

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

Paper Reference(s)

6001/01

London Examinations GCE
Accounting (Modular Syllabus)
Advanced Subsidiary/Advanced Level
Unit 1: The Accounting System and Costing

Tuesday 15 May 2012 – Morning
 Time: 3 hours

Materials required for examination
 Nil

Items included with question papers
 Source booklet

Examiner's use only

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Team Leader's use only

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Question Number	Leave Blank
1	
2	
3	
4	
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7	
Total	

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 28 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

Write your answers neatly and in good English.

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Turn over



SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Aysha, Bashu and Christine are in partnership retailing electrical goods. They share profits and losses in the ratio 2:2:1. Christine is entitled to a salary of £7 000 per annum. No interest is paid on capital. Interest is charged at the rate of 5% per annum on the drawings for the year. The following trial balance was extracted from the books for the year ended 31 March 2012:

	Dr £	Cr £
Goodwill	30 000	
Inventory 1 April 2011	40 000	
Salaries and wages	29 500	
Sundry expenses	8 500	
Rent and rates	9 000	
Bank loan interest paid	3 000	
Trade receivables	28 500	
Trade payables		23 200
Cash	4 200	
5% Bank loan – Payable 31 March 2020		80 000
Non-current assets at cost:		
Land and buildings	70 000	
Delivery vehicles	20 000	
Fixtures and fittings	8 000	
Provisions for depreciation:		
Delivery vehicles		9 000
Fixtures and fittings		6 400
Provision for doubtful debts		900
Revenue		265 100
Purchases	191 000	
Capital accounts at 1 April 2011:		
Aysha		30 000
Bashu		20 000
Christine		10 000
Current accounts at 1 April 2011:		
Aysha		3 500
Bashu		4 300
Christine	700	
Drawings:		
Aysha	4 000	
Bashu	4 000	
Christine	2 000	
	452 400	452 400

Additional information at 31 March 2012:

(i) Inventory valuations	Original cost £	Replacement cost £	Market value £
Washing machines	9 000	10 500	10 800
Televisions	16 000	16 000	20 000
Microwaves	7 500	7 000	6 000

(ii) Goodwill is no longer to be recorded in the books.

(iii) Salaries and wages contains the £7 000 salary already paid to Christine.

(iv) Sundry expenses prepaid £750.

(v) Rent and rates owing £3 000.

(vi) The 5% Bank loan was taken out on 1 April 2011.

(vii) Depreciation is to be charged as follows:

No depreciation is charged on the land and buildings

Delivery vehicles – 20% per annum using the reducing balance method

Fixtures and fittings – 10% per annum using the straight line method.

(viii) Trade receivables of £3 500 are considered irrecoverable. The provision for doubtful debts is to be maintained at 5% of the remaining trade receivables.

Required:

(a) Prepare the:

(i) statement of comprehensive income including the appropriation of profit/loss for the year ended 31 March 2012 (17)

(ii) statement of financial position at 31 March 2012. (13)

(b) Explain how inventory should be valued where the original cost, replacement cost and market value are at different valuations. (4)

(c) Prepare for the year ended 31 March 2012 the:

(i) capital account of Christine (4)

(ii) current account of Christine. (6)

(d) Evaluate the partners' decision to **not** record goodwill in the books. (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)	Aysha, Bashu and Christine Statement of comprehensive income for the year ended 31 March 2012																																																																																																																																												
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">£</td> <td style="text-align: right;">£</td> <td></td> </tr> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">265 100</td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">40 000</td> <td></td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>191 000</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">231 000</td> <td></td> <td></td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;"><u>31 000</u></td> <td></td> <td style="text-align: right;">√√</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;">200 000</td> <td></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">65 100</td> <td></td> </tr> <tr> <td>√OF</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Salaries and wages (29 500 – 7 000)</td> <td style="text-align: right;">22 500</td> <td></td> <td></td> </tr> <tr> <td>√√ (√29 500)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Sundry expense (8 500 – 750)</td> <td></td> <td style="text-align: right;">7 750</td> <td style="text-align: right;">√</td> </tr> <tr> <td>Rent & rates (9 000 + 3 000)</td> <td style="text-align: right;">12 000</td> <td></td> <td style="text-align: right;">√</td> </tr> <tr> <td>Loan interest (3 000 + 1 000)</td> <td></td> <td style="text-align: right;">4 000</td> <td></td> </tr> <tr> <td>√√ (√ 3 000)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Depreciation – Delivery van</td> <td></td> <td style="text-align: right;">2 200</td> <td style="text-align: right;">√</td> </tr> <tr> <td style="padding-left: 20px;">Fixtures</td> <td style="text-align: right;">800</td> <td></td> <td style="text-align: right;">√</td> </tr> <tr> <td>Bad debts</td> <td style="text-align: right;">3 500</td> <td></td> <td style="text-align: right;">√</td> </tr> <tr> <td>Increase in PDD</td> <td style="text-align: right;"><u>350</u></td> <td></td> <td style="text-align: right;">√√</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(53 100)</td> <td></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;">12 000</td> <td></td> </tr> <tr> <td>Interest on drawings:</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Aysha</td> <td style="text-align: right;">200</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Bashu</td> <td style="text-align: right;">200</td> <td></td> <td style="text-align: right;">√ All</td> </tr> <tr> <td style="padding-left: 20px;">items</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Christine</td> <td style="text-align: right;"><u>100</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">12 500</td> <td></td> </tr> <tr> <td>Salary: Christine</td> <td></td> <td style="text-align: right;"><u>(7 000)</u> √</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">5 500</td> <td></td> </tr> <tr> <td>Share of profit:</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Aysha</td> <td style="text-align: right;">2 200</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Bashu</td> <td style="text-align: right;">2 200</td> <td></td> <td style="text-align: right;">√OF if</td> </tr> <tr> <td style="padding-left: 20px;">ratio</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Christine</td> <td style="text-align: right;">1 100</td> <td></td> <td style="text-align: right;">_____correct</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>5 500</u></td> <td></td> </tr> </table>		£	£		Revenue		265 100		Opening inventory	40 000			Purchases	<u>191 000</u>				231 000			Closing inventory	<u>31 000</u>		√√	Cost of sales		200 000		Gross profit		65 100		√OF				Salaries and wages (29 500 – 7 000)	22 500			√√ (√29 500)				Sundry expense (8 500 – 750)		7 750	√	Rent & rates (9 000 + 3 000)	12 000		√	Loan interest (3 000 + 1 000)		4 000		√√ (√ 3 000)				Depreciation – Delivery van		2 200	√	Fixtures	800		√	Bad debts	3 500		√	Increase in PDD	<u>350</u>		√√			(53 100)		Profit for the year		12 000		Interest on drawings:				Aysha	200			Bashu	200		√ All	items				Christine	<u>100</u>					12 500		Salary: Christine		<u>(7 000)</u> √				5 500		Share of profit:				Aysha	2 200			Bashu	2 200		√OF if	ratio				Christine	1 100		_____correct			<u>5 500</u>	
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 (17) |

