Pearson Edexcel
International Advanced Level

Accounting (Modular Syllabus)
Unit 1: The Accounting System and Costing

Tuesday 12 May 2015 – Morning
Source Booklet

Paper Reference
WAC01/01

Do not return the insert with the question paper.

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PEARSON

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1 The following trial balance was extracted from the books of Tolbury Golf Club at 30 April 2015:

		Dr £	Cr £
Revenue:	Restaurant Sales		175 000
	Subscriptions		225 000
Interest receivable			4 200
Donations			12 000
Restaurant inventory 1 May 2014		7 000	
Purchases of supplies for restaurant		57 500	
Wages:	Restaurant	35 000	
	General	96 000	
Salaries:	Restaurant	27 500	
	General	64 000	
Electricity:	Restaurant	8 500	
	General	19 200	
Insurance		5 750	
Golf course maintenance		64 850	
Bad debts:	Subscriptions	11 000	
Provision for doubtful debts on subscriptions			2 500
Clubhouse (at cost)		280 000	
Equipment (at cost)		200 000	
Fixtures and fittings (at cost)		100 000	
Provisions for depreciation:			
	Clubhouse		84 000
	Equipment		120 000
	Fixtures and fittings		50 000
Trade receivables		1 450	
Trade payables			21 250
Bank savings account		90 000	
Cash and bank		26 200	
Accumulated fund			400 000
		1 093 950	1 093 950

Additional information at 30 April 2015:

1. Restaurant inventory £6 500.
2. Insurance prepaid £2 500.
3. Interest receivable owing £1 200.
4. Subscriptions: paid in advance £16 500: in arrears £27 500.
5. Depreciation is charged as follows:
   Clubhouse at the rate of 2% per annum straight line
   Equipment at the rate of 20% per annum reducing balance
   Fixtures and fittings at the rate of 10% per annum straight line.
6. One quarter of the depreciation on equipment and half of the depreciation on fixtures and fittings are to be charged to the restaurant.
7. The provision for doubtful debts on subscriptions is to be increased to £3 000.

Required:

(a) Prepare the:

(i) Restaurant Trading Account for the year ended 30 April 2015
(10)

(ii) Income and Expenditure Account for the year ended 30 April 2015
(18)

(iii) Statement of Financial Position at 30 April 2015.
(16)

(b) Evaluate the usefulness of a provision for doubtful debts on subscriptions.
(8)

(Total for Question 1 = 52 marks)

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

Section A

1(a)(i)

Tolbury Golf Club
Restaurant Trading Account for the year ended 30 April 2015

		£	£	
Revenue			175 000	√
Less				
Inventory 1 May 2014		7 000		√
Purchases		57 500		√
		64 500		
Inventory 30 April 2015		(6 500)		√
Cost of sales			(58 000) √ + w	
Gross profit			117 000	
Less Wages		35 000		√
Salary		27 500	√	
Electricity		8 500		√
Depreciation-	Equipment	4 000		√
	Fixtures and fittings	5 000		√
			(80 000)	
Restaurant profit for the year			37 000	

(10)

(ii)

Income and Expenditure Account for the year ended 30 April 2015

			£	£	
Income					
Subscriptions	225 000 -16 500 √ +27 500 √			236 000	Ignore
Restaurant profit			37 000		√of aliens
Interest receivable	4 200 √ + 1 200 √			5 400	
Donations				12 000	√√
				290 400	
Less expenditure:					
Wages			96 000		√
Salaries			64 000		√
Electricity			19 200		√
Insurance	5 750 – 2 500		3 250		√
Golf course maintenance		64 850		√	
Bad debts – subscriptions		11 000		√	
Increase in PDD on subscriptions		500		√	
Depreciation:	Clubhouse		5 600		√
	Equipment		12 000		√
Fixtures and fittings			5 000		√
				(281 400)	
Surplus				9 000	√of + w (18)

(iii)

