the straight line method.

He has decided to change his method of depreciation to 25% per annum reducing balance, backdated to the date of machine purchase. The change and adjustment are to be recorded in the Statement of Comprehensive Income for the year ended 31 December 2012.

On 1 April 2012 a new machine was purchased:

	£
Cost	8 000
Installation	1 600
Staff training	2 000
Annual machine insurance	<u>400</u>
	12 000

He charges a full year's depreciation on machines in the year of purchase.

**Required:**

(c) State **one** accounting concept which:

- (i) **supports** the change of depreciation method proposed by Arpan
- (ii) does **not support** the change of depreciation method proposed by Arpan.

(4)

(d) Distinguish between **capital expenditure** and **revenue expenditure**.

(4)

(e) State, giving your reasons, whether each of the following is capital expenditure or revenue expenditure:

- Machine installation
- Annual machine insurance.

(4)

(f) Calculate, showing clearly all workings, the:

- (i) adjustment required to the provision for depreciation on the machines to 31 December 2011 to account for the change in depreciation method
- (ii) depreciation charge on **all** the machines for the year ended 31 December 2012.

(8)

(g) Prepare, for the year ended 31 December 2012, the:

- (i) Machinery account
- (ii) Machinery – provision for depreciation account.

(3)

(5)

(h) Evaluate Arpan's decision to change the basis of charging depreciation on machines from the straight line method to reducing balance method.

(8)

**(Total 52 marks)**

**Answer space for question 2 is on pages 8 to 16 of the question paper.**

Question Number	Answer	Mark
<b>2(a)</b>	Accrued income ✓✓. A debit balance on the Rent Receivable Account means that Arpen is owed rent ✓✓ by a tenant who is therefore a debtor of the business. ✓✓ <b>MAX 4 x ✓</b>	<b>(4)</b>

Question Number	Answer						Mark
2(b) (i)	Sundry Expenses Account						(4)
			£			£	
	1 January	Balance b/d	600	31 December	Income Statement ✓	1 550 ✓	
	14 May	Bank	500 ✓		Balance c/d	450	
	30 October	Bank	<u>900</u>				
			<u>2 000</u>			<u>2 000</u>	
	1 January	Balance b/d	450	✓of (if on debit)			

Question Number	Answer						Mark
2(b)(ii)	Premises Repairs Account						(4)
			£			£	
	1 January	Balance b/d	250	31 December	Income Statement	2 815 ✓	
	8 January	Bank	450				
	1 April	Bank	900 ✓				
	18 August	Bank	875				
	31 December	Balance c/d	340 ✓				
			<u>2 815</u>				
				1 January	Balance b/d	<u>2 815</u>	
						340 ✓ of (if on credit)	

Question Number	Answer						Mark
2(b)(iii)	Rent Receivable Account						(4)
			£			£	
	1 January	Balance b/d	300	6 February	Bank/cash	1 200 ✓	
	31 December	Income Statement	1 600 ✓	26 June	Bank/cash	900	
		Balance c/d	<u>200</u> ✓			—	
			<u>2 100</u>			<u>2 100</u>	
				1 January	Balance b/d	200 ✓ of	
						(if on credit)	

Question Number	Answer	Mark
<b>2(c)</b>	<p>(i) Prudence – ✓✓ losses should be charged as soon as they are identified. The depreciation on machinery will be high in the early years not evenly spread over the life of the asset.</p> <p>(ii) Consistency – ✓✓ when a method of depreciation is chosen for a non-current asset this should be consistently applied over the life of the asset to ensure that the accounts are not distorted.</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>2(d)</b>	Capital expenditure – <u>purchase or enhancement of non-current assets</u> . ✓✓ Revenue expenditure – <u>day to day expenses</u> which will be used within an accounting year. ✓✓	<b>(4)</b>

Question Number	Answer	Mark
<b>2(e)</b>	Machine installation – Capital expenditure ✓✓ Annual machine insurance – Revenue expenditure ✓✓	<b>(4)</b>

Question Number	Answer	Mark
<b>2(f)(i)</b> <b>2(f)(ii)</b>	<p style="text-align: right;">£</p> <p>Depreciation charged (straight line) – 2010    6 800 ✓  2011    <u>6 800</u>  13 600 ✓</p> <p>Depreciation (reducing balance) –  2010 (36 000-0) x 25%    9 000 ✓  2011 (36 000 -9 000) x 25%    <u>6 750</u> ✓  15 750 ✓</p> <p>Adjustment    Increase in provision    2 150 ✓  Depreciation charge 2012    7 463 ✓ ✓ (✓of)</p> <p>Working 2012 charge – (36 000 + 9 600- 15 750) x 25% = £7 463</p> <p>Note: if adjustment £2 150 stated award 6 x ✓ without reviewing workings.</p>	<b>(8)</b>

Question Number	Answer	Mark																				
2(g)(i)	<div>Machinery Account</div> <table><tr><td></td><td>£</td><td></td><td>£</td></tr><tr><td>Balance b/d</td><td>36 000</td><td>Balance c/d</td><td>45 600</td></tr><tr><td>Bank (of if £12 000 or less)</td><td><u>9 600</u></td><td>✓✓(✓of)</td><td></td></tr><tr><td></td><td><u>45 600</u></td><td></td><td><u>45 600</u></td></tr><tr><td>Balance b/d</td><td>45 600</td><td>✓of (if on debit)</td><td></td></tr></table>		£		£	Balance b/d	36 000	Balance c/d	45 600	Bank (of if £12 000 or less)	<u>9 600</u>	✓✓(✓of)			<u>45 600</u>		<u>45 600</u>	Balance b/d	45 600	✓of (if on debit)		(3)
	£		£																			
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	<u>45 600</u>		<u>45 600</u>																			
Balance b/d	45 600	✓of (if on debit)																				

Question Number	Answer	Mark																								
2(g)(ii)	<div>Machinery – Provision for Depreciation account</div> <table><tr><td></td><td>£</td><td></td><td>£</td></tr><tr><td></td><td></td><td>Balance b/d</td><td>13 600 ✓of</td></tr><tr><td></td><td></td><td>Income Statement- Adjustment</td><td>2 150 ✓of</td></tr><tr><td>Balance c/d</td><td><u>23 213</u></td><td>2012 charge</td><td><u>7 463</u> ✓✓</td></tr><tr><td></td><td><u>23 213</u></td><td></td><td><u>23 213</u></td></tr><tr><td></td><td></td><td>Balance b/d</td><td>23 213 ✓of (if on credit)</td></tr></table> <div>Note: If Balance b/d stated as £15 750 award ✓✓ (£13 600 + £2 150) If charge to income statement £9 613 award ✓✓✓ (£2 150 + £7 463)</div>		£		£			Balance b/d	13 600 ✓of			Income Statement- Adjustment	2 150 ✓of	Balance c/d	<u>23 213</u>	2012 charge	<u>7 463</u> ✓✓		<u>23 213</u>		<u>23 213</u>			Balance b/d	23 213 ✓of (if on credit)	(5)
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Question Number	Answer	Mark
<b>2(h)</b>	<p>Valid answers may include:</p> <p>Points for</p> <ul style="list-style-type: none"> <li>• Greater depreciation will be charged in the early years which reflects the situation with machinery</li> <li>• Carry over value will be closer to market value resulting in more accurate financial statement value.</li> <li>• Evens out total cost of ownership when repair costs are added to depreciation.</li> <li>• Provides a more realistic book value</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>• Distorts profit calculation</li> <li>• Not consistent with previous practice.</li> <li>• Not appropriate if machine used equally from year to year</li> </ul> <p>✓✓ per valid point x 4 points. MAX 2 points for and MAX two points against.</p> <p><b>NOT</b></p> <ul style="list-style-type: none"> <li>• Difficult to calculate</li> <li>• Time consuming</li> <li>• Costly</li> </ul>	<b>(8)</b>

