

Pearson Edexcel
International Advanced Level

Accounting

Paper 1: The Accounting System and Costing

Monday 9 January 2017 – Morning
Source Booklet

Paper Reference
WAC11/01

Do not return this source booklet with the question paper.

Turn over ►

P48340A

©2017 Pearson Education Ltd.

1/1/1/1



SECTION A**Answer BOTH questions in this section.**

1 Elodie and Harsha are partners in a transport delivery business. Their partnership agreement states that:

- profits and losses will be shared equally
- salaries will be paid £8 000 per annum to Elodie and £12 000 per annum to Harsha
- interest on capital is allowed at the rate of 5% per annum
- interest on drawings is charged at the rate of 10% per annum.

The following balances were available at 31 December 2016:

	£
Revenue	525 000
Commission receivable	16 500
Trade receivables	38 000
Allowance for doubtful debts	1 400
Trade payables	26 000
Bank overdraft	9 200
Driver's wages	185 000
General expenses	67 000
Management salaries	56 000
Non-current assets (cost):	
Delivery vehicles	140 000
Computers and equipment	50 000
Provisions for depreciation:	
Delivery vehicles	50 000
Computers and equipment	20 000
Capital accounts:	
Elodie	40 000
Harsha	50 000
Current accounts:	
Elodie	4 000 Cr
Harsha	8 300 Dr
Drawings (excluding partners' salaries):	
Elodie	23 000
Harsha	28 500
Rent and insurance	15 800
Premises repairs	24 000
Delivery vehicle fuel	106 500

Additional information at 31 December 2016

- (1) Rent £500 was prepaid and insurance £1 250 was owing.
- (2) Management salaries include the salaries paid in full to both partners.

- (3) On 15 December 2016 Delivery Vehicle B was traded in and replaced by Delivery Vehicle F. The balance of the purchase price for Delivery Vehicle F was on credit from Speed Garage.

No entries had been made in the books.

The details for Delivery Vehicle B and Delivery Vehicle F were:

	Cost	Accumulated depreciation to 1 January 2016	Total purchase price	Trade-in value
	£	£	£	£
Sold Delivery Vehicle B	14 000	5 000	–	4 000
Purchased Delivery Vehicle F	–	–	25 000	–

- (4) Depreciation is to be charged as follows:

- delivery vehicles at the rate of 20% per annum reducing balance
- computers and equipment at the rate of 20% per annum straight line
- no depreciation is charged on non-current assets in the year of purchase
- a full year's depreciation is charged on non-current assets in the year of sale.

- (5) The allowance for doubtful debts is to be maintained at 5% of trade receivables.

Required

- (a) Prepare for the year ended 31 December 2016 the:

- (i) Delivery Vehicles Account (4)
- (ii) Delivery Vehicles Disposal Account. (4)

- (b) Prepare for the partnership the:

- (i) Statement of Profit or Loss and Other Comprehensive Income (including an appropriation section) for the year ended 31 December 2016 (17)
- (ii) Current Accounts of the partners for the year ended 31 December 2016 (6)
- (iii) Statement of Financial Position at 31 December 2016. (12)

Elodie and Harsha are considering admitting Aja as a partner.

- (c) Evaluate the possible admission of Aja as a partner. (12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark
1(a)	<p>AO1 (4), AO2 (4) AO1: Four marks for recording the given balance and the correct disposal narrative in the account. AO2: Four marks for inserting the reasonable narrative and correct value in the account.</p>	

(i)

Delivery Vehicles Account

Date	Details	£	Date	Details	£
2016			2016		
1 Jan	Balance b/d	140 000(1) AO1	15 Dec	Disposal (1) AO1	14 000
15 Dec	Disposal (Trade in)	4 000(1) AO2	31 Dec	Balance c/d	151 000
	Speed Garage	21 000(1) AO2			
		<u>165 000</u>			<u>165 000</u>
2017					
1 Jan	Balance b/d	151 000			

Note: If debit entry on 15 December combined to 25 000 (1) If narrative is disposal trade in or other reasonable narratives but not banks

(4)

(ii)

Delivery Vehicles Disposal Account

Date	Details	£	Date	Details	£
2016			2016		
15 Dec	Delivery Vehicles	14 000	15 Dec	Provision for deprec'n	6 800(1) AO2
		(1) AO1		Delivery Vehicle	4 000(1) AO1
			31 Dec	Income Statement	<u>3 200(1 of) AO2</u>
		<u>14 000</u>			<u>14 000</u>

Note: For own figure income statement other three elements must be present

(4)

Note:

Mark for **reasonable narrative plus correct number**

Ignore dates

Question Number	Answer	Mark																																																																																																																																				
1(b)(i)	<p>AO1 (5), AO2 (12) AO1: Five marks for recording the given expense in the account without adjustment. AO2: Twelve marks for adjusting the given figure or calculating the figure and inserting this correctly in the account.</p> <p style="text-align: center;">Statement of Profit or Loss and Other Comprehensive Income (including an appropriation section) for the year ended 31 December 2016</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%; text-align: right;">£</th> <th style="width: 10%; text-align: right;">£</th> <th style="width: 20%;"></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">525 000</td> <td></td> </tr> <tr> <td>Commission receivable</td> <td></td> <td style="text-align: right;"><u>16 500</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">541 500</td> <td>(1) AO1</td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Rent and insurance(15 800 +1 250 (1)– 500(1))</td> <td style="text-align: right;">16 550</td> <td></td> <td>AO2</td> </tr> <tr> <td>Premises repairs</td> <td style="text-align: right;">24 000</td> <td></td> <td>(1) AO1</td> </tr> <tr> <td>Delivery vehicle fuel</td> <td style="text-align: right;">106 500</td> <td></td> <td>(1) AO1</td> </tr> <tr> <td>Driver’s wages</td> <td style="text-align: right;">185 000</td> <td></td> <td>(1) AO1</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">67 000</td> <td></td> <td>(1) AO1</td> </tr> <tr> <td>Management salaries(56 000–8 000(1)–12 000(1))</td> <td style="text-align: right;">36 000</td> <td></td> <td>AO2</td> </tr> <tr> <td>Depreciation- Delivery vehicles</td> <td style="text-align: right;">18 000</td> <td></td> <td>(1) AO2</td> </tr> <tr> <td>Computers and equipment</td> <td style="text-align: right;">10 000</td> <td></td> <td>(1) AO2</td> </tr> <tr> <td>Loss on sale of Delivery Vehicle B</td> <td style="text-align: right;">3 200</td> <td></td> <td>(1of) AO2</td> </tr> <tr> <td>Increase in allowance for doubtful debts</td> <td style="text-align: right;"><u>500</u></td> <td></td> <td>(1) AO2</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>(466 750)</u></td> <td></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;">74 750</td> <td></td> </tr> <tr> <td>Plus interest on drawings</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Elodie</td> <td style="text-align: right;">2 300</td> <td></td> <td>(1) AO2 Both</td> </tr> <tr> <td> Harsha</td> <td style="text-align: right;"><u>2 850</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>5 150</u></td> <td></td> </tr> <tr> <td>Less</td> <td></td> <td style="text-align: right;">79 900</td> <td></td> </tr> <tr> <td>Interest on capital</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Elodie</td> <td style="text-align: right;">2 000</td> <td></td> <td>(1) AO2 Both</td> </tr> <tr> <td> Harsha</td> <td style="text-align: right;">2 500</td> <td></td> <td></td> </tr> <tr> <td>Salaries</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Elodie</td> <td style="text-align: right;">8 000</td> <td></td> <td>(1) AO2 Both</td> </tr> <tr> <td> Harsha</td> <td style="text-align: right;"><u>12 000</u></td> <td style="text-align: right;"><u>24 500</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">55 400</td> <td></td> </tr> <tr> <td>Share of profit</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Elodie</td> <td></td> <td style="text-align: right;">27 700</td> <td>(1of) AO2</td> </tr> <tr> <td> Harsha</td> <td></td> <td style="text-align: right;"><u>27 700</u></td> <td>Both</td> </tr> <tr> <td></td> <td></td> <td></td> <td>if correct ratio</td> </tr> </tbody> </table>		£	£		Revenue		525 000		Commission receivable		<u>16 500</u>				541 500	(1) AO1	Less				Rent and insurance(15 800 +1 250 (1)– 500(1))	16 550		AO2	Premises repairs	24 000		(1) AO1	Delivery vehicle fuel	106 500		(1) AO1	Driver’s wages	185 000		(1) AO1	General expenses	67 000		(1) AO1	Management salaries(56 000–8 000(1)–12 000(1))	36 000		AO2	Depreciation- Delivery vehicles	18 000		(1) AO2	Computers and equipment	10 000		(1) AO2	Loss on sale of Delivery Vehicle B	3 200		(1of) AO2	Increase in allowance for doubtful debts	<u>500</u>		(1) AO2			<u>(466 750)</u>		Profit for the year		74 750		Plus interest on drawings				Elodie	2 300		(1) AO2 Both	Harsha	<u>2 850</u>					<u>5 150</u>		Less		79 900		Interest on capital				Elodie	2 000		(1) AO2 Both	Harsha	2 500			Salaries				Elodie	8 000		(1) AO2 Both	Harsha	<u>12 000</u>	<u>24 500</u>				55 400		Share of profit				Elodie		27 700	(1of) AO2	Harsha		<u>27 700</u>	Both				if correct ratio	(17)
	£	£																																																																																																																																				
Revenue		525 000																																																																																																																																				
Commission receivable		<u>16 500</u>																																																																																																																																				
		541 500	(1) AO1																																																																																																																																			
Less																																																																																																																																						
Rent and insurance(15 800 +1 250 (1)– 500(1))	16 550		AO2																																																																																																																																			
Premises repairs	24 000		(1) AO1																																																																																																																																			
Delivery vehicle fuel	106 500		(1) AO1																																																																																																																																			
Driver’s wages	185 000		(1) AO1																																																																																																																																			
General expenses	67 000		(1) AO1																																																																																																																																			
Management salaries(56 000–8 000(1)–12 000(1))	36 000		AO2																																																																																																																																			
Depreciation- Delivery vehicles	18 000		(1) AO2																																																																																																																																			
Computers and equipment	10 000		(1) AO2																																																																																																																																			
Loss on sale of Delivery Vehicle B	3 200		(1of) AO2																																																																																																																																			
Increase in allowance for doubtful debts	<u>500</u>		(1) AO2																																																																																																																																			
		<u>(466 750)</u>																																																																																																																																				
Profit for the year		74 750																																																																																																																																				
Plus interest on drawings																																																																																																																																						
Elodie	2 300		(1) AO2 Both																																																																																																																																			
Harsha	<u>2 850</u>																																																																																																																																					
		<u>5 150</u>																																																																																																																																				
Less		79 900																																																																																																																																				
Interest on capital																																																																																																																																						
Elodie	2 000		(1) AO2 Both																																																																																																																																			
Harsha	2 500																																																																																																																																					
Salaries																																																																																																																																						
Elodie	8 000		(1) AO2 Both																																																																																																																																			
Harsha	<u>12 000</u>	<u>24 500</u>																																																																																																																																				
		55 400																																																																																																																																				
Share of profit																																																																																																																																						
Elodie		27 700	(1of) AO2																																																																																																																																			
Harsha		<u>27 700</u>	Both																																																																																																																																			
			if correct ratio																																																																																																																																			

Question Number	Answer	Mark
1 (b) (ii)	AO1 (6) A01: Six marks for recording the given appropriation or drawings in the account.	(6)

Current Accounts

	Elodie	Harsha		Elodie	Harsha
	£	£		£	£
Balance b/d		8 300	Balance b/d	4 000	
Drawings	23 000	28 500 (1)	Int on capital	2 000	2 500 (1of)
Int on drawings	2 300	2 850(1of)	Salary	8 000	12 000 (1)
Management Salary	8 000	12 000 (1)	Share of profit	27 700	27 700 (1of)
Balance c/d	<u>8 400</u>	<u> </u>	Balance c/d	<u> </u>	<u>9 450</u>
	<u>41 700</u>	<u>51 650</u>		<u>41 700</u>	<u>51 650</u>
Balance b/d		9 450	Balance b/d	8 400	

Note:

(1) Of **AO1** for both partners figures

Question Number	Answer	Mark																																																																																												
1 (b) (iii)	<p>AO1 (2), AO2 (6), AO3 (4) AO1: Two marks for recording the given expense in the statement without adjustment. AO2: Six marks for adjusting the given figure or calculating the figure and inserting this correctly in the statement. AO3: Four marks for calculating the correct figure for Delivery Vehicles cost and accumulated depreciation and inserting this into the statement.</p> <p style="text-align: center;">Statement of Financial Position at 31 December 2016.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Non-current assets</th> <th style="text-align: center;">Cost</th> <th style="text-align: center;">Accumulated Depreciation</th> <th style="text-align: center;">Carrying Value</th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Delivery vehicles</td> <td style="text-align: right;">151 000 (2) AO3</td> <td style="text-align: right;">61 200 (2) AO3</td> <td style="text-align: right;">89 800</td> </tr> <tr> <td>Computers and equipment</td> <td style="text-align: right;"><u>50 000</u></td> <td style="text-align: right;"><u>30 000</u></td> <td style="text-align: right;"><u>20 000</u> (1) of AO2</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>201 000</u></td> <td style="text-align: right;"><u>91 200</u></td> <td style="text-align: right;">109 800</td> </tr> <tr> <td colspan="4">Current assets</td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">38 000</td> <td></td> <td></td> </tr> <tr> <td>Less Allowance</td> <td style="text-align: right;"><u>(1 900)</u></td> <td></td> <td></td> </tr> <tr> <td>Other receivable</td> <td></td> <td style="text-align: right;">36 100 (1of) AO2 <u>500</u> (1) AO2</td> <td style="text-align: right;"><u>36 600</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>146 400</u></td> </tr> <tr> <td>Capital: Elodie</td> <td style="text-align: right;">40 000</td> <td></td> <td></td> </tr> <tr> <td>Harsha</td> <td style="text-align: right;"><u>50 000</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">90 000</td> <td></td> </tr> <tr> <td colspan="4">Current accounts:</td> </tr> <tr> <td style="padding-left: 20px;">Elodie</td> <td style="text-align: right;">8 400 Cr</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Harsha</td> <td style="text-align: right;"><u>(9 450) Dr</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(1 050) Dr (1of) AO2</td> <td></td> </tr> <tr> <td colspan="4">Current liabilities</td> </tr> <tr> <td>Trade payables</td> <td style="text-align: right;">26 000 (1) AO1</td> <td></td> <td></td> </tr> <tr> <td>Payable delivery vehicle</td> <td style="text-align: right;">21 000 (1) AO2</td> <td></td> <td></td> </tr> <tr> <td>Bank overdraft</td> <td style="text-align: right;">9 200 (1) AO1</td> <td></td> <td></td> </tr> <tr> <td>Other payable</td> <td style="text-align: right;"><u>1 250</u> (1) AO2</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">57 450</td> <td style="text-align: right;"><u>146 400</u></td> </tr> </tbody> </table> <p><u>Workings: Delivery vehicle</u></p> <p>Non- current asset cost 140 000 -14 000 (1) AO3 + 25 000 (1) AO3 = 151 000</p> <p>Accumulated depreciation 50 000 + 18 000 (1) AO3 – (5 000 + 1 800) (1of) AO3 = 61 200</p> <p>Trade receivables – Allowance must be netted off and be greater than 1400.</p>	Non-current assets	Cost	Accumulated Depreciation	Carrying Value		£	£	£	Delivery vehicles	151 000 (2) AO3	61 200 (2) AO3	89 800	Computers and equipment	<u>50 000</u>	<u>30 000</u>	<u>20 000</u> (1) of AO2		<u>201 000</u>	<u>91 200</u>	109 800	Current assets				Trade receivables	38 000			Less Allowance	<u>(1 900)</u>			Other receivable		36 100 (1of) AO2 <u>500</u> (1) AO2	<u>36 600</u>				<u>146 400</u>	Capital: Elodie	40 000			Harsha	<u>50 000</u>					90 000		Current accounts:				Elodie	8 400 Cr			Harsha	<u>(9 450) Dr</u>					(1 050) Dr (1of) AO2		Current liabilities				Trade payables	26 000 (1) AO1			Payable delivery vehicle	21 000 (1) AO2			Bank overdraft	9 200 (1) AO1			Other payable	<u>1 250</u> (1) AO2					57 450	<u>146 400</u>	(12)
Non-current assets	Cost	Accumulated Depreciation	Carrying Value																																																																																											
	£	£	£																																																																																											
Delivery vehicles	151 000 (2) AO3	61 200 (2) AO3	89 800																																																																																											
Computers and equipment	<u>50 000</u>	<u>30 000</u>	<u>20 000</u> (1) of AO2																																																																																											
	<u>201 000</u>	<u>91 200</u>	109 800																																																																																											
Current assets																																																																																														
Trade receivables	38 000																																																																																													
Less Allowance	<u>(1 900)</u>																																																																																													
Other receivable		36 100 (1of) AO2 <u>500</u> (1) AO2	<u>36 600</u>																																																																																											
			<u>146 400</u>																																																																																											
Capital: Elodie	40 000																																																																																													
Harsha	<u>50 000</u>																																																																																													
		90 000																																																																																												
Current accounts:																																																																																														
Elodie	8 400 Cr																																																																																													
Harsha	<u>(9 450) Dr</u>																																																																																													
		(1 050) Dr (1of) AO2																																																																																												
Current liabilities																																																																																														
Trade payables	26 000 (1) AO1																																																																																													
Payable delivery vehicle	21 000 (1) AO2																																																																																													
Bank overdraft	9 200 (1) AO1																																																																																													
Other payable	<u>1 250</u> (1) AO2																																																																																													
		57 450	<u>146 400</u>																																																																																											

Question Number	Indicative content	Mark
1(c)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Potential arguments for</p> <ul style="list-style-type: none"> • Additional capital will be brought into the business by Aja which will enable the business to expand and grow • Work load shared by the partners who will now have a greater opportunity to specialise • Cover for sickness/holidays. When these events occur the business will not need to close but can maintain continuity of service • Shared risks as any losses will be shared between three partners. <p>Potential arguments against</p> <ul style="list-style-type: none"> • Profits will need to be shared by three partners instead of two resulting in the requirement to increase profits to maintain the partners incomes • Extension of joint and several liability. Elodie and Harsha will be liable for the actions of Aja • Decision making possibly more complex as all partners will need consulting. <p>Decision</p> <p>Candidates may conclude that the admission of Aja is a positive or negative development for the business. The candidate's conclusion should be supported by a valid rationale for that conclusion.</p>	(12)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

2 Wright Household, a retailer, has three departments:

- Furniture
- Carpets
- Café.

The following balances were extracted from the books at 31 December 2016:

	£
Revenue:	
Furniture	450 000
Carpets	300 000
Café	50 000
Cost of sales:	
Furniture	190 000
Carpets	140 000
Café	30 000
Wages:	
Furniture	80 000
Carpets	50 000
Café	20 000
Management salaries	65 000
Delivery vehicle expenses	26 000
Heat and light	10 800
Redecoration of building	13 500
Rates for building	18 900
General expenses	64 000
Non-current assets (cost):	
Land and building	260 000
Delivery vehicle	25 000
Fixtures and equipment	40 000
Provisions for depreciation:	
Land and building	52 000
Delivery vehicle	5 000
Fixtures and equipment	21 000

Additional information at 31 December 2016

- (1) A purchase of carpets, £11 000, had been recorded in error as a purchase of furniture for resale.
- (2) Wages accrued: Furniture £3 000, Carpets £5 000
- (3) Rates for building of £900 were prepaid.
- (4) Depreciation is to be charged as follows:
- no depreciation is charged on the land cost of £80 000. Depreciation is charged on the buildings at the rate of 2% straight line
 - delivery vehicle at the rate of 25% per annum reducing balance
 - fixtures and equipment at the rate of 15% per annum straight line.
- (5) Provide for a:
- doubtful debt of £4 000 for carpets supplied to a customer
 - legal claim of £600 for an injury to a customer in the café.
- (6) Departmental data:

	Furniture	Carpets	Café
Staff employed (number)	10	7	3
Delivery vehicle use (%)	70	30	Nil
Floor area occupied (sq m)	1 000	600	200
Fixtures and equipment cost (£)	8 000	10 000	22 000

Required

- (a) Prepare the Departmental Statement of Profit or Loss and Other Comprehensive Income, in **columnar format**, for the year ended 31 December 2016. (35)

The owner of Wright Household is considering closing the café as he believes that the department makes a loss.