Statement of Financial Position at 30 April 2015

Non-current assets		Cost	Depreciation to Date	Carry over value	
		£	£	£	
Clubhouse		280 000	89 600	190 400	√of
Equipment		200 000	136 000	64 000	√of
Fixtures and fittings		100 000	60 000	40 000	√of
		580 000	285 600	294 400	
Current assets					
Inventory			6 500		√
Trade receivables		1 450		√	
Other receivables:					
Subscriptions in arrears	27 500				√
Less PDD	(3 000)				√
			24 500		√
Insurance prepaid			2 500		√
Interest receivable			1 200		√
Investment on deposit/Bank savings			90 000		√
Cash and bank			26 200		√
				152 350	
				446 750	
Accumulated fund				400 000	√ +w
Plus surplus for the year				9 000	√of
				409 000	
Current liabilities					
Trade payables			21 250		√
Subscriptions in advance		16 500		√	
				37 750	
				446 750	

(16)

(b)Valid answers may include

In favour

- Prudent to provide for bad debts/ Application of prudence concept
- Bad debts were incurred in current year
- Need to not overstate surplus
- Need to give correct value for subscriptions receivable.

Against

- The level of provision seems inadequate to the level of bad debts incurred
- Difficult to predict level of bad debts/ Bad debts are only estimated
- Easier just to write off descriptions when they occur
- Reduce subscriptions affecting income/surplus in current year.

NOT

- A DESCRIPTION OF A PROVISION FOR DOUBTFUL DEBTS
- More time consuming/Costly/ Need expertise
- Reputation affected
- Money measurement concept.

√√ per point (Max two points in favour and two points against) (8)

(Total 52 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 2

2 Andreas extracted a trial balance on the 31 March 2015 which failed to agree. He then prepared a Draft Statement of Comprehensive Income. After preparation of the Draft Statement of Comprehensive Income the following balances remained in the books:

	Dr	Cr
	£	£
Profit for the year		9 680
Wages accrued		500
Heat and light accrued		590
General expenses prepaid	750	
Computer maintenance accrued		350
Provision for doubtful debts		2 300
Non-current assets (at cost):		
Leasehold on buildings	100 000	
Computers	24 000	
Fixtures and fittings	12 500	
Provisions for depreciation:		
Leasehold on buildings		50 000
Computers		14 000
Fixtures and fittings		10 000
Trade receivables	31 800	
Trade payables		27 500
Inventory 31 March 2015	16 100	
Cash and bank	1 990	
Capital		75 000
Suspense	2 780	
	189 920	189 920

On inspection of the books, Andreas found the following errors:

1. Wages of £1 250 had been entered correctly in the Wages Account, but had been recorded in the Bank as £2 150.
2. Discount allowed £940 had been credited to the Discount Allowed Account.
3. The Leasehold on buildings is a 25 year lease, no depreciation had been charged in the Statement of Comprehensive Income.
4. A new computer costing £1 600 had been posted to the Computers Maintenance Account. Depreciation of 25% of cost per annum had **not** been charged in the Statement of Comprehensive Income.
5. A cheque receipt of £480 from a debtor, Fung, had been omitted from the books.

Required:

(a) Prepare the:

(i) Journal entries to correct the errors (1) to (5). Narratives are **not** required

(12)

(ii) Suspense Account after the correction of the errors (1) to (5).

(4)

(b) Calculate the profit for the year after the correction of all errors.

(10)

(c) Prepare the Statement of Financial Position at 31 March 2015, after the correction of all errors.

(18)

(d) Evaluate the usefulness of draft financial statements, before the correction of errors.

(8)

(Total for Question 2 = 52 marks)

Answer space for question 2 is on pages 8 to 14 of the question paper.

2
(a)(i)

Journal

	Dr		Cr	
	£		£	
Bank	900			√
Suspense			900	√
Discount allowed	1 880			√
Suspense			1 880	√
Income statement/Depreciation	4 000			√
Provision for depreciation – leasehold		4 000	√	
Computers	1 600			√
Computer maintenance			1 600	√
Income statement/Depreciation	400			√
Provision for depreciation-Computers		400	√	
Bank	480			√
Fung			480	√

(12)

(ii)

Suspense Account

	£		£
Balance b/d	2 780	Bank √	900 √
		Discount allowed√	1 880 √
	2 780		2 780

(4)

(b)

Correction of profit for the year ended 31 March 2015

		£		£	
Draft profit for the year				9 680	
Add					
Computer				1 600	√√
				11 280	
Less					
Discount allowed	1 880			√√	
Leasehold depreciation		4 000			√√
Computer depreciation		400			√√
				6 280	
Revised profit for the year			5 000	√√(√of)	

NOTE: A calculation is required so narratives are not required.

