2 Holborn Products manufactures parts for the motor industry. The following balances were extracted from the books on 30 April 2016.

	£
Inventories at 1 May 2015:	
Raw material	23 400
Work in progress	52 000
Finished goods	72 000
Purchases of raw materials	97 800
Carriage inwards	8 450
Manufacturing wages	81 400
Production management salaries	59 500
Non-current assets:	
Manufacturing equipment	
Cost	280 000
Provision for depreciation	160 000
Computing equipment	
Cost	150 000
Provision for depreciation	90 000
Computing technician wages	40 000
Factory consumables	45 200
Rent and rates	16 000
Electricity and water charges	15 600
General expenses	21 000
Property maintenance expenses	11 000
Provision for unrealised profit	12 000

Additional information at 30 April 2016

(1) Inventories:

Raw materials	£16 950
Work in progress	£58 000
Finished goods	£90 000

(2) Manufacturing wages of £2 600 were owing.

(3) All of the costs of computing are charged 60% to manufacturing and 40% to administration.

(4) Depreciation is charged on all non-current assets using the reducing balance method:

(i) manufacturing equipment at the rate of 20% per annum

(ii) computing equipment at the rate of 30% per annum.

(5) Factory consumables of £35 300 are direct.

(6) Half of the general expenses relate to manufacturing.

(7) Property maintenance expenses of £1 800 are owing.

(8) Rent and rates, electricity and water, property maintenance expenses are allocated 75% to manufacturing and 25% to administration.

(9) Production is transferred to finished goods at cost plus 20%.

Required

(a) Prepare, for the year ended 30 April 2016, the:

(i) Manufacturing Account

(21)

(ii) Provision for Unrealised Profit on Manufactured Goods Account

(5)

(iii) Manufacturing Wages Account.

(5)

The owner of Holborn Products is proposing changes to the way in which financial statements are prepared. There are four proposals.

Proposal 1
Include a sum for the skill of the workforce as a non-current asset in the Statement of Financial Position.

Proposal 2
Charge the full cost price of non-current assets to the year in which they are purchased.

Proposal 3
No longer provide for unrealised profit by removing the provision for unrealised profit on manufactured goods from the accounts.

Proposal 4
Charge the drawings of the owner to the Statement of Profit or Loss and Other Comprehensive Income.

(b) State, giving reasons for your answer, an accounting principle or concept that would **not** be complied with if **each** of the proposals 1, 2, 3 and 4 were introduced.

(12)

(c) Evaluate the use of International Accounting Standards (IAS) in the preparation of financial statements.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Question Number	Indicative content
4 (a)	**AO1 (1), AO2 (2), AO3 (1)** **A01: One mark for identifying that depreciation relates to age and usage.** **A02: Two marks for explaining the impact upon the income for the period and non-current asset values in the financial position statement.** **A03: One mark for linking the need for depreciation to the application of accounting concepts.** • Non-current assets generally **fall in value** with age and usage (1)AO1 • The depreciation is a **cost / expense of a period of time** and therefore should be charged against income for that period/**profits should not be overstated** (1)AO2 • Because the non-current assets are generally falling in value this should be **reflected in the financial position statement** (1)AO2 • Charging depreciation complies with the **going concern**(1)AO3 • Charging depreciation complies with the **accruals concepts**. (1)AO3 Max 4 **Not** Prudence concept

Question Number	Indicative content
4 (b)	**AO2 (2)** **A02: One mark for calculating the depreciation on existing non-current assets and additions. One mark for calculating the depreciation on disposals.** Cost 30 April 2015 £30 000 + Additions £10 000 = £40 000 - Disposals £5 000 = £35 000 x 20% = £7000 (1)AO2 + Disposals £5 000 x 20%/2 £500 (1)AO2 = Total £7 500

Question Number	Indicative content
4 (c)	**AO1 (4), AO2 (4), AO3 (2)** **A01: Four marks for correctly recording the opening balances and bringing down the balances to the next period.** **A02: Four marks for correctly recording the transactions for the year.** **A03: Two marks for calculating the disposal sums and correctly recording in the accounts.**

Computer Account

		£			£
2015			2015		
1 May	Balance b/d	30 000 (1)AO1		Disposal	5 000 (1)AO3
			2016		
	Bank/cash	10 000 (1)AO2	30 April	Balance c/d	35 000 (1)AO2
		40 000			40 000
2016					
1 May	Balance b/d	35 000 (1of)AO1			

Computer- Provision for Depreciation Account

		£			£
2015			2015		
	Disposal(1)AO2	2 500 (1)AO3	1 May	Balance b/d	9 200 (1)AO1
2016			2016		
30 April	Balance c/d	14 200	30 April	Income statement	7 500(1of)AO2
		16 700			16 700
			1 May	Balance b/d	14 200 (1of)AO1

Question Number	Indicative content
4(d)	**AO1(4), AO2 (4)** **A01: Four marks for correctly recording or totalling figures in the statement.** **A02: Four marks for calculating and applying the correct figures to the statement.**

Extract
Non-current assets

	Cost		Accumulated depreciation		Carrying over
	£		£		£
Land & buildings	105 000 (1)AO2	-	9 400 (1)AO2	=	95 600
Computers	35 000 (1)AO2	-	14 200(1of)AO1	=	20 800
Fixtures & fittings	11 000 (1)AO1	-	5 400 (1)AO2	=	5 600
	151 000 (1of)AO1		29 000		122 000 (1of)AO1

Question Number	Indicative content
4(e)	**AO2 (1), AO3 (2), AO4 (3)** **A02: One mark for applying positive or negative aspects of Jabir's depreciation policy, drawing out key points.** **A03: Two marks for interpreting and analysing possible solutions to depreciating computers, using a developed chain of reasoning.** **A04: Three marks for evaluating the scenario counterbalancing the arguments giving weight to a range of financial and non-financial aspects to arrive at a logical conclusion.** Potential positive arguments for the business • Depreciation is being charged and therefore the accounting concepts are being complied with. • The method will reflect the principle of **equal usage equal charge** for each year. • Does not distort profits. Potential negative points for the business • Computers depreciate quickly due to obsolescence and therefore 20% is a fairly low figure for the early years. • In the early years the computer value in the financial position statement will be overstated. • A full year's depreciation in the year of purchase would result in high depreciation for non-current assets bought late in the year. **Not** Easier to calculate Consistent method

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.