Question Number	Answer	Mark								
1(a)(ii)	Statement of financial position at 31 March 2012									
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="text-align: center;">Cost</td> <td style="text-align: center;">Aggregate Depreciation</td> <td style="text-align: center;">Carry Over</td> </tr> <tr> <td></td> <td style="text-align: center;">£</td> <td style="text-align: center;">£</td> <td></td> </tr> </table>		Cost	Aggregate Depreciation	Carry Over		£	£		
		Cost	Aggregate Depreciation	Carry Over						
		£	£							
	£									
	<u>Non-current assets</u>									
	Land and buildings			70 000						
	✓									
	Delivery vehicles	20 000	-	11 200						
	8 800 ✓OF									
	Fixtures and fittings		8 000 -	7 200 =						
	<u>800</u> ✓OF									
	79 600									
	<u>Current assets</u>									
	Inventory		31 000							
	✓OF									
	Trade receivables 28 500 - 3 500	25 000								
	✓									
	Less PDD	<u>1 250</u>		23 750						
	Other receivables ✓		750							
	✓									
	Cash		<u>4 200</u>							
	✓									
				<u>59 700</u>						
				<u>139 300</u>						
<u>Equity and Liabilities:</u>		£								
£										
Capital:										
Aysha		18 000								
Bashu		8 000								
Christine		<u>4 000</u>								
			30 000 ✓							
Current accounts:	Aysha Bashu Christine									
Balance b/d	3 500Cr	4 300Cr	700Dr							
Salary		7 000								
Share of profit		<u>2 200</u>	<u>2 200</u>							
	5 700	6 500	7 400							
Int on drawings	200	200	100							
Drawings	4 000	4 000	2 000							
Salary paid		<u>7 000</u>								
	4 200	4 200	9 100							
Balance c/d	1 500Cr	2 300Cr	1 700Dr							
✓OF			<u>2 100</u>							
			32 100							
<u>Current liabilities</u>										

(13)

	Trade payables	23 200	
	✓		
	Other payables (3 000 +1 000)	<u>4 000</u>	
	✓		
	27 200		
	<u>Non-current liabilities</u>		
	Bank loan	<u>80 000</u>	
	✓		
		<u>139 300</u>	

Question Number	Answer	Mark
1(b)	Inventory will be valued at cost or net realisable value whichever is the lower. ✓✓ In the case of this business the washing machines and televisions will be valued at cost, but the microwaves will be valued at the market value (net realisable value) which is lower than the cost. ✓✓	(4)

Question Number	Answer	Mark																																				
1(c)(i)	<p style="text-align: center;">Capital account of Christine</p> <p style="text-align: center;">£</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: right;">£</td> <td style="width: 30%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td></td> <td>Goodwill ✓</td> <td>6 000 ✓</td> <td></td> <td>Balance b/d</td> <td>10 000</td> </tr> <tr> <td></td> <td>Balance c/d</td> <td><u>4 000</u> ✓</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>_____</td> <td><u>10 000</u></td> <td></td> <td></td> <td><u>10</u></td> </tr> <tr> <td></td> <td><u>000</u></td> <td></td> <td></td> <td>Balance b/d</td> <td>4 000</td> </tr> <tr> <td></td> <td></td> <td></td> <td>✓OF</td> <td></td> <td></td> </tr> </table>	£							Goodwill ✓	6 000 ✓		Balance b/d	10 000		Balance c/d	<u>4 000</u> ✓					_____	<u>10 000</u>			<u>10</u>		<u>000</u>			Balance b/d	4 000				✓OF			(4)
£																																						
	Goodwill ✓	6 000 ✓		Balance b/d	10 000																																	
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	_____	<u>10 000</u>			<u>10</u>																																	
	<u>000</u>			Balance b/d	4 000																																	
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Question Number	Answer	Mark																																								
1(c)(ii)	<p style="text-align: center;">Current account of Christine</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 40%;"></td> <td style="width: 10%; text-align: center;">£</td> <td></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">700</td> <td>Salary</td> <td style="text-align: right;">7 000</td> <td>✓</td> </tr> <tr> <td>Interest on drawings</td> <td></td> <td>100 ✓OF</td> <td>Share of profit</td> <td></td> </tr> <tr> <td></td> <td></td> <td>1 100 ✓OF</td> <td></td> <td></td> </tr> <tr> <td>Wages and salaries</td> <td style="text-align: right;">7 000</td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Drawings</td> <td style="text-align: right;"><u>2 000</u></td> <td></td> <td>Balance c/d</td> <td style="text-align: right;"><u>1 700</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>9 800</u></td> <td></td> <td></td> <td style="text-align: right;"><u>9 800</u></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">1 700</td> <td>✓OF (Can be a Cr balance)</td> <td></td> <td></td> </tr> </table>		£		£		Balance b/d	700	Salary	7 000	✓	Interest on drawings		100 ✓OF	Share of profit				1 100 ✓OF			Wages and salaries	7 000			✓	Drawings	<u>2 000</u>		Balance c/d	<u>1 700</u>		<u>9 800</u>			<u>9 800</u>	Balance b/d	1 700	✓OF (Can be a Cr balance)			(6)
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Balance b/d	1 700	✓OF (Can be a Cr balance)																																								