(10)

(c)

Statement of Financial Position at 31 March 2015

Non-current Assets	Cost	Accumulated depreciation	Carry over	
	£	£	£	
Leasehold buildings	100 000	54 000 √	46 000	
Computers	25 600 √	14 400 √	11 200	
Fixtures and fittings	12 500	10 000	2 500	√
	138 100	78 400	59 700	
Current Assets				
Inventory		16 100		√
Trade receivables 31 800 √– 480 √ = 31 320				
Less PDD	(2 300)√	29 020		√
Other receivables:				
General expenses		750		√
Cash and bank 1 990 √+ 480 √ + 900 √		3 370		
			49 240	
			108 940	
Capital and equity:				
Capital		75 000 cf		
Plus Profit for the year		5 000 of		
			80 000 √of	
Current Liabilities				
Trade payables		27 500		√
Other payables:				
Wages		500		√
Heat and light		590		√*1 440 √√√
Computer maintenance		350		√
			28 940	
			108 940	

(18)

(d) Valid answers may include

In favour

- Gives a good idea of the level of profit for the year
- Draft profit can then be refined as errors are discovered
- Enables swift preparation of the financial statements

Against

- The profit for the year is inaccurate
- Financial accounts cannot be 'signed off' until the errors are found
- Time consuming as work has to be completed more than once/ Costly.

NOT

- ANYTHING TO DO WITH ERRORS/ Types/ Descriptions/Effect of/ Does not locate
- Help provide a true and fair view
- Identifies arithmetical errors
- Checking device

√√ per point (Max two points in favour and two points against) (8)

(Total 52 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 3

3 Nural is considering buying a restaurant. He has found two restaurants that are for sale, each at a purchase price of £100 000. Nural has sufficient funds available to purchase one of the restaurants. The two restaurants are the:

1. Garden Restaurant – Opened nine years ago, the Restaurant is in an area of the Town Centre which has many other competing restaurants

2. New Restaurant – Opened one year ago, the Restaurant is in a residential area on the outskirts of the Town.

The following summarised information is available:

Statements of Comprehensive Income for the year ended 31 March 2015

	Garden Restaurant	New Restaurant
	£	£
Revenue	270 000	140 000
Cost of sales	(108 000)	(70 000)
Gross profit	162 000	70 000
Wages	(80 000)	(17 000)
General expenses	(50 000)	(30 000)
Depreciation - Lease	(25 000)	-
Depreciation - Fixtures and fittings	(1 000)	(1 000)
Profit for the year	6 000	22 000

Statements of Financial Position at 31 March 2015

	Garden Restaurant	New Restaurant
	£	£
Non-current Assets (carry over value)		
Leasehold on premises	25 000	-
Freehold premises	-	60 000
Fixtures and fittings	1 000	10 000
	26 000	70 000
Current Assets		
Inventory	12 000	4 000
Trade receivables	8 000	5 000
Cash and bank	2 000	6 000
	48 000	85 000
	£	£
Capital at 1 April 2014	47 000	73 000
Profit for the year	6 000	22 000
	53 000	95 000
Drawings	(20 000)	(15 000)
	33 000	80 000
Current Liabilities		
Trade payables	15 000	5 000
	48 000	85 000

Additional information:

1. All purchases are on credit, and for the year ended 31 March 2015 these were:
   - Garden Restaurant £110 000
   - New Restaurant £70 000.

Required:

(a) Calculate for the Garden Restaurant **and** for the New Restaurant the following :
(i) gross profit as a percentage of revenue
(ii) return on capital employed percentage (using the closing capital)
(iii) current ratio
(iv) trade payables payment period (in days)
(v) non-current assets to revenue ratio
(vi) value of the goodwill included in the purchase price of £100 000.

(24)

(b) Suggest **two** possible reasons for the differences between the ratios for the Garden Restaurant and for the New Restaurant under each of the following headings:
(i) Profitability
(ii) Liquidity
(iii) Use of assets.

(12)

(c) Explain the importance to Nural of calculating the non-current assets to revenue ratio.

(4)

(d) Suggest **four** non-financial factors that Nural should consider before making a decision to purchase either the Garden Restaurant or the New Restaurant.

(4)

(e) Evaluate which restaurant, if any, Nural should purchase.

(8)

(Total for Question 3 = 52 marks)

Answer space for question 3 is on pages 15 to 20 of the question paper.