- (b) Evaluate the closure of the café. (12)

Wright Household remunerates its staff on a day work basis. It is considering changing this method of remuneration to a group bonus scheme for each department.

(c) Explain the terms:

(i) day work

(2)

(ii) group bonus scheme.

(2)

(d) State **two** advantages for Wright Household of remunerating staff by day work.

(2)

(e) Advise whether a group bonus scheme would be appropriate for the café staff.

(2)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Question Number	Answer	Mark
2(a)	<p>AO1 (13), AO2 (20), AO3 (2)</p> <p>AO1: Thirteen marks for recording the given expense in the account without adjustment.</p> <p>AO2: Twenty marks for apportioning the given figure or calculating the figure and inserting this correctly in the account.</p> <p>AO3: Two marks for calculating the correct figure, apportioning the correct figure to the correct section of the account.</p>	(35)

Departmental Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2016

	Furniture	Carpets	Café
	£	£	£
Revenue	450 000	300 000 (1)	50 000
Less Cost of sales	190 000	140 000	30 000
Adjustment	(11 000)	11 000	
Adjusted Cost of sales	(179 000) (1)	(151 000) (1)	(30 000)
Gross profit	271 000	149 000	20 000
Less expenses			
Wages	83 000 (1)	55 000 (1)	20 000 (1)
Management salaries	32 500 (1)	22 750 (1)	9 750 (1)
Delivery vehicle expenses	18 200 (1)	7 800 (1)	0 (1)
Heat and light	6 000 (1)	3 600 (1)	1 200 (1)
Redecoration of building	7 500 (1)	4 500 (1)	1 500 (1)
Rates for building	10 000 (1)	6 000 (1)	2 000 (1)
General expenses	36 000 (1)	24 000 (1)	4 000 (1)
Depreciation-			
Land and building	2 000 (1)	1 200 (1)	400 (1)
Delivery vehicle	3 500 (1)	1 500 (1)	0 (1)
Fixtures and equipment	1 200 (1)	1 500 (1)	3 300 (1)
Provisions	-	4 000 (1)	600 (1)
	(199 900)	(131 850)	(42 750)
Profit/(loss)	71 100	17 150	(22 750)

Note:

Revenue and provisions **AO1** x 3

Carpets column (excluding delivery vehicle depreciation) **AO2** x 10

Carpet column delivery vehicle depreciation **AO3** x 1

Furniture and café columns: delivery vehicle depreciation **AO3** x 1

Furniture and café columns: Adjusted cost of sales, wages, rates for buildings, building and fixtures depreciations, Profit/(loss) **AO2** x 10

Furniture and café columns: All other items **AO1** x 10

Question Number	Indicative content	Mark
2(b)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Potential arguments for the proposal</p> <ul style="list-style-type: none"> • The loss would be removed • The space could be used to expand the furniture or carpets departments or to create a new department • Capital could be released from the sale of café fixtures and equipment for general working capital or to fund the redevelopment of the café space. <p>Potential arguments against the proposal</p> <ul style="list-style-type: none"> • Most of the existing fixed costs will have to be borne by the other departments, therefore the improvement in total profit may be minimal or non-existent • The café may stimulate sales as a place for customers to decide upon a purchase or generate purchases from customers who visit the café. • Social accounting factors of redundancy. Although there are only three staff there is a personal impact if the staff cannot be redeployed. <p>Decision Candidates may conclude that it is wise or unwise to close the café. The decision should be supported by reasoned arguments.</p>	(12)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

Question Number	Answer	Mark
2(c)	<p>AO1 (4) AO1: Four marks for stating the definitions</p> <p>(i) Day work – Payment is made by a rate per hour (1) AO1 x number of hours worked (1) AO1</p> <p>OR</p> <p>Workers are paid daily rate (1) AO1 regardless of output produced (1) AO1</p> <p style="text-align: right;">(2)</p> <p>(ii) Group bonus scheme – Payment is made generally on a day work basis (1) AO1 Plus a bonus generated by a group of workers (1) AO1 divided by the number of workers</p> <p style="text-align: right;">(2)</p>	(4)

Question Number	Answer	Mark
2(d)	<p>AO1 (2) AO1: Two marks for stating two advantages</p> <ul style="list-style-type: none"> • Simple to calculate • Quality provided as worker is not trying to meet bonus targets • Time to spend with customers • Enable to plan costs • Absenteeism rate is minimised <p>NOT</p> <ul style="list-style-type: none"> • Motivated to work harder <p>(1) AO1 x 2</p>	(2)

Question Number	Answer	Mark
2(e)	<p>AO3 (2) A03: Two marks for advice</p> <ul style="list-style-type: none">• Would encourage team work• Would encourage greater efficiency of staff• Café does not lend itself to increasing sales by working more efficiently• Sales may be limited by physical factors such as the availability of seating• Some people may work harder than others and it may be unfair. <p>(1) AO3 x 2</p>	(2)

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

- 3 Protea Venture Capital is considering the purchase of Zollar Power. The following information is available:

Zollar Power
Summary Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 November 2016

	£	£
Revenue		750 000
Cost of sales	300 000	
Wages and salaries	240 000	
Bank loan interest	25 000	
Marketing	40 000	
Depreciation	40 000	
Rent	15 000	
General expenses	<u>75 000</u>	
		<u>735 000</u>
Profit for the year		<u><u>15 000</u></u>

Additional information at 30 November 2016

- (1) Bank loan £250 000
 (2) Capital £550 000

Required

- (a) Calculate for Zollar Power the:
- (i) gross profit as a percentage of revenue (2)
 - (ii) profit for the year as a percentage of revenue (2)
 - (iii) percentage return on capital employed. (2)

If Protea Venture Capital purchased Zollar Power it would:

- invest an additional £250 000 in the business at the start of the year and repay the bank loan in full
- increase marketing expenditure by £31 000 per annum, which will increase sales volume by 20%
- increase the volume of purchases in line with sales, however lower quality goods will be purchased for resale, saving 10% on **all** purchases made
- make 15 staff redundant saving £90 000
- reduce general expenses by £15 000