Question Number	Answer	Mark
<b>3(a)(i)</b>	<p>Realisation – Profit is regarded as having been earned when the <u>goods are passed to the customer and he incurs liability</u> for them. ✓✓</p> <p>Breach- The sale or return has not realised the profit as the customer has not incurred liability for them. ✓</p>	<b>(3)</b>

**SOURCE MATERIAL FOR USE WITH QUESTION 3**

3. Xevena commenced business on 1 January 2012 buying and selling goods on credit. She commenced business with fixtures and fittings £2 000 and bank £10 000.

She has little accounting knowledge, but has prepared a draft Statement of Comprehensive Income for the year ended 31 December 2012:

	£	£
Revenue		110 000
Less		
Purchases	103 500	
Less Purchase returns	<u>(2 300)</u>	
	101 200	
Less Inventory (at selling price)	<u>(20 000)</u>	
		<u>(81 200)</u>
Gross profit		28 800
Plus other income:		
Sale of fixtures and fittings		1 200
Rent receivable		<u>1 000</u>
		31 000
Less expenses:		
Carriage of goods	3 600	
Rent and rates	4 000	
Wages	6 000	
General running expenses	4 550	
Purchase of fixtures and fittings	2 800	
Purchase of motor van	<u>9 000</u>	
		<u>(29 950)</u>
Profit for the year		<u><u>1 050</u></u>

**Additional information:**

1. Revenue included goods with a selling price of £2 000 sent to a customer on 'sale or return'. On 31 December 2012 the customer had not advised an intention to keep or return the goods. The transaction had been recorded as a credit sale.
2. Xevena used a 25% mark up on cost throughout the year.
3. Half of the fixtures and fittings brought into the business on 1 January 2012 were sold during the year for £1 200. Additional fixtures and fittings were purchased during the year.
4. Part of the premises were sub-let on 1 July for a rent receivable of £1 000 per 3 months.
5. One third of the carriage related to collecting purchases and two thirds to deliveries to customers.
6. General running expenses included £750 prepaid, but did not include £470 owing.
7. During the year Xevena paid suppliers by cheque £93 030 and received a discount of £1 870.
8. Other balances on 31 December 2012:

	£
Motor van (at valuation)	7 500
Fixtures and fittings (at valuation)	3 400
Trade receivables	12 870
Trade payables	?
Bank overdraft	18 450
Drawings	4 800

**Required:**

- (a) Explain the following accounting concepts. For each concept give **one** example from the draft Statement of Comprehensive Income prepared by Xevena and from the additional information given, where the concept has **not** been correctly applied:
    - (i) Realisation (3)
    - (ii) Accrual (matching) (3)
    - (iii) Going concern. (3)
  - (b) Redraft the corrected Statement of Comprehensive Income after taking into account the additional information given for the year ended 31 December 2012. (14)
  - (c) Prepare the Purchases Ledger Control Account, calculating the trade payables balance at 31 December 2012. (6)
  - (d) Prepare the Statement of Financial Position at 31 December 2012. (15)
  - (e) Evaluate the use of accounting concepts when preparing financial statements. (8)
- (Total 52 marks)**

**Answer space for question 3 is on pages 17 to 21 of the question paper.**

Question Number	Answer	Mark																								
2(g)(ii)	<div>Machinery – Provision for Depreciation account</div> <table><tr><td></td><td>£</td><td></td><td>£</td></tr><tr><td></td><td></td><td>Balance b/d</td><td>13 600 ✓of</td></tr><tr><td></td><td></td><td>Income Statement- Adjustment</td><td>2 150 ✓of</td></tr><tr><td>Balance c/d</td><td><u>23 213</u></td><td>2012 charge</td><td><u>7 463</u> ✓✓</td></tr><tr><td></td><td><u>23 213</u></td><td></td><td><u>23 213</u></td></tr><tr><td></td><td></td><td>Balance b/d</td><td>23 213 ✓of (if on credit)</td></tr></table> <div>Note: If Balance b/d stated as £15 750 award ✓✓ (£13 600 + £2 150) If charge to income statement £9 613 award ✓✓✓ (£2 150 + £7 463)</div>		£		£			Balance b/d	13 600 ✓of			Income Statement- Adjustment	2 150 ✓of	Balance c/d	<u>23 213</u>	2012 charge	<u>7 463</u> ✓✓		<u>23 213</u>		<u>23 213</u>			Balance b/d	23 213 ✓of (if on credit)	(5)
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<b>2(h)</b>	<p>Valid answers may include:</p> <p>Points for</p> <ul style="list-style-type: none"> <li>• Greater depreciation will be charged in the early years which reflects the situation with machinery</li> <li>• Carry over value will be closer to market value resulting in more accurate financial statement value.</li> <li>• Evens out total cost of ownership when repair costs are added to depreciation.</li> <li>• Provides a more realistic book value</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>• Distorts profit calculation</li> <li>• Not consistent with previous practice.</li> <li>• Not appropriate if machine used equally from year to year</li> </ul> <p>✓✓ per valid point x 4 points. MAX 2 points for and MAX two points against.</p> <p><b>NOT</b></p> <ul style="list-style-type: none"> <li>• Difficult to calculate</li> <li>• Time consuming</li> <li>• Costly</li> </ul>	<b>(8)</b>

Question Number	Answer	Mark
<b>3(a)(i)</b>	<p>Realisation – Profit is regarded as having been earned when the <u>goods are passed to the customer and he incurs liability</u> for them. ✓✓</p> <p>Breach- The sale or return has not realised the profit as the customer has not incurred liability for them. ✓</p>	<b>(3)</b>

Question Number	Answer	Mark
<b>3(a)(ii)</b>	Accrual (matching)-Net profit is the difference between income and expenditure rather than cash receipts and cash expenditure. <u>Revenues matched with expenses for a period.</u> ✓✓  Breach-Adjustments for general expenses.✓	<b>(3)</b>
Question Number	Answer	Mark
<b>3(a)(iii)</b>	Going concern-Unless it is known to the contrary, it is assumed that the business will exist and <u>operate for an indefinitely</u> long period of time.✓✓ Breach- Charging the full cost of non-current assets to a single accounting period.✓	<b>(3)</b>