3(a)

Ratio	Garden Restaurant	New Restaurant
(i) gross profit as a percentage of revenue	162 000 / 270 000 x 100 = 60% √√	70 000 / 140 000 √ x 100=50% √√
(ii) return on capital employed percentage (based on the closing capital)	6 000 / 33 000 x 100 = 18.2% √√	22 000 / 80 000 x 100 = 27.5% √√
(iii) current ratio	22 000 / 15 000 = 1.5:1 √√	15 000 / 5 000 = 3:1 √√
(iv)trade payables payment period (in days)	15 000 / 110000/365 =50 days √√	5 000 / 70 000/365 =26 days √√
(v) non-current assets to revenue ratio	270 000 / 26 000 = 10:1 √√ Or 26 000 / 270 000 = 0.096:1	140 000 / 70 000 = 2:1 √√ Or 70 000 / 140 000 = 0.5:1
(vi) value of the goodwill included in the purchase price.	100 000 – 33 000=67 000√√	100 000 – 80 000=20 000 √√

(24)

NOTE:

- Award √√ if correct answer, percentage sign is not required in (i) (ii) or days in (iv)
- For √√ in (iii) and (v) must be :1, the correct figure without this is only worth √
- √ can be awarded if one figure is correct and an answer has been derived in (i) to (v)
- In (vi) it must be correct for the marks.

(b)

	Garden Restaurant	New Restaurant
Profitability	1. Possible higher prices 2. Higher costs reduced ROCE 3. Lower capital base 4. Lower profit 5. Wages very high 6. Fixed costs are higher √√ x MAX 2 points	Possible better raw materials use Costs under control Higher capital base Higher profit
Liquidity	1. High inventory 2. Taking a long time to pay trade payables 3. Low cash balance √√ x MAX 2 points	Low inventory Trade payables paid on time High cash balance
Use of assets	1. Revenue level is much higher 2. Low premises value 3. Leasehold one year to run 4. Current assets are efficiently used. Ratio close to the 'yardstick' figure. √√ x MAX 2 points	Revenue level is much lower High premises value Freehold premises Current assets not efficiently used. Idle funds.

(12)

(c) Calculates how many pounds of revenue sales are generated for each pound of non-current assets. √√ A large proportion of the owners capital can be invested in non-current assets, therefore it is important to calculate the return on each pound invested. √√

(4)

(d) Valid answers may include:

- Location of restaurant
- Skill of the staff
- Size of the local market
- Competition in the area
- Nural's knowledge of the restaurant trade
- Condition of the restaurant fabric
- Reputation of the restaurant
- Good products

√ per point x 4 points

(4)

(e) Valid answers may include financial and non-financial factors:

Points in favour:	
Garden Restaurant	**New Restaurant**
• High gross profit to revenue percentage	• High ROCE
• High revenue /NCA ratio	• Trade payables paid on time
• Long established business	• Much lower goodwill payment
• In town centre so potentially more business	• Will own freehold premises
• Higher turnover/Revenue/More customers	• Makes a higher net profit
	• High level of liquidity
	• More cash in the bank
Points against:	
• Lower ROCE/ high costs	• Lower gross profit to revenue percentage
• Long trade payables payment period	• Low revenue/NCA ratio
• High goodwill payment	• New business
• Leasehold only for one further year	

√√ per point (Max two points in favour and two points against) (8)

(Total 52 marks)

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4 The following balances were extracted from the books of Promita for the month of February 2015:

Opening balances on 1 February

Sales ledger control account	£32 500	Dr
	£950	Cr
Provision for doubtful debts	£1 300	

Additional information for the month of February 2015:

1. Totals for the month of February

	£
Sales day book	66 580
Cash sales	3 000
Sales returns day book	2 060
Cheques from trade receivables	55 900
Dishonoured cheque	3 360
Refund to trade receivable by cheque	190
Discount allowed	1 620
Bad debt written off	900

2. There was no credit balance on the Sales Ledger Control Account at 28 February 2015.
3. The bad debt written-off in February related to the debt of Chumi, who was only able to pay £600 of his debt. The balance was irrecoverable.
4. The provision for doubtful debts is to be maintained at 4% of trade receivables at 28 February 2015.

Required:

(a) Distinguish between bad debts and a provision for doubtful debts.