Required

- (b) Prepare the Projected Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 November 2017. (10)
- (c) Calculate for the year ended 30 November 2017 the projected:
- (i) profit for the year as a percentage of revenue (2)
 - (ii) percentage return on capital employed. (2)
- (d) Explain the term social and ethical accounting. (4)
- (e) Evaluate the proposal of Protea Venture Capital for the purchase of Zollar Power. (6)

(Total for Question 3 = 30 marks)

Question Number	Answer	Mark
3(a)	<p>AO2 (5), AO3 (1) AO2: Five marks for identifying the figures and inserting them in the ratio. AO3: One mark for calculating the correct profit before interest and inserting this into the correct section of the account.</p> <p>(i) Gross profit as a percentage of revenue</p> $\frac{450\,000}{750\,000} \text{ (1) AO2} \times 100 = 60\% \text{ (1) AO2}$ <p>(2)</p> <p>(ii) Profit for the year as a percentage of revenue</p> $\frac{15\,000}{750\,000} \text{ (1) AO2} \times 100 = 2\% \text{ (1) AO2}$ <p>(2)</p> <p>(iii) Percentage return on capital employed.</p> $\frac{(15\,000 + 25\,000)}{(250\,000 + 550\,000)} \text{ (1) AO3} \times 100 = 5\% \text{ (1) AO2}$ <p>(2)</p>	(6)

Question Number	Answer	Mark																																				
3(b)	<p>AO1 (2), AO2 (5), AO3 (3)</p> <p>AO1: Two marks for recording the given expense in the account without adjustment.</p> <p>AO2: Five marks for adjusting the given figure or calculating the figure and inserting this correctly in the account.</p> <p>AO3: Three marks for calculating the correct cost of sales figure and inserting this into the correct section of the account.</p> <p style="text-align: center;">Zollar Power</p> <p style="text-align: center;">Projected Statement of Profit or Loss and Other Comprehensive Income</p> <p style="text-align: center;">for the year ended 30 November 2017</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">£</th> <th style="width: 20%; text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">900 000 (1) AO3</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>(324 000)</u> (2) AO3</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">576 000</td> </tr> <tr> <td>Wages and salaries</td> <td style="text-align: right;">150 000</td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Loan interest</td> <td style="text-align: center;">-</td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Marketing</td> <td style="text-align: right;">71 000</td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">40 000</td> <td style="text-align: right;">(1) AO1</td> </tr> <tr> <td>Rent</td> <td style="text-align: right;">15 000</td> <td style="text-align: right;">(1) AO1</td> </tr> <tr> <td>Other expenses</td> <td style="text-align: right;"><u>60 000</u></td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>(336 000)</u></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;"><u>240 000</u> (1of)AO2</td> </tr> </tbody> </table> <p style="text-align: right;">No aliens</p> <p style="text-align: center;">Working:</p> <p>Cost of sales $300\,000 + 20\% = 360\,000$ (1) $- 10\% = 324\,000$ (1)</p> <p>If Loan interest absent in income statement award (1) mark</p>		£	£	Revenue		900 000 (1) AO3	Cost of sales		<u>(324 000)</u> (2) AO3	Gross profit		576 000	Wages and salaries	150 000	(1) AO2	Loan interest	-	(1) AO2	Marketing	71 000	(1) AO2	Depreciation	40 000	(1) AO1	Rent	15 000	(1) AO1	Other expenses	<u>60 000</u>	(1) AO2			<u>(336 000)</u>	Profit for the year		<u>240 000</u> (1of) AO2	(10)
	£	£																																				
Revenue		900 000 (1) AO3																																				
Cost of sales		<u>(324 000)</u> (2) AO3																																				
Gross profit		576 000																																				
Wages and salaries	150 000	(1) AO2																																				
Loan interest	-	(1) AO2																																				
Marketing	71 000	(1) AO2																																				
Depreciation	40 000	(1) AO1																																				
Rent	15 000	(1) AO1																																				
Other expenses	<u>60 000</u>	(1) AO2																																				
		<u>(336 000)</u>																																				
Profit for the year		<u>240 000</u> (1of) AO2																																				

Question Number	Answer	Mark
3(c)	<p>AO1 (2), AO2 (2) AO1: Two marks for recording the given expense in the account without adjustment. AO2: Two marks for adjusting the given figure or calculating the figure and inserting this correctly in the account.</p> <p>(i) Profit for the year as a percentage of revenue</p> $\frac{240\,000}{900\,000} \text{ (1of) AO1} \times 100 = 26.7\% \text{ (1of) AO2}$ <p>(2)</p> <p>(ii) Percentage return on capital employed.</p> $\frac{240\,000 \text{ of matching (c)(i)}}{800\,000} \text{ (1) AO1} \times 100 = 30\% \text{ (1of) AO2}$ <p>(2)</p>	(4)

Question Number	Answer	Mark
3(d)	<p>AO1 (4) AO1: Four marks for explaining social and ethical accounting.</p> <p>This is a non-financial factor</p> <p>Protea Venture Capital should consider the effect of their decisions in a social/ethical context (1) AO1</p> <p>Factors such as the local community, environment, health and safety or the use of natural resources, being honest, not misleading should be considered (1) AO1 x 3 factors</p>	(4)

Question Number	Indicative content	Mark
3(e)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for Protea Venture Capital</p> <ul style="list-style-type: none"> profit is greatly increased from £15 000 to £240 000 per annum long term external debt is removed due to the additional investment which funded the repayment of the loan return on capital employed is improved from 2% to 30%. <p>Potential negative points for Protea Venture Capital</p> <ul style="list-style-type: none"> social accounting factors on the community and employees. There will be 15 staff redundancies which will have a personal and community impact morale may be effected as more is expected from each individual worker and work colleagues are made redundant lower quality product is being produced which may in the end impact upon the the sales and viability of the business a major capital investment has to be made to reduce the debt which could be used for other purposes. <p>Decision Candidates may conclude that it is wise or unwise to purchase Zollar Power. The decision should be supported by reasoned arguments.</p>	(6)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

- 4 Sanith prepared a trial balance on 30 November 2016 that failed to agree. In checking his transactions for the month of November, he found that the account of one of his suppliers, Kamila, contained errors. The account was recorded as follows:

Kamila Account					
2016		£	2016		£
8 November	Purchases	1 400	1 November	Balance b/d	8 000
15 November	Bank	5 600	15 November	Discount	400
30 November	Balance c/d	<u>1 930</u>	20 November	Returns	<u>530</u>
		<u>8 930</u>			<u>8 930</u>
			1 December	Balance b/d	1 930

On inspection of the books Sanith found the following errors:

- (1) Purchases of £1 400 had been correctly entered in the Purchases Account but debited to the account of Kamila.
- (2) Discount received of £400 on 15 November had been credited to the account of Kamila. Other entries for this transaction were correct.
- (3) A credit purchase of goods from Kamila on 18 November, £2 100, had been posted to the account of Robson.
- (4) A return of goods, £350, to Kamila on 20 November had been correctly recorded in the book of prime entry. This had been recorded in Kamila's account as £530
- (5) A payment of £1 500 made by cheque to Kamila on 25 November was omitted from the books.