Question Number	Answer	Mark
1(d)	<p>Valid answers may include:</p> <p>Benefits to recording</p> <ul style="list-style-type: none"> • Accurate value of the business to the partners • Does not undervalue the business • Required when purchasing/selling a business <p>Against recording</p> <ul style="list-style-type: none"> • Goodwill is difficult to value/Money measurement • Goodwill can change in value due to sudden events • Accounting standards only recommend purchased goodwill be recorded • Prudent not to do so <p>No marks for just 'is an intangible asset' OR definition of goodwill</p> <p>✓✓ x two benefits and ✓✓ x two points against.</p>	(8)

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Dalfor is in business buying and selling household goods. He uses ratio analysis to evaluate the success of his business. The following balances were extracted from the books on 29 February 2012:

		£
Revenue –	cash	50 000
	credit	250 000
Purchases –	cash	45 000
	credit	225 000
Inventory –	1 March 2011	60 000
	29 February 2012	90 000
Capital		275 000
Expenses paid		35 000
Accrued expenses		10 000
Trade receivables		30 000
Trade payables		35 000
Cash		150 000
10% Bank loan – Repayable 31 July 2015		100 000
Non-current assets		150 000

Additional information:

(a) The 10% bank loan was taken out in January 2010.

(b) The accounting ratios for the two previous years were:

	Year ended 28 February 2010	Year ended 28 February 2011
(i) gross profit as a percentage of revenue	30%	25%
(ii) profit for the year as a percentage of revenue	20%	12%
(iii) inventory turnover	6 times	4.8 times
(iv) return on capital employed	10%	8%
(v) current ratio	4:1	5:1
(vi) liquid (acid test) ratio	3:1	3.5:1
(vii) trade payables payment period	65 days	60 days
(viii) trade receivables collection period.	70 days	68 days

Required:

- (a) Distinguish between **profitability** and **liquidity**. (4)
- (b) Calculate for the year ended 29 February 2012 the:
- (i) gross profit as a percentage of revenue (2)
 - (ii) profit for the year as a percentage of revenue (2)
 - (iii) inventory turnover (3)
 - (iv) return on capital employed (3)
 - (v) current ratio (3)
 - (vi) liquid (acid test) ratio (3)
 - (vii) trade payables payment period (3)
 - (viii) trade receivables collection period. (3)
- (c) Suggest **two** likely reasons for the trend over the three-year period in **each** of the following ratios: (12)
- (i) Inventory turnover
 - (ii) Return on capital employed
 - (iii) Current ratio.

Dalfor is considering expanding his business by opening a new store in another town.

- (d) Advise Dalfor, using the ratios calculated in (b) above, on how his business might be viewed by potential:
- (i) investors
 - (ii) creditors. (6)
- (e) Evaluate Dalfor's decision to use only accounting ratios to review his business. (8)

(Total 52 marks)

Answer space for question 2 is on pages 8 to 12 of the question paper.

Question Number	Answer	Mark
2(a)	<p>Profit for the year related to revenue or capital employed.√√</p> <p>Liquidity relates to the ability of the business to meet its short term debts. It is usually measured as a ratio of current assets to current liabilities. √√</p>	(4)

Question Number	Answer	Mark
2(b)	<p>(i) gross profit as a percentage of revenue</p> $\frac{\text{Gross profit} \times 100}{20\% (1) \text{ Revenue}} = \frac{\pounds 60\,000 \times 100}{\pounds 300\,000} (1) =$ <p>(ii) profit for the year as a percentage of revenue</p> $\frac{\text{Profit for the year} \times 100}{\text{Revenue}} = \frac{\pounds 15\,000 \times 100}{\pounds 300\,000} (1) =$ <p>(iii) inventory turnover</p> $\frac{\text{Cost of sales} (1)}{\text{Average inventory} (1)} = \frac{\pounds 240\,000 (1)}{\pounds 75\,000 (1)} = 3.2 \text{ times}$ <p>(iv) return on capital employed</p> $\frac{\text{Profit for the year} \times 100 (1)}{\text{Capital employed} (1)} = \frac{\pounds 15\,000 (1)}{\pounds 275\,000 + \pounds 100\,000 (1)} = 4\%$ <p>(v) current ratio</p> $\frac{\text{Current assets} (1)}{\text{Current liabilities} (1)} = \frac{\pounds 90\,000 + \pounds 30\,000 + \pounds 150\,000 (1)}{\pounds 35\,000 + \pounds 10\,000 (1)} = 6:1(1)$ <p>(vi) liquid (acid test) ratio</p> $\frac{\text{Current assets} - \text{inventory} (1)}{\text{Current liabilities} (1)} = \frac{\pounds 30\,000 + \pounds 150\,000 (1)}{\pounds 35\,000 + \pounds 10\,000 (1)} = 4:1(1)$ <p>(vii) trade payables payment period</p> $\frac{\text{Trade payables} \times 365}{56.8 \text{ days}(1)} = \frac{\pounds 35\,000 \times 365}{(1)} =$	