(4)

(b) Suggest **two** possible reasons for the opening credit balance on the Sales Ledger Control Account at 1 February 2015.

(2)

(c) Prepare the:

(i) Sales Ledger Control Account for the month of February 2015

(10)

(ii) journal entry recording the writing off of the bad debt of Chumi

(6)

(iii) Provision for Doubtful Debts Account for the month of February 2015.

(6)

(d) Evaluate the use of control accounts.

(4)

(Total for Question 4 = 32 marks)

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

Section B

4 (a) Bad debts – Actual bad debts from the last accounting period. √√

Provision for doubtful debts- An estimate of the amount that Promita will lose in the next financial period because of bad debts. √√

(4)

(b) Possible reasons:

- Overpayment by debtor
- Prepayment by debtor
- Goods returned after payment
- Error in posting

√ per point x 2 (2)

(c)(i)

Sales Ledger Control Account

		£			£
1 Feb	Balance b/d	32 500	1 Feb	Balance b/d	950 √ both
Feb	Sales	66 580 √	Feb	Sales returns	2 060 √
	Bank (dishonoured cheque)	3 360 √		Bank	55 900 √
				Discount allowed	1 620 √
	Bank (refund)	190 √		Bad debt	900 √
				Balance c/d	41 200 √
		102 630			102 630
1 Mar	Balance b/d	41 200 √of if Dr balance			

Narratives must be present but accept reasonable narratives
Ignore aliens

(10)

(ii)

Journal

	Dr	Cr
	£	£
Bank √	600 √	
Bad debts	900 √	
Chumi √		1 500 √

Bad debt: Chumi paid £600 of his debt of £1 500. √

(6)

(iii)

Provision for Doubtful Debts Account

		£			£
28 Feb	Balance c/d	1 648 √of	1 Feb	Balance b/d	1 300 √
			28 Feb	Income statement √	348 √√(√of)
		1 648			1 648
			1 Mar	Balance b/d	1 648 √of if Cr

(6)

(d)
Valid answers may include
In favour

- Checks accuracy of ledger
- Minimise fraud
- Help to locate errors
- Provide summary totals to speed up preparation of the financial statements

Against

- Do not pinpoint errors or correct errors
- Require accounting expertise
- Not all errors can be revealed by control accounts.

√√ per point (Max one point in favour and one point against) (4)

(Total 32 marks)

5 (a)

Date	Receipts	Issues	Balance	
1 March			600@ £1.20	√√
3 March	1 800 @ £1.30		600 @ £1.20 1 800 @ £1.30	√√
5 March		1 800 @ £1.30 200 @ £1.20	400 @ £1.20	√√
17 March	1 500 @ £1.50		400 @ £1.20 1 500 @ £1.50	√√
20 March		1 000 @ £1.50	400 @ £1.20 500 @ £1.50 = £1 230	√√

(10)

(b)

Manufacturing Account for the month of March 2015

		Metres		£	
Inventory of raw material 1 March 2015		600		720	√√
Purchases of raw material	3 300		4 590	√√	
		3 900		5 310	
Inventory of raw material 1 March 2015		900		1 230	√√of
Cost of raw materials consumed		3 000		4 080	
Factory wages 200 paid hours x £4 per hour x 12			9 600	√√	
Direct expenses 3 800 x 40%				1 520	√√
Prime cost √				15 200	√of

(12)

SOURCE MATERIAL FOR USE WITH QUESTION 5

5 Khin manufactures bicycle frames from metal tubing. The following information relates to the month of March 2015:

1. Each bicycle frame requires 3 metres of metal tubing.
2. The inventory of metal tubing at 1 March 2015 was 600 metres costing £1.20 per metre.
3. Receipts of metal tubing for March:

3 March	1 800 metres @ £1.30 per metre
17 March	1 500 metres @ £1.50 per metre

4. Issues of metal tubing to production for March:

5 March	2 000 metres
20 March	1 000 metres

5. Khin uses the perpetual inventory Last In First Out (L.I.F.O) method of valuation.
6. 5% of the total raw material issued to production in March was wasted.
7. The production line has 12 employees. Each employee worked 185 hours in March. Employees worked:
   - 160 hours at standard time of £4 per hour
   - 20 hours at time and a half
   - 5 hours at double time.
8. Expenses for March were £3 800 of which 40% were direct and 60% were indirect.
9. There was no work in progress at the beginning or end of the month.