Required

- (a) Prepare the journal entries to correct the errors (1) to (5) in the books.
Narratives are **not** required. (10)
- (b) Complete the account of Kamila in your question paper, showing the additional entries required to correct the errors. (10)
- (c) Explain the difference between an:
 - (i) error of compensation and an error of reversal (2)
 - (ii) error of principle and an error of commission. (2)
- (d) Evaluate the use of the trial balance. (6)

(Total for Question 4 = 30 marks)

Question Number	Answer	Mark																																																
4(a)	<p>AO2 (8), AO3 (2) AO2: Eight marks for carrying out the adjustment correctly. AO3: Two marks for calculating and carrying out the adjustment correctly.</p> <p style="text-align: center;">Journal</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%; text-align: center;">Dr</th> <th style="width: 10%; text-align: center;">Cr</th> <th style="width: 20%;"></th> </tr> <tr> <td></td> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <td></td> </tr> </thead> <tbody> <tr> <td>Suspense Kamila</td> <td style="text-align: right;">2 800</td> <td style="text-align: right;">(1)</td> <td>AO2</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">2 800</td> <td>(1) AO2</td> </tr> <tr> <td>Kamila Suspense</td> <td style="text-align: right;">800</td> <td style="text-align: right;">(1)</td> <td>AO2</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">800</td> <td>(1) AO3</td> </tr> <tr> <td>Robson Kamila</td> <td style="text-align: right;">2 100</td> <td style="text-align: right;">(1)</td> <td>AO2</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">2 100</td> <td>(1) AO2</td> </tr> <tr> <td>Kamila Suspense</td> <td style="text-align: right;">880</td> <td style="text-align: right;">(1)</td> <td>AO2</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">880</td> <td>(1) AO3</td> </tr> <tr> <td>Kamila Bank</td> <td style="text-align: right;">1 500</td> <td style="text-align: right;">(1)</td> <td>AO2</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">1 500</td> <td>(1) AO2</td> </tr> </tbody> </table>		Dr	Cr			£	£		Suspense Kamila	2 800	(1)	AO2			2 800	(1) AO2	Kamila Suspense	800	(1)	AO2			800	(1) AO3	Robson Kamila	2 100	(1)	AO2			2 100	(1) AO2	Kamila Suspense	880	(1)	AO2			880	(1) AO3	Kamila Bank	1 500	(1)	AO2			1 500	(1) AO2	(10)
	Dr	Cr																																																
	£	£																																																
Suspense Kamila	2 800	(1)	AO2																																															
		2 800	(1) AO2																																															
Kamila Suspense	800	(1)	AO2																																															
		800	(1) AO3																																															
Robson Kamila	2 100	(1)	AO2																																															
		2 100	(1) AO2																																															
Kamila Suspense	880	(1)	AO2																																															
		880	(1) AO3																																															
Kamila Bank	1 500	(1)	AO2																																															
		1 500	(1) AO2																																															

Question Number	Answer	Mark
4(b)	<p>AO1 (4), AO2 (4), AO3 (2) AO1: Four marks for identifying the correct narrative. AO2: Four marks for posting the correct value to the correct side of the account. AO3: Two marks for calculating the correct figure and inserting this into the correct side of the account.</p>	(10)

Kamila Account					
2016		£	2016		£
8 November	Purchases	1 400	1 November	Balance b/d	8 000
15 November	Bank	5 600	15 November	Discount	400
30 November	Suspense	800	20 November	Returns	530
	Suspense (1) AO1	880	(2) AO3 30 November	Suspense	2 800 (1) AO2
	Bank (1) AO1	1 500	(1) AO2	Robson (1) AO1	2 100 (1) AO2
	Balance c/d	<u>3 650</u>			
		<u>13 830</u>			
			1 December	Balance b/d	<u>13 830</u> 3 650 (1 of) AO1

Note:

Ignore dates

Mark number and narrative separately. If mark for number accept any reasonable narrative.

Note (4) award 350 (1) + 530 (1) = 880

Question Number	Answer	Mark
4(c)	<p>AO1 (4) AO1: Four marks for explaining the differences.</p> <p>(i) Compensation – there is more than one error which collectively cancel each other out (1) AO1</p> <p>Reversal – there has been a debit and a credit entry of equal value (1) AO1 which have been reversed in the books. (2)</p> <p>(ii) Principle is an error of posting to an account of a different class (1) AO1</p> <p>Commission is an error in posting to an account in the same class. (1) AO1 (2)</p>	(4)

Question Number	Indicative content	Mark
4(d)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for</p> <ul style="list-style-type: none"> • Gives prima facie evidence of correct posting. It is a checking device for the accuracy of the double entry • Financial statements can be prepared with certainty that the underpinning information is probably accurate. <p>Potential negative points for</p> <ul style="list-style-type: none"> • Errors not affecting the balancing of the trial balance will not be revealed • Time consuming to prepare. <p>NOT</p> <ul style="list-style-type: none"> • Fraud prevention • Eliminates errors • Calculate profit. <p>Decision</p> <p>Candidates will conclude that a trial balance is useful in the accounting system. The decision should be supported by reasoned arguments.</p>	(6)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

5 Falgu commenced business as a builder on 1 December 2015. The following information is available for the year ended 30 November 2016:

- raw materials costing £80 000 were purchased and used
- Falgu marks up all raw materials by 15%
- Falgu worked 50 hours per week for 50 weeks of the year
- 80% of the hours worked by Falgu were charged to customers
- overhead costs were:

Rent of premises	£1 000 per month
General expenses	£13 500 per year
Motor vehicle running costs	£8 500 per year
- Falgu charged a rate to customers of £25 per hour to cover his labour and overheads.

Required

(a) Explain the difference between mark-up and margin. (2)

(b) State whether the following costs would be fixed, semi-fixed, semi-variable or variable, giving your reason for each:

(i) raw materials (2)

(ii) rent of premises (2)

(iii) telephone costs (included in general expenses). (2)

(c) Calculate Falgu's profit or loss for the year ended 30 November 2016. (8)

Falgu has decided to charge a rate to customers in the future that will provide him with a profit for the year of £40 000.

(d) Calculate the hourly rate that Falgu would need to charge to customers. (4)

(e) Prepare a quotation for a customer where:

Raw materials purchase price	£1 100	
Falgu's hours worked	35 hours	(4)

Falgu is considering the use of information and communications technology (ICT) to operate his business.