Question Number	Answer	Mark																																																																																																
3(b)	<p style="text-align: center;">Xevana – Statement of Comprehensive Income for the year ended 31 December 2012</p> <table><tr><td></td><td>£</td><td>£</td><td></td></tr><tr><td>Revenue (110 000 – 2 000)</td><td></td><td>108 000</td><td>✓</td></tr><tr><td>Less Purchases</td><td>103 500</td><td></td><td></td></tr><tr><td>Less Purchase returns</td><td><u>(2 300)</u></td><td></td><td></td></tr><tr><td></td><td>101 200</td><td></td><td></td></tr><tr><td>Carriage inwards</td><td><u>1 200</u></td><td></td><td>✓</td></tr><tr><td></td><td>102 400</td><td></td><td></td></tr><tr><td>Less Closing inventory (16 000 + 1 600)</td><td><u>(17 600)</u></td><td></td><td>✓✓(✓of other than 20 000)</td></tr><tr><td>Cost of sales</td><td></td><td><u>(84 800)</u></td><td></td></tr><tr><td>Gross profit</td><td></td><td>23 200</td><td></td></tr><tr><td>Plus other income:</td><td></td><td></td><td></td></tr><tr><td>Profit on sale of fixtures and fittings</td><td></td><td>200</td><td>✓</td></tr><tr><td>Rent receivable (1 000 + 1 000)</td><td></td><td>2 000</td><td>✓</td></tr><tr><td>Discount received</td><td></td><td><u>1 870</u></td><td>✓</td></tr><tr><td></td><td></td><td>27 270</td><td></td></tr><tr><td>Less expenses:</td><td></td><td></td><td></td></tr><tr><td>Carriage outwards</td><td>2 400</td><td></td><td>✓</td></tr><tr><td>Rent and rates</td><td>4 000</td><td></td><td>✓</td></tr><tr><td>Wages</td><td>6 000</td><td></td><td>✓</td></tr><tr><td>General expenses (4 550 + 470 ✓ – 750 ✓)</td><td>4 270</td><td></td><td></td></tr><tr><td>Depreciation: Fixtures and fittings</td><td>400</td><td></td><td>✓</td></tr><tr><td>Motor vehicles</td><td><u>1 500</u></td><td></td><td>✓</td></tr><tr><td></td><td></td><td><u>(18 570)</u></td><td></td></tr><tr><td>Profit for the year</td><td></td><td><u>8 700</u></td><td></td></tr></table> <p>If discount received is deducted from purchases (103 500 – 1 870) = 101 630 ✓</p>		£	£		Revenue (110 000 – 2 000)		108 000	✓	Less Purchases	103 500			Less Purchase returns	<u>(2 300)</u>				101 200			Carriage inwards	<u>1 200</u>		✓		102 400			Less Closing inventory (16 000 + 1 600)	<u>(17 600)</u>		✓✓(✓of other than 20 000)	Cost of sales		<u>(84 800)</u>		Gross profit		23 200		Plus other income:				Profit on sale of fixtures and fittings		200	✓	Rent receivable (1 000 + 1 000)		2 000	✓	Discount received		<u>1 870</u>	✓			27 270		Less expenses:				Carriage outwards	2 400		✓	Rent and rates	4 000		✓	Wages	6 000		✓	General expenses (4 550 + 470 ✓ – 750 ✓)	4 270			Depreciation: Fixtures and fittings	400		✓	Motor vehicles	<u>1 500</u>		✓			<u>(18 570)</u>		Profit for the year		<u>8 700</u>		
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3(d)	<div>Statement of financial position at 31 December 2012 ✓</div> <table><thead><tr><th></th><th>Cost</th><th>Aggregate Depreciation</th><th>Carry over</th><th></th></tr><tr><th></th><th>£</th><th>£</th><th>£</th><th></th></tr></thead><tbody><tr><td colspan="5"><u>Non-current assets</u></td></tr><tr><td>Motor vehicles</td><td>9 000</td><td>1 500</td><td>7 500</td><td>✓</td></tr><tr><td>Fixtures and fittings</td><td><u>3 800</u></td><td><u>400</u></td><td><u>3 400</u></td><td>✓</td></tr><tr><td></td><td><u>12 800</u></td><td><u>1 900</u></td><td>10 900</td><td>✓</td></tr><tr><td colspan="5"><u>Current assets</u></td></tr><tr><td>Inventory</td><td></td><td>17 600</td><td></td><td>✓of (other than 20 000)</td></tr><tr><td>Trade receivables (12 870 ✓– 2 000 ✓)</td><td></td><td>10 870</td><td></td><td></td></tr><tr><td>Rent receivables owing</td><td></td><td>1 000</td><td></td><td>✓</td></tr><tr><td>General expenses prepaid</td><td></td><td><u>750</u></td><td></td><td>✓</td></tr><tr><td></td><td></td><td></td><td><u>30 220</u></td><td></td></tr><tr><td></td><td></td><td></td><td><u>41 120</u></td><td></td></tr><tr><td></td><td></td><td>£</td><td>£</td><td></td></tr><tr><td colspan="5"><u>Equity and Capital:</u></td></tr><tr><td>Opening capital</td><td></td><td></td><td>12 000</td><td>✓</td></tr><tr><td>Plus Profit for the year</td><td></td><td></td><td><u>8 700</u></td><td></td></tr><tr><td></td><td></td><td></td><td>20 700</td><td></td></tr><tr><td>Drawings</td><td></td><td></td><td><u>(4 800)</u></td><td>✓</td></tr><tr><td></td><td></td><td></td><td>15 900</td><td></td></tr><tr><td colspan="5"><u>Current liabilities</u></td></tr><tr><td>Trade payables</td><td></td><td>6 300</td><td></td><td>✓✓(✓of)</td></tr><tr><td>General expenses accrued</td><td></td><td>470</td><td></td><td>✓</td></tr><tr><td>Bank overdraft</td><td></td><td><u>18 450</u></td><td></td><td>✓</td></tr><tr><td></td><td></td><td></td><td><u>25 220</u></td><td></td></tr><tr><td></td><td></td><td></td><td><u>41 120</u></td><td></td></tr></tbody></table>		Cost	Aggregate Depreciation	Carry over			£	£	£		<u>Non-current assets</u>					Motor vehicles	9 000	1 500	7 500	✓	Fixtures and fittings	<u>3 800</u>	<u>400</u>	<u>3 400</u>	✓		<u>12 800</u>	<u>1 900</u>	10 900	✓	<u>Current assets</u>					Inventory		17 600		✓of (other than 20 000)	Trade receivables (12 870 ✓– 2 000 ✓)		10 870			Rent receivables owing		1 000		✓	General expenses prepaid		<u>750</u>		✓				<u>30 220</u>					<u>41 120</u>				£	£		<u>Equity and Capital:</u>					Opening capital			12 000	✓	Plus Profit for the year			<u>8 700</u>					20 700		Drawings			<u>(4 800)</u>	✓				15 900		<u>Current liabilities</u>					Trade payables		6 300		✓✓(✓of)	General expenses accrued		470		✓	Bank overdraft		<u>18 450</u>		✓				<u>25 220</u>					<u>41 120</u>		
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(15)