Required:

(a) Calculate the value of the closing inventory of metal tubing at 31 March 2015.
(10)

(b) Prepare the Prime Cost section of the Manufacturing Account for the month ending 31 March 2015.
(12)

(c) Calculate for March 2015, the:

(i) number of bicycle frames manufactured
(3)

(ii) prime cost per bicycle frame manufactured.
(3)

(d) Evaluate the use of Last In First Out (L.I.F.O) as a method of valuing inventory.
(4)

(Total for Question 5 = 32 marks)

Answer space for question 5 is on pages 25 to 29 of the question paper.

(d)
Valid answers may include
In favour

- Checks accuracy of ledger
- Minimise fraud
- Help to locate errors
- Provide summary totals to speed up preparation of the financial statements

Against

- Do not pinpoint errors or correct errors
- Require accounting expertise
- Not all errors can be revealed by control accounts.

√√ per point (Max one point in favour and one point against) (4)

(Total 32 marks)

5 (a)

Date	Receipts	Issues	Balance	
1 March			600@ £1.20	√√
3 March	1 800 @ £1.30		600 @ £1.20 1 800 @ £1.30	√√
5 March		1 800 @ £1.30 200 @ £1.20	400 @ £1.20	√√
17 March	1 500 @ £1.50		400 @ £1.20 1 500 @ £1.50	√√
20 March		1 000 @ £1.50	400 @ £1.20 500 @ £1.50 = £1 230	√√

(10)

(b)

Manufacturing Account for the month of March 2015

		Metres		£	
Inventory of raw material 1 March 2015		600		720	√√
Purchases of raw material	3 300		4 590 √√		
		3 900		5 310	
Inventory of raw material 1 March 2015		900		1 230	√√of
Cost of raw materials consumed		3 000		4 080	
Factory wages 200 paid hours x £4 per hour x 12			9 600 √√		
Direct expenses 3 800 x 40%				1 520	√√
Prime cost √				15 200	√of

(12)

NOTE: Marks awarded for £ not metres.

(c) 3 000 metres consumed – 5% = $\frac{\text{2 850 metres } \surd}{\text{3 metres } \surd}$ = 950 frames √of (3)

$\frac{\text{Prime cost}}{\text{Frames produced}} = \frac{\text{£15 200 } \surd\text{of}}{\text{950 frames } \surd\text{of}}$ = £16 per frame √of

(3)

(d) Valid answers may include

In favour

- Raw materials are issued to production at current market value
- Selling/issue price will reflect current raw material cost.

Against

- Not accepted by IAS or tax authorities
- Value of closing inventory low compared to market value
- Gives a lower profit.

√√ per point (Max one point in favour and one point against) (4)

(Total 32 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 6

6 Poon and Quan are in partnership sharing profits and losses in the ratio 2:1. The following is their summary Statement of Financial Position at 28 February 2015:

	£
Non-current Assets (book value)	
Motor vehicles	25 000
Fixtures and fittings	9 000
	34 000
Current Assets	
Inventory	36 000
Trade receivables	46 000
Bank	2 000
	118 000
Capital:	
Poon	60 000
Quan	40 000
Current Liabilities	
Trade payables	18 000
	118 000

On 28 February 2015 Poon retired from the business and Quan continued in business as a sole trader. The following was agreed:

- Goodwill was valued at £60 000, and this would remain in the books of Quan
- Poon would take one of the motor vehicles at the book value of £10 000
- Inventory was re-valued at £30 000
- All other assets and liabilities were transferred at book value
- Poon would leave £50 000 in the business as a loan for 5 years. The balance owing to him would be paid by cheque.

On 1 March 2015 Quan obtained a £30 000 8% business bank loan.

Required:

(a) Where there is no partnership agreement, state how the following would be treated:
(i) Partners' salaries
(ii) Partners' loans
(iii) Share of profits or losses
(vi) Interest on drawings

(4)

(b) Prepare the:

(i) Capital Accounts of Poon and Quan

(8)

(ii) Bank Account

(5)

(iii) Quan's opening Statement of Financial Position at 1 March 2015.

(11)

(c) Evaluate the decision of Quan to keep goodwill in his books.

(4)

(Total for Question 6 = 32 marks)

Answer space for question 6 is on pages 30 to 34 of the question paper.