(f) Evaluate the use of information and communications technology (ICT) to operate Falgu's business. (6)

(Total for Question 5 = 30 marks)

Question Number	Answer	Mark
5(a)	<p>AO1 (2) AO1: Two marks for identifying the correct narrative.</p> <p>Mark-up is the percentage profit added to cost price (1) AO1</p> <p>OR</p> <p>Gross profit divided by cost of sales (1) AO1</p> <p>Margin is the percentage of profit contained within the revenue (1) AO1</p> <p>OR</p> <p>Gross profit divided by revenue (1) AO1</p>	(2)

Question Number	Answer	Mark
5(b)	<p>AO1 (3), AO2 (3) AO1: Three marks for and stating each costs features. AO2: Three marks for identifying the correct type of cost.</p> <p>(i) Raw materials are a variable cost. (1) AO1 The cost varies directly with production increase or decrease. (1) AO2 (2)</p> <p>(ii) Rent is a fixed cost. (1) AO1 This cost will remain fixed over varying range of production during the accounting period. (1) AO2 (2)</p> <p>(iii) Telephone costs are a semi-variable. (1) AO1 The cost has a fixed element, the network contract, plus a variable cost for each call. (1) AO2 (2)</p>	(6)

Question Number	Answer	Mark																																				
5(c)	<p>AO1 (3), AO2 (5) AO1: Three marks for inclusion of expenses. AO2: Five marks for calculating the correct value and insert in statement.</p> <p style="text-align: center;">Profit for the year ended 30 November 2016</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">£</th> <th style="width: 20%; text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Income</td> <td></td> <td></td> </tr> <tr> <td>Raw material sales</td> <td></td> <td style="text-align: right;">92 000 (1) AO2</td> </tr> <tr> <td>Own labour</td> <td></td> <td style="text-align: right;"><u>50 000</u> (2) AO2</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">142 000</td> </tr> <tr> <td>Expenditure</td> <td></td> <td></td> </tr> <tr> <td>Raw material costs</td> <td style="text-align: right;">80 000</td> <td style="text-align: right;">(1) AO2</td> </tr> <tr> <td>Rent of builders premises</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">(1) AO1</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">13 500</td> <td style="text-align: right;">(1) AO1</td> </tr> <tr> <td>Motor vehicle running costs</td> <td style="text-align: right;"><u>8 500</u></td> <td style="text-align: right;">(1) AO1</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(114 000)</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;">28 000 (1of) AO2</td> </tr> </tbody> </table> <p>Workings: Own labour (50 x 50) x 80% = 2 000 (1) AO2 x 25 = 50 000 (1) AO2 Raw materials shown as £12 000 income (92 000 – 80 000) = 2 marks</p>		£	£	Income			Raw material sales		92 000 (1) AO2	Own labour		<u>50 000</u> (2) AO2			142 000	Expenditure			Raw material costs	80 000	(1) AO2	Rent of builders premises	12 000	(1) AO1	General expenses	13 500	(1) AO1	Motor vehicle running costs	<u>8 500</u>	(1) AO1			(114 000)	Profit for the year		28 000 (1of) AO2	(8)
	£	£																																				
Income																																						
Raw material sales		92 000 (1) AO2																																				
Own labour		<u>50 000</u> (2) AO2																																				
		142 000																																				
Expenditure																																						
Raw material costs	80 000	(1) AO2																																				
Rent of builders premises	12 000	(1) AO1																																				
General expenses	13 500	(1) AO1																																				
Motor vehicle running costs	<u>8 500</u>	(1) AO1																																				
		(114 000)																																				
Profit for the year		28 000 (1of) AO2																																				

Question Number	Answer	Mark
5(d)	<p>AO2 (1), AO3 (3) AO2: One mark for using the current labour rate. AO3: Three marks for calculating the revised rate.</p> <p>Existing profit for the year £28 000 Required profit <u>£40 000</u> Increase required £12 000 (1of) AO3 Divided by 2 000 hours (1) AO2 = £6 per hour extra(1) AO3</p> <p>The rate would need to be £25 per hour + £6 per hour = £31 per hour (1of) AO3</p>	(4)

Question Number	Answer	Mark								
5(e)	<p>AO2 (3), AO3 (1) AO2: Three marks for using the number of labour hours. AO3: One mark for calculating the quotation.</p> <p style="text-align: center;">Job Quotation</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 40%; text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>Raw material 1 100 x 115%</td> <td style="text-align: right;">1 265 (1) AO2</td> </tr> <tr> <td>Labour 35 (1) AO2 x £31 (1of) AO3</td> <td style="text-align: right;"><u>1 085</u></td> </tr> <tr> <td>Total price</td> <td style="text-align: right;"><u>2 350</u> (1of) AO2</td> </tr> </tbody> </table>		£	Raw material 1 100 x 115%	1 265 (1) AO2	Labour 35 (1) AO2 x £31 (1of) AO3	<u>1 085</u>	Total price	<u>2 350</u> (1of) AO2	(4)
	£									
Raw material 1 100 x 115%	1 265 (1) AO2									
Labour 35 (1) AO2 x £31 (1of) AO3	<u>1 085</u>									
Total price	<u>2 350</u> (1of) AO2									

Question Number	Indicative content	Mark
5(f)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for</p> <ul style="list-style-type: none"> • Speed, accuracy, reduction in errors are all benefits that Falgu would receive • Security would be improved as passwords would be required • Large storage capacity on disk reducing the storage of paper hard copies. <p>Potential negative points</p> <ul style="list-style-type: none"> • Capital cost of purchase of the hardware and software • Risk of viruses, hacking of data • Training of staff for constant upgrades in software. <p>Decision Candidates may conclude that it is wise or unwise to purchase ICT. The decision should be supported by reasoned arguments.</p>	(6)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

- 6 Raegan buys and sells clothing on credit. She does not maintain a full set of books but the following information is available for the year ended 31 December 2016.

(1)

Cash Book (summary)

	£		£
Receipts from credit customers	47 200	Balance b/d	750
Cash sales banked	8 300	Payments to credit suppliers	35 000
Commission receivable	5 000	Purchase of computers	7 400
Balance c/d	280	Wages by cheque	9 000
		General expenses	8 630
	<u>60 780</u>		<u>60 780</u>
		Balance b/d	280

(2) Balances at:

	1 January 2016	31 December 2016
	£	£
Trade receivables	5 750	4 400
Trade payables	2 750	6 100
Inventory	10 920	9 350
Computers and fixtures (carrying value)	15 000	17 500
General expenses	450 Accrued	920 Prepaid
Commission receivable	–	600 Accrued

(3) Cash sales were banked after payment of the following:

	£
Wages	10 350
Drawings	10 500
Purchase of fixtures	6 000
Purchase of goods	2 000

(4) Fixtures were sold, on credit, in December for £1 300 at carrying value.