	<p>Credit purchases £225 000 (1)</p> <p>(viii) trade receivables collection period.</p> <p><u>Trade receivables x 365</u> = <u>£30 000 x 365</u> (1) = 43.8 days (1)</p> <p>Credit sales £250 000 (1)</p>	
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Question Number	Answer	Mark
2(c)	<p>Suggested changes may include:</p> <p>(i) inventory turnover</p> <ul style="list-style-type: none"> • The inventory turnover trend is falling ✓✓ • Revenue sales are falling • Economic slowdown or competition making it more difficult to sell • Reduction in quality of product deterring revenue sales <p>(ii) return on capital employed</p> <ul style="list-style-type: none"> • Return on capital employed trend is falling ✓✓ • more is being expended on expenses lowering the net profit • purchases are more expensive lowering the gross profit to revenue • products are being sold with less profit margin to increase or maintain sales <p>(iii) current ratio</p> <ul style="list-style-type: none"> • Current ratio trend is rising ✓✓ • Inventory level has risen • The bank loan has increased the cash available <p>✓✓ per valid point , MAX ✓✓✓✓ per section</p>	(12)

Question Number	Answer	Mark
2(d)	<p>Views of potential investors</p> <ul style="list-style-type: none"> Investors will look at profitability The trend of profitability is falling <p>Views of creditors</p> <ul style="list-style-type: none"> Creditors will consider liquidity It takes on average two months to be paid when one month would be normal The business has a high current ratio and idle funds The business has ample cash to pay creditors if required <p>√√ per valid point x 3 (Maximum two valid points for potential investors or creditors)</p>	(6)

Question Number	Answer	Mark
2(e)	<p>Valid answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none"> Used as a yardstick for comparison Accounting ratios give an objective mathematical calculation Comparison can take place with previous years and other businesses Aid the improvement of decision making Key question about the business can be answered e.g profitability, liquidity, efficient use of assets <p>Against</p> <ul style="list-style-type: none"> The difficulty of comparing like with like, business to business The future prospects of the business cannot be taken into account Factors such as the quality of the workforce are not considered <p>√√ x two benefits and √√ x two points against.</p>	(8)

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. The Treasurer of Sidly Tennis Club maintains a set of full double entry records. The following information is available for the year ended 30 April 2012:

(i) Cash Book Summary

	£		£
Subscriptions for previous year	300	Balance b/d	900
for current year	3 700	Leasehold purchase	30 000
for next year	700	Wages	5 200
6% Bank loan	25 000	Equipment	6 400
Sale of tennis balls	1 550	Sundry expenditure	3 800
Donations	4 800	Purchase of tennis balls	1 200
Sales of annual dinner tickets	2 900	Rental of hall for annual dinner	560
Balance c/d	9 710	Deposit for annual dinner	600
	<u>48 660</u>		<u>48 660</u>

(ii) Balances at:

	1 May 2011	30 April 2012
	£	£
Leasehold –15 years	-	30 000
Equipment	12 200	?
Equipment – provision for depreciation	2 400	?
Inventory of tennis balls	750	630
Subscriptions in arrears	500	900
Subscriptions in advance	1 400	700
Accrued sundry expenses	1 150	2 650
6% Bank loan	-	25 000
Trade payable (caterer for annual dinner)	-	1 950

(iii) On 30 April 2012 the following errors were found in the books:

1. During the year equipment which had cost £1 200 on 1 April 2009 was sold for £900. No record of the sale had been made in the books.
2. Wages, £300, had been credited to the wages account.
3. A deposit of £600 paid to the caterer for the annual dinner had been recorded correctly in the cash book but had been recorded in the caterer’s account as £150.

(iv) The leasehold and the 6% bank loan were taken out on 1 May 2011.

(v) Subscription to the Sidly Tennis Club is £100 per annum. All subscriptions not received from the previous year were considered irrecoverable and were written off.

(vi) Depreciation is charged on:

- equipment at the rate of 15% per annum using the straight line method on all equipment owned at the end of the year
- the leasehold at an appropriate rate.

Required:

- (a) (i) Explain the accounting concept of historic cost. (2)
- (ii) Give **one** example where the Sidly Tennis Club has applied this accounting concept. (2)
- (b) Prepare the trial balance at 1 May 2011 showing the value of the accumulated fund. (5)
- (c) Prepare the journal entries to correct the errors in (iii). Narratives are **not** required. (9)
- (d) Prepare for the year ended 30 April 2012 the:
- (i) subscriptions account (7)
- (ii) income and expenditure account showing clearly the profit or loss on the annual dinner and the sale of tennis balls. (19)
- (e) Evaluate the financial position of the Sidly Tennis Club. (8)

(Total 52 marks)

Answer space for question 3 is on pages 13 to 17 of the question paper.