6 (a)

(i) No salaries √

(ii) 5% interest on loans over and above the capital √

(iii) Equal shares √

(iv) No interest on drawings √

(4)

(b)

(i)

Capital Accounts

	Poon	Quan		Poon	Quan
	£	£		£	£
Motor vehicle	10 000 √		Balance	60 000	40 000
Inventory revaluation	4 000 √	2 000√	Goodwill	40 000√	20 000 √
Loan to Quan	50 000 √				
Bank	36 000 √of				
Balance c/d		58 000			
	100 000	60 000		100 000	60 000
			Balance b/d		58 000 √of if Cr

NOTE: Poon bank settlement figure only of if no balance carried down

(8)

(ii)

Bank Account

	£		£
Balance b/d	2 000 √	Poon	36 000 √√(√of)
8% Bank loan	30 000 √		
Balance c/d	4 000		
	36 000		36 000
		Balance b/d	4 000 √of

(5)

(iii)

Quan - Statement of Financial Position at 1 March 2015

		£	
Non-current Assets			
Goodwill		60 000	√
Motor vehicles		15 000	√
Fixtures and fittings		9 000	√
		84 000	
Current Assets			
Inventory		30 000	√
Trade receivables	46 000 √		
		160 000	
Capital:			
Quan		58 000	√√(√of)
Current Liabilities			
Trade payables		18 000	√
Bank overdraft		4 000	√of
Non-current Liabilities			
Loan – Poon		50 000	√
8% Bank loan		30 000	√
		160 000	

(11)

(c)
Valid answers may include
In favour

- Shows all assets at valuation
- Should be included when selling the business.

Against

- Not prudent to record goodwill
- Intangible, difficult to value.

√√ per point (Max one point in favour and one point against) (4)

(Total 32 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 7

7 There was a fire at the business premises of Lucia on 20 April 2015. Lucia did not keep full accounting records, but is able to provide the following information:

- Balances at 1 April 2015:

Inventory at cost	£25 000
Trade receivables	£18 000
Trade payables	£15 500

- Transactions between 1 April and 20 April 2015:

Receipts from trade receivables	£138 000
Payments to trade payables	£69 000
Cash purchases	£25 800

- Balances at 20 April 2015:

Remaining inventory at cost	£14 300
Trade receivables	£20 000
Trade payables	£16 700

- Lucia uses a 'mark-up' of 40%.

Required:

(a) Explain the:

(i) accounting term **net realisable value**.

(4)

(ii) effect on the financial statements if the closing inventory is overvalued.

(4)

(b) Calculate the:

(i) purchases for the period 1 April to 20 April 2015.

(5)

(ii) revenue for the period 1 April to 20 April 2015.

(4)

(c) Prepare the trading account for the period 1 April to 20 April 2015 showing the value of the inventory remaining and the value of the inventory destroyed.

(11)

"It would be more appropriate for Lucia to record the inventory at market value in her books."

(d) Evaluate this statement.

(4)

(Total for Question 7 = 32 marks)

Answer space for question 7 is on pages 35 to 38 of the question paper.

7 (a)(i) Net realisable value – Estimated receipts from the sale of the inventory, √√ less any costs of completing the goods or costs of selling the goods.√√
(4)

(ii) If inventory was overvalued, due to damage, this would result in profit to be over stated for a period √√ and asset/current assets overvalued in the financial statements. √√ (4)

(b)(i) Purchases 69 000 √+ 25 800√– 15 500 √+ 16 700√ = 96 000 √ (5)

(ii) Revenue 138 000√ + 20 000√ – 18 000 √= 140 000 √ (4)

(c)

		£	£	
Revenue			140 000	√ (of)
Less				
Inventory 1 April	25 000 √			
Purchases		96 000 √ (of)		
		121 000		
Inventory 20 April:				
Remaining		(14 300)		√√
Destroyed		(6 700)		√√of If inventory combined √√of
Cost of sales			(100 000)	√√of
Gross profit			40 000	√√
			140 000	

(11)

(d) Valid answers may include
In favour

- Inventory would be recorded in the business at a single value
- If lower or the same then cost would be market value
- Makes the inventory up to date with market/replacement values

Against

- Would not comply with realisation/prudence/historic cost concepts
- Profit over stated
- Inventory overvalued
- Market value is a question of judgement

√√ per point (Max one point in favour and one point against) (4)

(Total 32 marks)