Question Number	Answer	Mark
<b>3(e)</b>	<p>Valid answers may include:</p> <p>Points for</p> <ul style="list-style-type: none"> <li>Provides a framework of consistency in preparing all financial statements</li> <li>Provides assurance to users about the preparation of the accounts</li> <li>Can be used internationally to compare business</li> <li>True and fair view</li> <li>Meets legal requirements</li> <li>Profit can be relied upon</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>Concepts can be contradictory</li> <li>Many non-financial aspects of a business are not considered by accounting concepts</li> <li>Open to wide interpretation</li> </ul> <p>√√ per valid point x 4 points. MAX 2 points for and MAX two points against.</p> <p>Do <b>NOT</b> accept</p> <ul style="list-style-type: none"> <li>Costly</li> <li>Time consuming</li> </ul>	<b>(8)</b>

Question Number	Answer	Mark
<b>4(a)</b>	<p>Profitability is the difference between the income and expenditure√√ for a period of time.</p> <p>The profit is compared with a common yardstick such as revenue or capital employed.√√</p>	<b>(4)</b>

Question Number	Answer	Mark																											
<b>4(b)(i)</b>	<p>Molara – Statement of Comprehensive Income for the year ended 31 December 2012</p> <table> <tr> <td></td><td>£</td><td>£</td></tr> <tr> <td>Revenue</td><td></td><td>140 000</td></tr> <tr> <td>Less</td><td></td><td></td></tr> <tr> <td>Opening inventory</td><td>12 000</td><td></td></tr> <tr> <td>Purchases</td><td><u>119 000</u></td><td></td></tr> <tr> <td></td><td>131 000</td><td></td></tr> <tr> <td>Closing inventory</td><td><u>(27 000)</u></td><td>√√</td></tr> <tr> <td>Cost of sales</td><td></td><td><u>(104 000)</u></td></tr> <tr> <td>Gross profit</td><td></td><td><u>36 000</u></td></tr> </table>		£	£	Revenue		140 000	Less			Opening inventory	12 000		Purchases	<u>119 000</u>			131 000		Closing inventory	<u>(27 000)</u>	√√	Cost of sales		<u>(104 000)</u>	Gross profit		<u>36 000</u>	
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Gross profit		<u>36 000</u>																											

## SECTION B

## SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Molara commenced business on 1 January 2012 with inventory £12 000 and bank £25 000. She also had a five-year 8% bank loan of £15 000 and trade payables of £3 000.

Her objectives for the first year of trading were to:

- Make a gross profit of £0.20 in every £1 of goods sold
- Have a profit for the year of £15 000
- Ensure that at the end of the year the business has sufficient liquidity.

**The following information is available for the year ended 31 December 2012:**

1. Revenue (sales) £140 000, gross profit £36 000.
2. Purchases £119 000.
3. Non-current assets purchased £15 000 with £3 000 charged as depreciation.
4. Other expenses paid including bank loan interest, £22 000, of which £2 000 was prepaid. Other expenses accrued were £1 000.
5. Drawings £8 000.
6. Other balances at 31 December 2012:
  - Trade receivables £7 000
  - Trade payables £10 000
  - Bank £1 000
  - Inventory ?

**Required:**

- (a) Explain the term **profitability**. (4)
  - (b) Prepare the Statement of Comprehensive Income for the year ended 31 December 2012, showing clearly the:
    - (i) value of the inventory at 31 December 2012
    - (ii) profit for the year. (6)
  - (c) Calculate the percentage return on capital employed for the year. (3)
  - (d) Prepare the Statement of Financial Position at 31 December 2012. (9)
  - (e) Calculate the:
    - (i) current ratio
    - (ii) liquid (acid test) ratio. (6)
  - (f) Evaluate the success of Molara in achieving her financial objectives for the year. (4)
- (Total 32 marks)**

**Answer space for question 4 is on pages 22 to 26 of the question paper.**

Question Number	Answer	Mark
<b>3(e)</b>	<p>Valid answers may include:</p> <p>Points for</p> <ul style="list-style-type: none"> <li>Provides a framework of consistency in preparing all financial statements</li> <li>Provides assurance to users about the preparation of the accounts</li> <li>Can be used internationally to compare business</li> <li>True and fair view</li> <li>Meets legal requirements</li> <li>Profit can be relied upon</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>Concepts can be contradictory</li> <li>Many non-financial aspects of a business are not considered by accounting concepts</li> <li>Open to wide interpretation</li> </ul> <p>√√ per valid point x 4 points. MAX 2 points for and MAX two points against.</p> <p>Do <b>NOT</b> accept</p> <ul style="list-style-type: none"> <li>Costly</li> <li>Time consuming</li> </ul>	<b>(8)</b>

Question Number	Answer	Mark
<b>4(a)</b>	<p>Profitability is the difference between the income and expenditure√√ for a period of time.</p> <p>The profit is compared with a common yardstick such as revenue or capital employed.√√</p>	<b>(4)</b>

Question Number	Answer	Mark																											
<b>4(b)(i)</b>	<p>Molara – Statement of Comprehensive Income for the year ended 31 December 2012</p> <table> <tr> <td></td><td>£</td><td>£</td></tr> <tr> <td>Revenue</td><td></td><td>140 000</td></tr> <tr> <td>Less</td><td></td><td></td></tr> <tr> <td>Opening inventory</td><td>12 000</td><td></td></tr> <tr> <td>Purchases</td><td><u>119 000</u></td><td></td></tr> <tr> <td></td><td>131 000</td><td></td></tr> <tr> <td>Closing inventory</td><td><u>(27 000)</u></td><td>√√</td></tr> <tr> <td>Cost of sales</td><td></td><td><u>(104 000)</u></td></tr> <tr> <td>Gross profit</td><td></td><td><u>36 000</u></td></tr> </table>		£	£	Revenue		140 000	Less			Opening inventory	12 000		Purchases	<u>119 000</u>			131 000		Closing inventory	<u>(27 000)</u>	√√	Cost of sales		<u>(104 000)</u>	Gross profit		<u>36 000</u>	
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Question Number	Answer	Mark																					
<b>4(b)(ii)</b>	<table> <tr> <td></td><td>£</td><td>£</td></tr> <tr> <td>Gross profit</td><td></td><td>36 000</td></tr> <tr> <td>Depreciation</td><td>3 000</td><td>✓✓</td></tr> <tr> <td>Other expenses</td><td></td><td></td></tr> <tr> <td>(22 000 - 2 000 ✓ + 1 000 ✓)</td><td><u>21 000</u></td><td></td></tr> <tr> <td></td><td></td><td>(24 000)</td></tr> <tr> <td>Profit for the year</td><td></td><td><u>12 000</u></td></tr> </table>		£	£	Gross profit		36 000	Depreciation	3 000	✓✓	Other expenses			(22 000 - 2 000 ✓ + 1 000 ✓)	<u>21 000</u>				(24 000)	Profit for the year		<u>12 000</u>	<b>(6)</b>
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		(24 000)																					
Profit for the year		<u>12 000</u>																					

Question Number	Answer	Mark
<b>4(c)</b>	$\frac{\text{Profit for the year before Interest}}{\text{Capital} + \text{Long term liabilities}} \times 100 = \frac{12\,000 \text{ OF } + 1\,200 \checkmark}{19\,000 + 15\,000 \checkmark} \times 100 = 38.8\% \checkmark \text{ of}$	<b>(3)</b>