Question Number	Answer	Mark
3(a)(i)	Historic cost relates to recording assets in the books at their cost and not their market value. ✓✓	(2)

Question Number	Answer	Mark
3(a)(ii)	<ul style="list-style-type: none"> The non-current assets of equipment and leasehold are recorded at historic cost less depreciation Inventory One example ✓✓	(2)

Question Number	Answer	Mark																														
3(b)	<p style="text-align: center;">Sidly Tennis Club Trial balance at 1 May 2011</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">Dr £</th> <th style="width: 20%; text-align: center;">Cr £</th> </tr> </thead> <tbody> <tr> <td>Equipment</td> <td style="text-align: right;">12 200</td> <td></td> </tr> <tr> <td>Equipment – provision for depreciation</td> <td></td> <td style="text-align: right;">2 400</td> </tr> <tr> <td>Inventory of balls</td> <td style="text-align: right;">750</td> <td></td> </tr> <tr> <td>Subscriptions in arrears</td> <td style="text-align: right;">500</td> <td></td> </tr> <tr> <td>Subscriptions in advance</td> <td></td> <td style="text-align: right;">1 400</td> </tr> <tr> <td>Accrued sundry expenses</td> <td></td> <td style="text-align: right;">1 150</td> </tr> <tr> <td>Bank</td> <td></td> <td style="text-align: right;">900</td> </tr> <tr> <td>Accumulated fund</td> <td style="text-align: right;">_____</td> <td style="text-align: right;"><u>7 600</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>13 450</u></td> <td style="text-align: right;"><u>13</u></td> </tr> </tbody> </table> <p><u>450</u> ✓ for each correct entry MAX 5 points(✓OF for Accumulated Fund if a Cr entry ✓✓Correct figure)</p>		Dr £	Cr £	Equipment	12 200		Equipment – provision for depreciation		2 400	Inventory of balls	750		Subscriptions in arrears	500		Subscriptions in advance		1 400	Accrued sundry expenses		1 150	Bank		900	Accumulated fund	_____	<u>7 600</u>		<u>13 450</u>	<u>13</u>	(5)
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Question Number	Answer	Mark
<p>3(e)</p>	<p>Valid answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none"> • The medium term future of the club has been secured by the leasehold • The records are professional with a full double entry system • The facilities of the club e.g the equipment are relatively new assisting the recruitment of new members <p>Against</p> <ul style="list-style-type: none"> • The club is making a significant loss overall • The club has a large overdraft which is increasing rapidly • The activities of the club are not yielding a surplus e.g annual dinner • Income includes a significant donation. This is probably a one off income • The club needs to raise its subscription or recruit new members to increase the income • Need to control expenses. <p>√√ x two benefits and √√ x two points against.</p>	<p>(8)</p>

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Zaman is in business buying and selling goods on credit. He maintains a full set of double entry records. The following information relates to the month of March 2012:
1. On 1 March 2012 Zaman was owed the following by his debtors:

	£
Fahi	1 500
Shirin	500
Marvan	800
Jegan	2 900

 2. Sales were made by Zaman as follows:

Fahi	6 March	Goods with a list price of £1 200, allowed 20% trade discount
Marvan	15 March	Goods with a list price of £700, allowed 10% trade discount
Cash sales	20 March	£500
Fahi	26 March	Goods with a list price £300, but no discount.

 3. Sales returns:

Fahi	9 March	Goods supplied on 6 March with a list price of £200
------	---------	---

 4. Zaman received the following payments by cheque:

Fahi	10 March	The balance owing on 1 March less 2% cash discount
Jegan	14 March	£2 000 less 3% cash discount

 5. On 13 March Zaman was informed that Shirin had been declared bankrupt and a payment of £0.40 in the £1 was received in final settlement of the debt.

Required:

- (a) Zaman divides his ledger into three sections – general ledger, purchases ledger and sales ledger. Explain **two** advantages of dividing the ledger into three sections. (4)

- (b) Prepare the following ledger accounts in the books of Zaman:
 - (i) Fahi account (8)

 - (ii) Shirin account (2)

 - (iii) sales ledger control account. (14)

- (c) Evaluate the use of control accounts in a business. (4)

(Total 32 marks)**Answer space for question 4 is on pages 18 to 19 of the question paper.**

Question Number	Answer	Mark
4(a)	<ul style="list-style-type: none">• Division of labour – a number of people can work on the ledger at the same time• Segregation of duties• Ease of reference – similar accounts are placed together and can be referred to more easily• Balances from sections of the ledger e.g sales ledger, can be more easily obtained• Fraud prevented/ additional control• Specialisation <p>√√ per valid point X 2</p>	(4)

		Fall account			
	£		£		
1 March	Balance b/d	1 500 ✓	9 March	Goods/Sales	
	returns	160 ✓			
6 March	Goods/sales	960 ✓	10 March	Bank	
		1 470 ✓			
26 March	Goods/sales	300 ✓	10 March	Discount allowed	
		30 ✓			
		_____	31 March	Balance c/d	<u>1 100</u>
✓✓(✓OF)		<u>2 760</u>			<u>2</u>
		<u>760</u>			
1 April	Balance b/d	1 100			
 (ii)					
Shirin account					
	£		£		
1 March	Balance b/d	500 ✓	13 March	Bank/Cash	200
		✓			
		_____	13 March	Bad debts	<u>300 ✓</u>
		<u>500</u>			<u>500</u>
 (iii)					
Sales ledger control account					
	£		£		
1 March	Balance b/d	5 700 ✓✓	31 March	Sales returns	
		160 ✓✓			
31 March	Sales	1 890 ✓✓	31 March	Bank	
		1470+1940+200			
		3 610 ✓✓	31 March	Discount allowed	
		90 ✓✓			
		300 ✓✓	31 March	Bad debts	
		430 ✓✓	31 March	Balance c/d	3
(✓OF if Cr)		<u>7 590</u>			<u>7 590</u>
1 April	Balance b/d	3 430			
✓OF for each entry if on correct side with narrative					

(8)

(2)

(14)

Question Number	Answer	Mark
4(c)	<p>Valid answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none">• The ledger can be sub divided for checking arithmetical accuracy• Checking device• Identifies errors <p>Against</p> <ul style="list-style-type: none">• Those errors which do not affect the balancing of the trial balance are not revealed by control accounts <p>√√ for one benefit and √√ for one point against.</p> <p>NO Marks for 'corrects errors'</p>	(4)

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Nalin Manufacturing produces two types of handbag, the standard and the deluxe. There are two production lines, one line produces the standard and one line produces the deluxe. The following information relates to the month of April 2012:

- (i) During April 2 500 standard and 1 000 deluxe handbags were manufactured.
- (ii) Both production lines use the same raw material. The record of raw material showed the following:

1 April	Balance	500 metres @ £12 per metre
3 April	Receipt	1 000 metres @ £14 per metre
7 April	Issue	800 metres
15 April	Receipt	500 metres @ £16 per metre
18 April	Issue	800 metres

Nalin Manufacturing issues raw material using the First In First Out (F.I.F.O.) method of inventory valuation.