Required

- (a) Explain the difference between:
- (i) capital expenditure and revenue expenditure (2)
 - (ii) capital and capital employed. (2)
- (b) Calculate for the year ended 31 December 2016 the:
- (i) revenue (4)
 - (ii) purchases (3)
 - (iii) depreciation on computers and fixtures. (4)
- (c) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016. (9)
- (d) Evaluate the need to maintain double entry records in a business. (6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 200 MARKS

Question Number	Answer	Mark
6(a)	<p>AO1 (4) AO1: Four marks for stating the differences</p> <p>(i) Capital expenditure is mainly purchasing long term non-current assets which will last for many accounting periods. (1) AO1 Revenue expenditure is a day to day expenditure used in the current accounting period. (1) AO1</p> <p style="text-align: right;">(2)</p> <p>(ii) Capital is the net value that the owner has invested in the business. (1) AO1 Capital employed is the owners capital plus any non-current liabilities borrowed to finance the business. (1) AO1</p> <p style="text-align: right;">(2)</p>	(4)

Question Number	Answer	Mark
6(b)	<p>AO1 (2), AO2 (6) , AO3 (3) AO1: Two marks for establishing the revenue and purchases without adjustment. AO2: Six marks for making adjustments. AO3: Three marks analysing the value of (i) to (iii) correctly.</p> <p>(i) Revenue $(47\,200 + 8\,300)$ (1) AO1 + $(10\,350 + 10\,500 + 6\,000 + 2\,000)$ (1) AO2 + $(4\,400 - 5\,750)$ (1) AO2 = 83 000 (1) AO3</p> <p style="text-align: right;">(4)</p> <p>(ii) Purchases $(35\,000 + 2\,000)$ (1) AO1 + $(6\,100 - 2\,750)$ (1) AO2 = 40 350 (1) AO3</p> <p style="text-align: right;">(3)</p> <p>(iii) Depreciation on computers and fixtures $15\,000 + (7\,400 + 6\,000)$ (1) AO2 $- 1\,300$ (1) AO2 = $27\,100 - 17\,500$ (1) AO2 = 9 600 (1) AO3</p> <p style="text-align: right;">(4)</p>	(11)

Question Number	Answer	Mark																																																																																				
6(c)	<p>AO1 (2), AO2 (6), AO3 (1) AO1: Two marks for correctly bringing forward revenue and depreciation from (b) and correctly applying to the statement. AO2: Six marks for correct calculations and insertion in the statement. AO3: One mark for calculating the correct figure and inserting this into the correct side of the account.</p> <p style="text-align: center;">Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 30%;"></td> </tr> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">83 000</td> <td>(1) of AO1</td> </tr> <tr> <td>Cost or sales:</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Opening inventory</td> <td style="text-align: right;">10 920</td> <td></td> <td>(1) AO2</td> </tr> <tr> <td> Purchases</td> <td style="text-align: right;"><u>40 350</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">51 270</td> <td></td> <td></td> </tr> <tr> <td> Closing inventory</td> <td style="text-align: right;"><u>(9 350)</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(41 920)</td> <td>(1 of +w) AO2</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">41 080</td> <td></td> </tr> <tr> <td>Other income</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Commission receivable (5 000+600)</td> <td></td> <td style="text-align: right;"><u>5 600</u></td> <td>(1) AO3</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">46 680</td> <td></td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Wages (9 000 + 10 350)</td> <td style="text-align: right;">19 350</td> <td></td> <td>(1) AO2</td> </tr> <tr> <td> General expenses (8 630 – 450 – 920)</td> <td style="text-align: right;">7 260</td> <td></td> <td>(2) AO2</td> </tr> <tr> <td> Depreciation</td> <td style="text-align: right;"><u>9 600</u></td> <td></td> <td>(1 of) AO1</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(36 210)</td> <td></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;"><u>10 470</u></td> <td>(1 of) AO2</td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> </tr> <tr> <td>Note: General expenses</td> <td style="text-align: right;">8 180</td> <td></td> <td>(1) or 7 710 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;">8 160</td> <td></td> <td>(1) 9 100 (1)</td> </tr> </table>		£	£		Revenue		83 000	(1) of AO1	Cost or sales:				Opening inventory	10 920		(1) AO2	Purchases	<u>40 350</u>				51 270			Closing inventory	<u>(9 350)</u>					(41 920)	(1 of +w) AO2	Gross profit		41 080		Other income				Commission receivable (5 000+600)		<u>5 600</u>	(1) AO3			46 680		Less				Wages (9 000 + 10 350)	19 350		(1) AO2	General expenses (8 630 – 450 – 920)	7 260		(2) AO2	Depreciation	<u>9 600</u>		(1 of) AO1			(36 210)		Profit for the year		<u>10 470</u>	(1 of) AO2	 				Note: General expenses	8 180		(1) or 7 710 (1)		8 160		(1) 9 100 (1)	(9)
	£	£																																																																																				
Revenue		83 000	(1) of AO1																																																																																			
Cost or sales:																																																																																						
Opening inventory	10 920		(1) AO2																																																																																			
Purchases	<u>40 350</u>																																																																																					
	51 270																																																																																					
Closing inventory	<u>(9 350)</u>																																																																																					
		(41 920)	(1 of +w) AO2																																																																																			
Gross profit		41 080																																																																																				
Other income																																																																																						
Commission receivable (5 000+600)		<u>5 600</u>	(1) AO3																																																																																			
		46 680																																																																																				
Less																																																																																						
Wages (9 000 + 10 350)	19 350		(1) AO2																																																																																			
General expenses (8 630 – 450 – 920)	7 260		(2) AO2																																																																																			
Depreciation	<u>9 600</u>		(1 of) AO1																																																																																			
		(36 210)																																																																																				
Profit for the year		<u>10 470</u>	(1 of) AO2																																																																																			
Note: General expenses	8 180		(1) or 7 710 (1)																																																																																			
	8 160		(1) 9 100 (1)																																																																																			

Question Number	Indicative content	Mark
6(d)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for</p> <ul style="list-style-type: none"> • Details of individual accounts will be available • Financial statements can be prepared to ascertain profit on a regular basis • Easier to make decisions because financial information is readily available • 3rd parties such as banks can rely on the information and grant loans. <p>Potential negative points</p> <ul style="list-style-type: none"> • Skill required to complete the books of accounts • Cost implications of employing a specialist. Time required by the owner. <p>Decision</p> <p>Candidates may conclude that it is wise or unwise to maintain double entry records. The decision should be supported by reasoned arguments.</p>	(6)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.