Question Number	Answer	Mark																																																																																												
4(d)	<div>Statement of Financial Position at 31 December 2012</div> <table><thead><tr><th></th><th>Cost</th><th>Aggregate Depreciation</th><th>Carry over</th></tr><tr><th></th><th>£</th><th>£</th><th>£</th></tr></thead><tbody><tr><td><u>Non-current assets</u></td><td>15 000</td><td>3 000</td><td>12 000 ✓</td></tr><tr><td><u>Current assets</u></td><td></td><td></td><td></td></tr><tr><td>Inventory</td><td></td><td>27 000</td><td>✓OF</td></tr><tr><td>Trade receivables</td><td></td><td>7 000</td><td>✓</td></tr><tr><td>Prepaid</td><td></td><td>2 000</td><td>✓</td></tr><tr><td>Bank</td><td></td><td><u>1 000</u></td><td>✓</td></tr><tr><td></td><td></td><td></td><td><u>37 000</u></td></tr><tr><td></td><td></td><td></td><td><u>49 000</u></td></tr><tr><td></td><td></td><td>£</td><td>£</td></tr><tr><td>Capital</td><td></td><td>19 000</td><td>✓</td></tr><tr><td>Profit for the year</td><td></td><td><u>12 000</u></td><td></td></tr><tr><td></td><td></td><td>31 000</td><td></td></tr><tr><td>Less drawings</td><td></td><td>( <u>8 000</u> )</td><td></td></tr><tr><td></td><td></td><td></td><td>23 000</td></tr><tr><td><u>Non-current liabilities</u></td><td></td><td></td><td></td></tr><tr><td>5 Year bank loan</td><td></td><td></td><td>15 000 ✓</td></tr><tr><td><u>Current liabilities</u></td><td></td><td></td><td></td></tr><tr><td>Trade payables</td><td></td><td>10 000</td><td>✓</td></tr><tr><td>Accruals</td><td></td><td><u>1 000</u></td><td>✓</td></tr><tr><td></td><td></td><td></td><td><u>11 000</u></td></tr><tr><td></td><td></td><td></td><td><u>49 000</u></td></tr></tbody></table>		Cost	Aggregate Depreciation	Carry over		£	£	£	<u>Non-current assets</u>	15 000	3 000	12 000 ✓	<u>Current assets</u>				Inventory		27 000	✓OF	Trade receivables		7 000	✓	Prepaid		2 000	✓	Bank		<u>1 000</u>	✓				<u>37 000</u>				<u>49 000</u>			£	£	Capital		19 000	✓	Profit for the year		<u>12 000</u>				31 000		Less drawings		( <u>8 000</u> )					23 000	<u>Non-current liabilities</u>				5 Year bank loan			15 000 ✓	<u>Current liabilities</u>				Trade payables		10 000	✓	Accruals		<u>1 000</u>	✓				<u>11 000</u>				<u>49 000</u>	(9)
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Question Number	Answer	Mark
<b>4(e)(i)</b>	Current ratio; $\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{37\,000}{11\,000} \checkmark = 3.4:1 \checkmark \text{of}$	<b>(6)</b>
<b>4(e)(ii)</b>	Liquid (acid test) ratio $\frac{37\,000 - 27\,000}{11\,000} = \frac{10\,000}{11\,000} \checkmark = 0.91:1 \checkmark \text{of}$ Note: For of must state :1.	

Question Number	Answer	Mark
<b>4(f)</b>	Valid answers may include: Points for <ul style="list-style-type: none"> <li>The percentage gross profit to sales was achieved</li> <li>The current ratio is very good</li> </ul> Points against: <ul style="list-style-type: none"> <li>She failed to meet her overall profit total</li> <li>Most of the current assets are in stock</li> </ul> $\checkmark\checkmark$ per valid point x 2 points. MAX 1 point for and MAX 1 point against.	<b>(4)</b>

Question Number	Answer	Mark
<b>5(a)(i)</b>	$\begin{array}{rcl} \text{Depreciation (100\,000-25\,000) x 25\%} & \text{£} & 18\,750 \checkmark\checkmark \\ \text{Power (2\,000 x 75\%) x 5 x £0.50} & & 3\,750 \checkmark \\ \text{Managers salary (18\,000/9)} & & 2\,000 \checkmark \\ \text{Cleaners salary (12\,000/6)} & & 2\,000 \checkmark \\ \text{Heat \& light (6\,000 x 200/1\,000)} & & 1\,200 \checkmark \\ \textbf{Total overhead cost} & & \textbf{27\,700} \checkmark\checkmark(\checkmark \text{of}) \end{array}$	<b>(8)</b>

Question Number	Answer	Mark
<b>5(a)(ii)</b>	$\frac{\text{Total overhead cost}}{\text{Productive hours}} = \frac{27\,700 \checkmark \text{of}}{1\,500 \checkmark\checkmark} = \text{£18.46 per hour} \checkmark \text{of}$	<b>(4)</b>

Question Number	Answer	Mark
<b>5(b)</b>	Labour productivity is the relationship between the input and the outputs. $\checkmark\checkmark$ The measurement is usually the number of units produced per hour. $\checkmark\checkmark$ Production made in a specified period $\checkmark\checkmark$  Do <b>NOT</b> accept : Output produced.	<b>(4)</b>

**SOURCE MATERIAL FOR USE WITH QUESTION 5**

5. Fahl Manufacturing has a machine shop producing products for the building industry. The machine shop contains six machines, each producing a different product.

The following information relates to one of the machines, Machine 107:

- Purchased on 1 January 2011:
 

Cost	£90 000
Delivery	£2 000
Installation	£8 000
- Depreciation is charged at the rate of 25% per annum reducing balance method
- The machine shop operates for 40 hours per week for 50 weeks per year
- It is estimated that for 75% of the time Machine 107 is producing products for customers. The remainder of the time is idle time
- Machine 107 uses 5kw of power per hour when operating, at a cost of £0.50 per kw
- Floor area occupied by Machine 107 is 200 sq m.

Additional machine shop information:

- Machine shop manager, salary £18 000 per annum
- Machine cleaner, salary £12 000 per annum
- Heat and light £6 000 per annum
- Number of machines 6
- Number of machine operators 9
- Total floor area 1 000 sq m.

**Required:**

- (a) Calculate, for Machine 107, for the year ended 31 December 2012, the:

- (i) total overhead cost (8)
- (ii) overhead cost per hour of operating Machine 107. (4)

- (b) Explain the term **labour productivity**. (4)

Machine 107 requires one machine operator who is paid on a daywork basis and works 40 hours per week for 50 weeks per year. The rate is £6 per hour and output for the year is 2 400 units.

It has been proposed that the machine operator of Machine 107 should be paid by a bonus scheme in future. The two alternatives are:

**Alternative Option 1** Payment for each unit completed. The rate would be £3 per unit. Output for the year is estimated to be 4 800 units.

**Alternative Option 2** A bonus consisting of an hourly payment of £3.50 per hour for all hours worked, plus £1.50 per unit produced. Output is estimated to be 3 600 units.