During April, £13 000 of the raw material was used on the standard production line and the remainder on the deluxe production line.

- (iii) The standard production line employs 20 workers and the deluxe production line employs 30 workers. Each worker is paid a basic rate of £5 per hour and works 46 hours per week for 4 weeks in April. Forty hours per week will be at the basic rate and six hours per week at time and a half.
- (iv) A royalty of £1 per handbag is paid for the standard and £2 per handbag for the deluxe.
- (v) Production overheads were:

	£
Managers' salaries	8 000
Rent and rates	5 600
Equipment depreciation	6 000
Canteen costs	5 500

Overheads are to be apportioned to the two production lines on the most appropriate basis. The following information is available:

	Standard	Deluxe
Floor area (sq m)	400	300
Equipment value (£000)	160	80
Employees (number)	20	30

- (vi) The value of work in progress was:

	Standard	Deluxe
	£	£
1 April 2012	7 300	7 550
30 April 2012	5 300	10 000

Required:

- (a) Explain the accounting term **prime cost**. (4)
- (b) Prepare the departmental manufacturing account for the month of April, showing the cost of manufacture of the standard and deluxe production lines. You are advised to prepare the account in columnar format. (24)
- (c) Evaluate the use of First In First Out (F.I.F.O.) as a method of valuing raw material issues. (4)

(Total 32 marks)

Answer space for question 5 is on pages 20 to 22 of the question paper.

Question Number	Answer	Mark
5(a)	<p>The term prime cost refers to the materials, direct labour and direct expenses. √√</p> <p>These items are generally the direct/variable costs of production. √√</p>	(4)

Question Number	Answer	Mark																																																																												
5(b)	<p style="text-align: center;">Nalin Manufacturing Manufacturing account for the month of April 2012</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 20%; text-align: center;">Standard</th> <th style="width: 20%; text-align: center;">Deluxe</th> <th style="width: 20%;"></th> </tr> <tr> <th style="text-align: center;">Total</th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Opening inventory of materials √</td> <td></td> <td></td> <td style="text-align: right;">6 000</td> </tr> <tr> <td>Purchases of materials √√</td> <td></td> <td></td> <td style="text-align: right;"><u>22 000</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">28 000</td> </tr> <tr> <td>Closing inventory of materials <u>6 400</u> √√√</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td></td> </tr> <tr> <td>Materials consumed 600 21 600</td> <td style="text-align: center;">13 000</td> <td></td> <td style="text-align: center;">8</td> </tr> <tr> <td>Production labour 49 000 √√</td> <td style="text-align: center;">19 600</td> <td style="text-align: center;">29 400</td> <td></td> </tr> <tr> <td>Royalties <u>4 500</u> √√</td> <td style="text-align: center;"><u>2 500</u></td> <td style="text-align: center;"><u>2 000</u></td> <td></td> </tr> <tr> <td>PRIME COST √</td> <td style="text-align: center;">35 100</td> <td></td> <td style="text-align: center;">40</td> </tr> <tr> <td>000 75 100</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Production overheads:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Managers' salaries 8 000 √√</td> <td style="text-align: center;">3 200</td> <td style="text-align: center;">4 800</td> <td></td> </tr> <tr> <td>Rent & rates 5 600 √√</td> <td style="text-align: center;">3 200</td> <td style="text-align: center;">2 400</td> <td></td> </tr> <tr> <td>Equipment depreciation 6 000 √√</td> <td style="text-align: center;">4 000</td> <td style="text-align: center;">2 000</td> <td></td> </tr> <tr> <td>Canteen costs <u>300</u> <u>5 500</u> √√</td> <td style="text-align: center;"><u>2 200</u></td> <td></td> <td style="text-align: center;"><u>3</u></td> </tr> <tr> <td></td> <td style="text-align: center;">12 600</td> <td style="text-align: center;">12 500</td> <td></td> </tr> <tr> <td>25 100</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Work in progress: 1 April 2012</td> <td style="text-align: center;">7 300</td> <td style="text-align: center;">7 550</td> <td></td> </tr> </tbody> </table>		Standard	Deluxe		Total	£	£	£	Opening inventory of materials √			6 000	Purchases of materials √√			<u>22 000</u>				28 000	Closing inventory of materials <u>6 400</u> √√√	—	—		Materials consumed 600 21 600	13 000		8	Production labour 49 000 √√	19 600	29 400		Royalties <u>4 500</u> √√	<u>2 500</u>	<u>2 000</u>		PRIME COST √	35 100		40	000 75 100				Production overheads:				Managers' salaries 8 000 √√	3 200	4 800		Rent & rates 5 600 √√	3 200	2 400		Equipment depreciation 6 000 √√	4 000	2 000		Canteen costs <u>300</u> <u>5 500</u> √√	<u>2 200</u>		<u>3</u>		12 600	12 500		25 100				Work in progress: 1 April 2012	7 300	7 550		(24)
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	14 850 ✓ 30 April 2012 000) (15 300) ✓	(5 300)	(10
		2 000	(2 450)
	(450) COST OF MANUFACTURE ✓ 050 99 750 ✓✓	49 700	50
	(✓OF)		

Question Number	Answer	Mark
5(c)	Valid answers may include: Benefits <ul style="list-style-type: none"> • FIFO more widely accepted (e.g by Revenue) • Maintains inventory value nearer to market/replacement value Against <ul style="list-style-type: none"> • Inventory issued to production at below replacement value. 	(4)
	✓✓ for one benefit and ✓✓ for one point against.	

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Seema owns a business retailing computer equipment. Her trial balance on 1 March 2012 was as follows:

	Dr	Cr
	£	£
Capital		60 000
Non-current assets	45 000	
Provision for depreciation on non-current assets		24 000
Inventory	28 000	
Trade payables		20 000
Trade receivables	23 000	
Cash/Bank	8 500	
Rent accrued		500
	104 500	104 500

During the month ended 31 March 2012 the following were the summarised transactions for Seema’s business:

1. Revenue sales of computers were £95 000 of which £19 000 were for cash and the remainder were on credit. Seema uses a mark-up of 25% on all sales
2. Purchases of £76 000 were all on credit
3. Debtors paid £70 000 less a 2% cash discount
4. Creditors were paid £65 000 less a 4% cash discount
5. Seema brought additional non-current assets worth £8 000 into the business from her own private resources
6. The quarterly rent of £1 500 was paid by cheque
7. Invoices for sundry expenses £4 700 were received for the month. Cheques for £3 500 were paid to the suppliers of sundry expenses.

Required:

- (a) (i) Explain the accounting concept of accrual (2)
- (ii) Explain, using the example of the quarterly rent in 6 above, how the amounts recorded in the cash book, trial balance and statement of comprehensive income for March 2012 will differ. (6)
- (b) Prepare Seema’s trial balance at 31 March 2012. Clearly show all workings. (20)
- (c) Evaluate the usefulness of the trial balance in ensuring the accuracy of the books. (4)

(Total 32 marks)

Answer space for question 6 is on pages 23 to 25 of the question paper.

Question Number	Answer	Mark
6(a)(i)	The accrual or matching concept differentiates between what has been paid and what has been used in the accounting period. ✓✓	(2)

Question Number	Answer	Mark
6(a)(ii)	The cash book will record the actual payment £1 500 ✓✓. The trial balance will record the balance on the account of two months rent £1 000 ✓✓. The statement of comprehensive income will show the amount used in March only £500.(£6 000 per annum) ✓✓	(6)

Question Number	Answer	Mark																																																																																																												
6(b)	<p style="text-align: center;">Trial balance at 31 March 2012</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%;"></th> <th style="width: 10%; text-align: right;">£ Dr</th> <th style="width: 10%; text-align: right;">£ Cr</th> </tr> </thead> <tbody> <tr> <td>Capital</td> <td style="text-align: right;">60 000Cr +8 000</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">68 000 ✓</td> <td></td> <td></td> </tr> <tr> <td>Non-current assets</td> <td style="text-align: right;">45 000Dr +8 000</td> <td></td> <td style="text-align: right;">53 000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td></td> </tr> <tr> <td>Provision for depreciation</td> <td style="text-align: right;">on non-current assets 24 000Cr</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">24 000 ✓</td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">28 000Dr</td> <td style="text-align: right;">28 000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td></td> </tr> <tr> <td>Trade payables</td> <td style="text-align: right;">20 000Cr+76 000 -65 000+1 200</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">32 200 ✓✓✓</td> <td></td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">23 000Dr+76 000-70 000</td> <td></td> <td style="text-align: right;">29 000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓✓</td> <td></td> <td></td> </tr> <tr> <td>Cash/Bank</td> <td style="text-align: right;">8 500Dr+19 000+68 600 -62 400-1 500 -3 500</td> <td></td> <td style="text-align: right;">28 700</td> </tr> <tr> <td></td> <td style="text-align: right;">✓✓✓✓✓</td> <td></td> <td></td> </tr> <tr> <td>Rent accrued</td> <td style="text-align: right;">500Cr +1 500</td> <td></td> <td style="text-align: right;">1 000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td></td> </tr> <tr> <td>Sales</td> <td style="text-align: right;">+95 000</td> <td></td> <td style="text-align: right;">95 000</td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">+76 000</td> <td style="text-align: right;">76 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Discount allowed</td> <td style="text-align: right;">+1 400</td> <td style="text-align: right;">1 400</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">✓</td> <td></td> <td></td> </tr> <tr> <td>Discount received</td> <td style="text-align: right;">+ 2 600</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">2 600 ✓</td> <td></td> <td></td> </tr> <tr> <td>Sundry expenses</td> <td style="text-align: right;">+4 700</td> <td style="text-align: right;">4 700</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">_____✓</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>211 800</u></td> <td style="text-align: right;"><u>211 800</u></td> <td></td> </tr> </tbody> </table>			£ Dr	£ Cr	Capital	60 000Cr +8 000				68 000 ✓			Non-current assets	45 000Dr +8 000		53 000		✓			Provision for depreciation	on non-current assets 24 000Cr				24 000 ✓			Inventory	28 000Dr	28 000			✓			Trade payables	20 000Cr+76 000 -65 000+1 200				32 200 ✓✓✓			Trade receivables	23 000Dr+76 000-70 000		29 000		✓✓			Cash/Bank	8 500Dr+19 000+68 600 -62 400-1 500 -3 500		28 700		✓✓✓✓✓			Rent accrued	500Cr +1 500		1 000		✓			Sales	+95 000		95 000		✓			Purchases	+76 000	76 000	✓	Discount allowed	+1 400	1 400			✓			Discount received	+ 2 600				2 600 ✓			Sundry expenses	+4 700	4 700			_____✓				<u>211 800</u>	<u>211 800</u>		(20)
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Question Number	Answer	Mark
<p>6(c)</p>	<p>Valid answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none"> • The trial balance balancing is prima facie evidence of correctness • Seema can then start to prepare the financial statements. <p>Against</p> <ul style="list-style-type: none"> • Some errors will not be revealed by the trial balance balancing e.g commission • If there is a debit and a credit of equal value errors will not be revealed. <p>√√ for one benefit and √√ for one point against.</p>	<p>(4)</p>