**Required:**

- (c) Calculate, the labour cost per unit, for the following three payment options:
- (i) Current daywork payment (4)
  - (ii) Alternative Option 1 (2)
  - (iii) Alternative Option 2. (4)
- (d) Identify the most productive of the three payment options for Fahl Manufacturing. (2)
- (e) Evaluate, from the perspective of Fahl Manufacturing, the use of a bonus scheme for remunerating the operator of Machine 107. (4)
- (Total 32 marks)**

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**Answer space for question 5 is on pages 27 to 29 of the question paper.**



Question Number	Answer	Mark
<b>4(e)(i)</b>	Current ratio; $\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{37\,000}{11\,000} = 3.4:1$	<b>(6)</b>
<b>4(e)(ii)</b>	Liquid (acid test) ratio $\frac{37\,000 - 27\,000}{11\,000} = \frac{10\,000}{11\,000} = 0.91:1$ Note: For of must state :1.	

Question Number	Answer	Mark
<b>4(f)</b>	Valid answers may include: Points for <ul style="list-style-type: none"> <li>The percentage gross profit to sales was achieved</li> <li>The current ratio is very good</li> </ul> Points against: <ul style="list-style-type: none"> <li>She failed to meet her overall profit total</li> <li>Most of the current assets are in stock</li> </ul> ✓✓ per valid point x 2 points. MAX 1 point for and MAX 1 point against.	<b>(4)</b>

Question Number	Answer	Mark
<b>5(a)(i)</b>	$  \begin{array}{r}  \text{Depreciation } (100\,000 - 25\,000) \times 25\% \\  \text{Power } (2\,000 \times 75\%) \times 5 \times \text{£}0.50 \\  \text{Managers salary } (18\,000/9) \\  \text{Cleaners salary } (12\,000/6) \\  \text{Heat \& light } (6\,000 \times 200/1\,000) \\  \textbf{Total overhead cost}  \end{array}  $ $  \begin{array}{r}  \text{£} \\  18\,750 \\  3\,750 \\  2\,000 \\  2\,000 \\  1\,200 \\  \textbf{27\,700}  \end{array}  $ ✓✓ ✓✓ ✓ ✓ ✓ ✓✓(✓of)	<b>(8)</b>

Question Number	Answer	Mark
<b>5(a)(ii)</b>	$\frac{\text{Total overhead cost}}{\text{Productive hours}} = \frac{27\,700}{1\,500} = \text{£}18.46 \text{ per hour}$	<b>(4)</b>

Question Number	Answer	Mark
<b>5(b)</b>	Labour productivity is the relationship between the input and the outputs. ✓✓ The measurement is usually the number of units produced per hour. ✓✓ Production made in a specified period ✓✓  Do <b>NOT</b> accept : Output produced.	<b>(4)</b>

Question Number	Answer	Mark
<b>5(c)(i)</b>	Daywork      2 000hrs x £6 = $\frac{£12\,000}{2\,400\text{ units } \checkmark}$ $\checkmark = £5 \text{ per unit } \checkmark\checkmark$	<b>(4)</b>

Question Number	Answer	Mark
<b>5(c)(ii)</b>	Alternative Option 1      = £3 per unit $\checkmark\checkmark$	<b>(2)</b>

Question Number	Answer	Mark
<b>5(c)(iii)</b>	Alternative Option 2      2 000 hrs x £3.5 = 7 000 £1.50 x 3 600 units = $\frac{5\,400}{12\,400 \checkmark}$ Divided by      3 600 $\checkmark = £3.44 \text{ per unit } \checkmark\checkmark$	<b>(4)</b>

Question Number	Answer	Mark
<b>5(d)</b>	The most productive is Alternative Option 1 $\checkmark\checkmark$ of	<b>(2)</b>

Question Number	Answer	Mark
<b>5(e)</b>	Valid answers may include: Points for <ul style="list-style-type: none"> <li>• Greater production</li> <li>• Lower unit costs than at present</li> </ul> Points against: <ul style="list-style-type: none"> <li>• Quality issues</li> <li>• Potential accidents</li> </ul> $\checkmark\checkmark$ per valid point x 2 points. MAX 1 point for and MAX 1 point against.	<b>(4)</b>

Question Number	Answer	Mark
<b>6(a)(i)</b>	A schedule of debtors is a summary of all the debtors sums <u>grouped by age of debt</u> . $\checkmark\checkmark$	<b>(6)</b>
<b>6(a)(ii)</b>	It is presumed that the <u>older the debt the less likely it is to be paid</u> $\checkmark\checkmark$ A projected percentage of non-payment for each <u>age category</u> is applied and a total provision estimated $\checkmark\checkmark$	

**SOURCE MATERIAL FOR USE WITH QUESTION 6**

6. Taabu is in business buying and selling goods on credit. The following information relates to her customers' accounts for the month of December 2012:
1. Balances at 1 December :
    - Trade receivables £23 500
    - Provision for doubtful debts £1 450
  2. During December 2012:
    - Cheques received and banked from trade receivables £32 400
    - Discount allowed £820
    - Credit sales £38 000
  3. During December, Taabu was informed that one debtor, Taal, would not be able to fully pay his debt of £350. A payment of £0.40 in the pound was made on 31 December 2012, the balance of the debt being irrecoverable.
  4. A debt owed by Kaab £700, which had been written off in July 2011, was received in December 2012.
  5. On 31 December 2012 a schedule of debtors was prepared and the provision for doubtful debts was calculated as £1 375.

**Required:**

- (a) Explain:
    - (i) the term a **schedule of debtors**
    - (ii) how the schedule of debtors would be used to calculate the provision for doubtful debts. (6)
  - (b) Prepare the Journal entries, including narrative, recording the bad debt recovery from Kaab. (5)
  - (c) Prepare, for the month of December, the:
    - (i) Bad debts account (3)
    - (ii) Bad debts recovered account (4)
    - (iii) Sales Ledger Control Account showing clearly the balance of debtors at 31 December 2012. (7)
    - (iv) Provision for doubtful debts account. (3)
  - (d) Evaluate the use of a provision for doubtful debts account by Taabu. (4)
- (Total 32 marks)**

**Answer space for question 6 is on pages 30 to 33 of the question paper.**

Question Number	Answer	Mark
<b>5(c)(i)</b>	Daywork      2 000hrs x £6 = $\frac{£12\,000}{2\,400\text{ units } \checkmark}$ $\checkmark = £5 \text{ per unit } \checkmark\checkmark$	<b>(4)</b>

Question Number	Answer	Mark
<b>5(c)(ii)</b>	Alternative Option 1      = £3 per unit $\checkmark\checkmark$	<b>(2)</b>

Question Number	Answer	Mark
<b>5(c)(iii)</b>	Alternative Option 2      2 000 hrs x £3.5 =      7 000 $£1.50 \times 3\,600\text{ units} = \frac{5\,400}{12\,400 \checkmark}$ Divided by      3 600 $\checkmark$ = £3.44 per unit $\checkmark\checkmark$	<b>(4)</b>

Question Number	Answer	Mark
<b>5(d)</b>	The most productive is Alternative Option 1 $\checkmark\checkmark$ of	<b>(2)</b>