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. Zoe started a taxi business on 1 January 2009. The following information relates to the vehicles account in the non-current assets:

1 January 2009	Purchased Vehicle A by cheque for £6 000
1 April 2010	Purchased Vehicle B on credit from Soames Garages for £8 000
1 July 2010	Purchased Vehicle C by cheque for £10 000
1 July 2011	Purchased Vehicle D for £9 000 giving in part exchange Vehicle B at an agreed valuation of £5 400. The balance of the purchase price was paid by cheque.

Zoe has the following depreciation policy:

- Vehicles are depreciated at the rate of 20% per annum using the straight line method
- Depreciation is charged on vehicles purchased or sold during a year in proportion to the months of ownership.

Required:

- (a) Explain:

(i) the accounting concept of going concern (2)

(ii) why the accounting concept of going concern is important when charging depreciation in the financial statements. (2)

- (b) Prepare a table showing the depreciation charged on **each** of the vehicles A, B, C and D, in **each** of the years 2009, 2010 and 2011. (8)

- (c) Prepare the following for the year ended 31 December 2011:

(i) Vehicle account
 (ii) Vehicle – Provision for depreciation account
 (iii) Vehicle disposal account. (10)

- (d) (i) Distinguish between capital expenditure and revenue expenditure. (2)

(ii) State, giving your reasons, whether the following would be **capital expenditure** or **revenue expenditure**:
 • Vehicle tax for Vehicle A
 • A new engine for Vehicle A. (4)

- (e) Evaluate Zoe's choice of the straight line method as a basis for charging depreciation on vehicles. (4)

(Total 32 marks)

Answer space for question 7 is on pages 26 to 28 of the question paper.

Leave blank

If you answer question 7, put a cross in this box ().

Source material for question 7 is on page 13 of the source booklet.

7. (a) Explain:

(i) the accounting concept of going concern

.....
.....
.....

(2)

(ii) why the accounting concept of going concern is important when charging depreciation in the financial statements.

.....
.....
.....

(2)

(b) Prepare a table showing the depreciation charged on **each** of the vehicles A, B, C and D, in **each** of the years 2009, 2010 and 2011.

Vehicle					
	A	B	C	D	TOTAL
2009					
2010					
2011					
TOTAL					

(8)



Question Number	Answer	Mark
7(a)(i)	The concept of going concern assumes that the business has an indefinite life/foreseeable future. ✓✓	(2)

Question Number	Answer	Mark
7(a)(ii)	The cost of purchasing a non-current asset will fall in a single year, but the depreciation placed into the statement of comprehensive income will relate only to the amount estimated to have been used in that period. ✓✓	(2)

Question Number	Answer	Mark																																																												
7(b)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 15%; text-align: center;">A</th> <th style="width: 15%; text-align: center;">B</th> <th style="width: 15%; text-align: center;">Vehicle C</th> <th style="width: 15%; text-align: center;">D</th> <th style="width: 15%; text-align: center;">Total</th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>£</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2009</td> <td style="text-align: right;">1 200 ✓</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>1 200</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2010</td> <td style="text-align: right;">1 200 ✓</td> <td></td> <td style="text-align: right;">1 200 ✓</td> <td style="text-align: right;">1 000 ✓</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">3 400</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2011</td> <td style="text-align: right;">1 200 ✓</td> <td></td> <td style="text-align: right;">800 ✓</td> <td style="text-align: right;">2 000 ✓</td> <td></td> </tr> <tr> <td><u>900 ✓</u></td> <td style="text-align: right;">4 900</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">3 600</td> <td style="text-align: right;">2 000</td> <td style="text-align: right;">3 000</td> <td style="text-align: right;">900</td> <td></td> </tr> </tbody> </table>		A	B	Vehicle C	D	Total		£		£	£	£	£						2009	1 200 ✓					1 200						2010	1 200 ✓		1 200 ✓	1 000 ✓			3 400					2011	1 200 ✓		800 ✓	2 000 ✓		<u>900 ✓</u>	4 900					Total	3 600	2 000	3 000	900		(8)
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7(d)(i)	<p>Capital expenditure is the purchase of non-current assets or the enhancement of non-current assets.✓</p> <p>Revenue expenditure is the day to day operating expenditure of the business.✓</p>	(2)

Question Number	Answer	Mark
7(d)(ii)	<p>The vehicle tax is a day to day expenditure which will not add to the value of the non-current asset. Therefore it is revenue expenditure ✓✓.</p> <p>A new engine will enhance the value of the non-current asset and therefore will be capital expenditure ✓✓.</p>	(4)

Question Number	Answer	Mark
7(e)	<p>Valid answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none"> • Equal amounts charged in each year of ownership for benefit received <p>Against</p> <ul style="list-style-type: none"> • Vehicles will depreciate more in the early years of ownership • Total cost of ownership when maintenance is added will rise. <p>✓✓ for one benefit and ✓✓ for one point against.</p>	(4)