Question Number	Answer	Mark
<b>5(e)</b>	Valid answers may include: Points for <ul style="list-style-type: none"> <li>• Greater production</li> <li>• Lower unit costs than at present</li> </ul> Points against: <ul style="list-style-type: none"> <li>• Quality issues</li> <li>• Potential accidents</li> </ul> $\checkmark\checkmark$ per valid point x 2 points. MAX 1 point for and MAX 1 point against.	<b>(4)</b>

Question Number	Answer	Mark
<b>6(a)(i)</b>	A schedule of debtors is a summary of all the debtors sums <u>grouped by age of debt</u> . $\checkmark\checkmark$	<b>(6)</b>
<b>6(a)(ii)</b>	It is presumed that the <u>older the debt the less likely it is to be paid</u> $\checkmark\checkmark$ A projected percentage of non-payment for each <u>age category</u> is applied and a total provision estimated $\checkmark\checkmark$	

Question Number	Answer				Mark																																							
6(b)	<div>Journal</div> <table><thead><tr><th></th><th>Dr</th><th>Cr</th><th></th></tr><tr><th>£</th><th>£</th><th></th></tr></thead><tbody><tr><td>Bank</td><td>700</td><td></td><td>✓</td></tr><tr><td>Kaab</td><td></td><td>700</td><td>✓</td></tr><tr><td>Kaab</td><td>700</td><td></td><td>✓</td></tr><tr><td>Bad debts recovered</td><td></td><td>700</td><td>✓</td></tr><tr><td>Bad debts recovered</td><td>700</td><td></td><td>✓</td></tr><tr><td>Income statement</td><td></td><td>700</td><td>✓</td></tr><tr><td colspan="4">Being recovery of bad debt from Kaab written off in July 2011 ✓</td></tr><tr><td colspan="4">MAX 5 x ✓</td></tr></tbody></table>					Dr	Cr		£	£		Bank	700		✓	Kaab		700	✓	Kaab	700		✓	Bad debts recovered		700	✓	Bad debts recovered	700		✓	Income statement		700	✓	Being recovery of bad debt from Kaab written off in July 2011 ✓				MAX 5 x ✓				(5)
		Dr	Cr																																									
	£	£																																										
	Bank	700		✓																																								
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Question Number	Answer	Mark												
6(c)(i)	<div>Bad Debts Account</div> <table><tr><td></td><td>£</td><td></td><td>£</td></tr><tr><td>Taal</td><td><u>210</u></td><td>✓ Income statement ✓</td><td><u>210</u></td></tr><tr><td></td><td><u>210</u></td><td></td><td><u>210</u></td></tr></table>		£		£	Taal	<u>210</u>	✓ Income statement ✓	<u>210</u>		<u>210</u>		<u>210</u>	(3)
	£		£											
Taal	<u>210</u>	✓ Income statement ✓	<u>210</u>											
	<u>210</u>		<u>210</u>											

Question Number	Answer	Mark												
6(c)(ii)	<div>Bad Debts Recovered Account</div> <table><tr><td></td><td>£</td><td></td><td>£</td></tr><tr><td>Income statement ✓</td><td><u>700</u></td><td>✓ Bank (Kaab) ✓</td><td><u>700</u></td></tr><tr><td></td><td><u>700</u></td><td></td><td><u>700</u></td></tr></table>		£		£	Income statement ✓	<u>700</u>	✓ Bank (Kaab) ✓	<u>700</u>		<u>700</u>		<u>700</u>	(4)
	£		£											
Income statement ✓	<u>700</u>	✓ Bank (Kaab) ✓	<u>700</u>											
	<u>700</u>		<u>700</u>											

Question Number	Answer				Mark
6(c)(iii)	Sales Ledger Control Account				(7)
		£		£	
	Balance b/d	23 500✓	Bank	32 400 ✓	
	Sales	38 000✓	Discount allowed	820 ✓	
			Bad debts	210 ✓	
			Balance c/d	<u>28 070</u> ✓	
		<u>61 500</u>		<u>61 500</u>	
	Balance b/d	28 070 ✓	of (if on debit)		

Question Number	Answer	Mark																				
6(c)(iv)	<div>Provision for Doubtful Debts Account</div> <table><tr><td></td><td>£</td><td></td><td>£</td></tr><tr><td>Income statement</td><td>75</td><td>✓Balance b/d</td><td>1 450 ✓</td></tr><tr><td>Balance c/d</td><td><u>1 375</u></td><td></td><td></td></tr><tr><td></td><td><u>1 450</u></td><td></td><td><u>1 450</u></td></tr><tr><td></td><td></td><td>Balance b/d</td><td>1 375 ✓of(if on credit)</td></tr></table>		£		£	Income statement	75	✓Balance b/d	1 450 ✓	Balance c/d	<u>1 375</u>				<u>1 450</u>		<u>1 450</u>			Balance b/d	1 375 ✓of(if on credit)	(3)
	£		£																			
Income statement	75	✓Balance b/d	1 450 ✓																			
Balance c/d	<u>1 375</u>																					
	<u>1 450</u>		<u>1 450</u>																			
		Balance b/d	1 375 ✓of(if on credit)																			

Question Number	Answer	Mark
<b>6(d)</b>	<p>Valid answers may include:</p> <p>Points for</p> <ul style="list-style-type: none"> <li>Ensures that profit is not overstated</li> <li>Complies with the prudence concept</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>Only an estimate based upon historical experience</li> <li>Actual bad debts may be significantly different from the estimate</li> </ul> <p>✓✓ per valid point x 2 points. MAX 1 point for and MAX 1 point against.</p> <p>Do <b>NOT</b> accept:</p> <ul style="list-style-type: none"> <li>Time consuming</li> </ul>	<b>(4)</b>

Question Number	Answer	Mark
<b>7(a)</b>	<p>Valid answers may include:</p> <ul style="list-style-type: none"> <li>Decision to cease trading</li> <li>Introduction of new partner(s)</li> <li>Retirement</li> <li>Death</li> <li>Action of the courts</li> <li>To become a limited company</li> <li>No prospect of profit</li> </ul> <p>2 points x ✓✓</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>7(b)</b>	<p>Provisions of 1890 Partnership Act</p> <ul style="list-style-type: none"> <li>Salaries- unless otherwise agreed between the partners <u>no salaries are payable</u> ✓✓</li> <li>Interest on loans- <u>5% interest is paid to partners on loans</u> over and above agreed capital ✓✓</li> </ul>	<b>(4)</b>

**SOURCE MATERIAL FOR USE WITH QUESTION 7**

7. Martina and Naju have been in partnership for many years sharing profits and losses in the ratio 2:1. They decided to close the business on 31 December 2012. The partnership assets and liabilities at 31 December 2012 were:

	£
Premises	60 000
Motor vehicles	14 000
Fixtures and fittings	9 400
Inventory	18 700
Trade receivables	12 400
Trade payables	10 000
Accrued expenses	1 100
Bank loan	10 000
Bank overdraft	400
Capital accounts:	
Martina	50 000
Naju	40 000
Current accounts:	
Martina	4 400 Cr
Naju	1 400 Dr

**Additional information at 31 December 2012:**

1. Premises were sold to Highton & Co for £65 000.
2. The partners took the motor vehicles at valuation: Martina £4 500, Naju £7 000.
3. Fixtures and fittings and the inventory were sold for £21 000.
4. A bad debt of £400 was written off the trade receivables and 2.5% cash discount was allowed on the remaining debts.
5. Accrued expenses were paid in full and trade payables were paid less 2% cash discount.
6. The Bank loan was repaid.
7. Dissolution expenses were £2 700.
8. A settlement cheque was paid to each of the partners from the bank account.

**Required:**

- (a) State **two** reasons why a partnership may dissolve. (4)
- (b) Explain how the provisions of the 1890 Partnership Act apply to partners':
- (i) salaries
  - (ii) interest on loans. (4)
- (c) Prepare, at 31 December 2012, the partnership:
- (i) Dissolution account (9)
  - (ii) Capital accounts of Martina and Naju (4)
  - (iii) Bank account. (7)
- (d) Evaluate the need for a partnership agreement. (4)

**(Total 32 marks)**

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**Answer space for question 7 is on pages 34 to 36 of the question paper.**



Question Number	Answer	Mark																								
6(c)(iv)	<div>Provision for Doubtful Debts Account</div> <table><tr><td></td><td>£</td><td></td><td>£</td></tr><tr><td>Income statement</td><td>75</td><td>√Balance b/d</td><td>1 450</td></tr><tr><td>Balance c/d</td><td><u>1 375</u></td><td></td><td></td></tr><tr><td></td><td><u>1 450</u></td><td></td><td><u>1 450</u></td></tr><tr><td></td><td></td><td>Balance b/d</td><td>1 375</td></tr><tr><td></td><td></td><td></td><td>√of(if on credit)</td></tr></table>		£		£	Income statement	75	√Balance b/d	1 450	Balance c/d	<u>1 375</u>				<u>1 450</u>		<u>1 450</u>			Balance b/d	1 375				√of(if on credit)	(3)
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<b>6(d)</b>	<p>Valid answers may include:</p> <p>Points for</p> <ul style="list-style-type: none"> <li>Ensures that profit is not overstated</li> <li>Complies with the prudence concept</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>Only an estimate based upon historical experience</li> <li>Actual bad debts may be significantly different from the estimate</li> </ul> <p>✓✓ per valid point x 2 points. MAX 1 point for and MAX 1 point against.</p> <p>Do <b>NOT</b> accept:</p> <ul style="list-style-type: none"> <li>Time consuming</li> </ul>	<b>(4)</b>

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Question Number	Answer	Mark
<b>7(b)</b>	<p>Provisions of 1890 Partnership Act</p> <ul style="list-style-type: none"> <li>Salaries- unless otherwise agreed between the partners <u>no salaries are payable</u> ✓✓</li> <li>Interest on loans- <u>5% interest is paid to partners on loans</u> over and above agreed capital ✓✓</li> </ul>	<b>(4)</b>

Question Number	Answer				Mark
7(c)(i)	Dissolution Account				
		£		£	
	Premises	60 000 ✓	Trade payables	10 000 ✓	
	Motor vehicles	14 000 ✓	Premises Highton & Co	65 000 ✓	
	Fixtures & fittings	9 400 ✓	Motor vehicle-Martina	4 500 ✓	
	Inventory	18 700 ✓	Naju	7 000 ✓	
	Trade receivables	12 400 ✓	Fixtures and inventory	21 000 ✓	
	Trade payables	9 800 ✓	Trade receivables	11 700 ✓	
	Dissolution expenses	2 700 ✓	Loss on dissolution-Martina	5 200 ✓of	
			Naju	2 600 ✓of	
	<u>127 000</u>		<u>127 000</u>		
			<b>MAX 9 x ✓</b>	<b>(9)</b>	

Question Number	Answer	Mark																																																
7(c)(ii)	<table><tr><td></td><td colspan="4">Capital Accounts</td><td></td></tr><tr><td></td><td>Martina</td><td>Naju</td><td></td><td>Martina</td><td>Naju</td></tr><tr><td></td><td>£</td><td>£</td><td></td><td>£</td><td>£</td></tr><tr><td>Current a/c</td><td></td><td>1 400</td><td>√Balances b/d</td><td>50 000</td><td>40 000</td></tr><tr><td>Motor vehicles</td><td>4 500</td><td>7 000</td><td>√Current a/c</td><td>4 400</td><td></td></tr><tr><td>Loss on dissolution</td><td>5 200</td><td>2 600</td><td>√of</td><td></td><td></td></tr><tr><td><b>Bank</b></td><td><u>44 700</u></td><td><u>29 000</u></td><td>√of</td><td></td><td></td></tr><tr><td></td><td><u>54 400</u></td><td><u>40 000</u></td><td></td><td><u>54 400</u></td><td><u>40 000</u></td></tr></table>		Capital Accounts						Martina	Naju		Martina	Naju		£	£		£	£	Current a/c		1 400	√Balances b/d	50 000	40 000	Motor vehicles	4 500	7 000	√Current a/c	4 400		Loss on dissolution	5 200	2 600	√of			<b>Bank</b>	<u>44 700</u>	<u>29 000</u>	√of				<u>54 400</u>	<u>40 000</u>		<u>54 400</u>	<u>40 000</u>	(4)
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7(c)(iii)	<div>Bank Account</div> <table><thead><tr><th></th><th>£</th><th></th><th>£</th></tr></thead><tbody><tr><td>Highton &amp; Co</td><td>65 000 ✓</td><td>Balances b/d</td><td>400</td></tr><tr><td>Fixtures and inventory</td><td>21 000</td><td>Bank loan</td><td>10 000 ✓</td></tr><tr><td>Trade receivables</td><td>11 700 ✓</td><td>Accrued expenses</td><td>1 100 ✓</td></tr><tr><td></td><td></td><td>Dissolution expenses</td><td>2 700 ✓</td></tr><tr><td></td><td></td><td>Trade payables</td><td>9 800 ✓</td></tr><tr><td></td><td></td><td>Capital – Martina</td><td>44 700 ✓ of</td></tr><tr><td></td><td></td><td>Naju</td><td><u>29 000</u></td></tr><tr><td></td><td><u>97 700</u></td><td></td><td><u>97 700</u></td></tr></tbody></table> <div>(7)</div>		£		£	Highton & Co	65 000 ✓	Balances b/d	400	Fixtures and inventory	21 000	Bank loan	10 000 ✓	Trade receivables	11 700 ✓	Accrued expenses	1 100 ✓			Dissolution expenses	2 700 ✓			Trade payables	9 800 ✓			Capital – Martina	44 700 ✓ of			Naju	<u>29 000</u>		<u>97 700</u>		<u>97 700</u>	
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Question Number	Answer	Mark
<b>7(d)</b>	<p>Valid answers may include:</p> <p>Points for</p> <ul style="list-style-type: none"> <li>• Formalises agreement</li> <li>• Terms are clear to all partners which avoids argument</li> <li>• States responsibilities</li> <li>• Profits and losses can be divided in desired ratios.</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>• Cost and time</li> <li>• Changes more difficult to implement</li> </ul> <p>✓✓ per valid point x 2 points. MAX 1 point for and MAX 1 point against.</p>	<b>(4)</b>