MyStudyBro - Revision Exercise Tool

This Revision Handout includes the Questions and Answers of a total of 4 exercises!

Chapters:

Concepts and Covenventions - Unit 1 (Pearson Edexcel)

SOURCE MATERIAL FOR USE WITH QUESTION 6

6 Cade is in business buying and selling goods on credit.

His draft profit for the year ended 31 December 2015 had been calculated at £37 000 before taking the following in to account:

(1) No adjustment had been made for prepaid expenses, £1 360, and expenses owing, £2 100, at the end of the year.

(2) In previous years motor vehicles had been depreciated at the rate of 20% per annum using the reducing balance method. At 31 December 2015, motor vehicles had a carry-over (net book value) of £30 000 **before** applying this method. The method of depreciation that had been charged this year was the revaluation method. The motor vehicles had a revaluation of £28 000.

(3) The provision for doubtful debts balance of £3 800, had not been adjusted. Cade should maintain the provision for doubtful debts at 5% of his £68 000 trade receivables.

(4) The Statement of Comprehensive Income had been credited with £5 000 representing the increased skills of the staff.

(5) The closing inventory had been included in the financial statements at selling price of £24 000. Cade uses a 50% mark up on cost.

(6) Cade had included his drawings of £3 200 as an expense in the Statement of Comprehensive Income.

Required:

(a) Name the accounting concept or convention which has not been complied with in each of (1) to (6) above.

(12)

(b) Calculate the revised profit for the year following the correction of (1) to (6) above.

(16)

(c) Evaluate the use of accounting concepts or conventions.

(4)

(Total for Question 6 = 32 marks)

Answer space for question 6 is on pages 31 to 33 of the question paper.

6(a)(1) Accrual/Matching √√
(2) Consistency √√
(3) Prudence √√
(4) Money measurement √√
(5) Historic cost √√
(6) Business entity √√

(12)

(b)

		£	£	
	Draft profit for the year	37 000		
	Plus Expenses	1360		√√
	PDD Decrease	400		√√
	Drawings	3 200		√√
			41 960	
Less	Expenses	2 100		√√
	Depreciation (2 000 – 6 000)	4 000		√√√ (√√ if added)
	Skill value	5 000		√√
	Inventory valuation	8 000		√√
			19 100	
Revised profit for the year			22 860	√of

Note: Expenses (2 100) – 1 360 = (740) √√√√

(16)

(c) Valid answers may include:

Arguments for

- Provides a framework for the preparation of accounts
- Prepared accounts can be relied upon
- Can compare financial statements.

Arguments against

- Concepts can be contradictory
- Require professional skill to apply.

√√ per valid point. Maximum **one** valid points for and **one** valid points against.

(4)

(Total: 32 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 7

7 The following summary financial statements were prepared by Biman for his business. Biman has limited accounting knowledge.

Biman

Statement of Comprehensive Income for the year ended 30 November 2014

	£	£
Revenue		115 000
Less cost of sales		(63 000)
Gross profit		52 000
Less		
General expenses	15 000	
Depreciation	9 000	(24 000)
Profit for the year		28 000

Statement of Financial Position at 30 November 2014

	£
Non-current Assets	
Premises	90 000
Equipment	27 000
Staff skill	15 000
	132 000
Current Assets	
Inventory	20 000
Trade receivables	18 000
Bank	11 000
	181 000
Equity and Capital	
Capital	95 000
Profit for the year	28 000
	123 000
Current Liabilities	
Trade payables	58 000
	181 000

Biman failed to apply the correct accounting principles and concepts to the following:

1. The revenue contains a sum of £6 000 for goods on credit, sale or return. On 30 November 2014 the customer had not returned the goods or stated his intention to buy them. Biman uses a 50% mark up on goods.
2. General expenses of £15 000 were paid by cheque. On 30 November 2014, there was £3 200 owing and £450 was prepaid.
3. When calculating the depreciation on equipment Biman changed the method of depreciation from 20% diminishing balance to 10% straight line. On 1 December 2013 the equipment was purchased new and cost £30 000.
4. Biman had increased his capital by valuing the skill of his staff at £15 000.
5. Premises costing £80 000 had been included in the financial statements at the market value of £90 000. The correct depreciation on premises was charged.
6. Biman had removed the provision for doubtful debts of £1 500 from the accounts.

Required:

(a) Name the accounting principle or concept that has **not** been correctly applied in each of (1) to (6) on page 12.

(12)

(b) Redraft the corrected financial statements of Biman for the year ended 30 November 2014, in order to comply with the accounting concepts that you have identified. You should show your workings.

(16)

(c) Evaluate the use of accounting principles and concepts.

(4)

(Total for Question 7 = 32 marks)

Answer space for question 7 is on pages 38 to 42 of the question paper.

7(a)

1. Realisation / Accrual
2. Accrual / matching
3. Consistency
4. Money measurement
5. Historic cost / cost
6. Prudence

√√ x each correct name (12)

(b)

Biman

Statement of Comprehensive Income for the year ended 30 November 2014.

		£	
Revenue	115 000 – 6 000	109 000	√
Less Cost of sales	63 000 – 4 000	(59 000)	√√
Gross profit		50 000	
Less			
General expenses	15 000 + 3 200 – 450	17 750	√
Depreciation -	9 000 + 3 000	12 000	√√
Provision for doubtful debts		1 500	√
		(31 250)	
Profit for the year		18 750	

Statement of Financial Position at 30 November 2014

		£	
Non-current Assets			
Premises		80 000	√
Equipment	30 000 – 6 000	24 000	√
Staff skill	15 000 – 15 000	0	√
		104 000	
Current Assets			
Inventory	20 000 + 4 000	24 000	√
Trade receivables	18 000 – 6 000 √ – 1 500 √	10 500	
Other incomes		450	√
Bank		11 000	
		149 950	
Equity and capital:			
Capital	95 000 – 15 000 – 10 000	70 000	√
Profit for the year		18 750	
		88 750	
Current liabilities			
Trade payables		58 000	
Other payables		3 200	√
		149 950	

(16)

(c)

Valid answers may include:

In favour

- Standardises approach / allows comparisons
- Reader can rely upon the information e.g. investors
- True and fair view of profit and valuing assets and liabilities
- Provides a framework to prepare financial statements.

Against

- Requires professional input
- Concepts can contradict each other
- Does not consider non-financial factors e.g. quality of management.

√√ x 2 points (MAX one point for and one point against) (4)

(Total 32 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 3

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

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

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

Additional information:

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

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

Required:

(a) Explain the following accounting concepts. For each concept give **one** example from the draft Statement of Comprehensive Income prepared by Xevena and from the additional information given, where the concept has **not** been correctly applied:

(i) Realisation
(3)

(ii) Accrual (matching)
(3)

(iii) Going concern.
(3)

(b) Redraft the corrected Statement of Comprehensive Income after taking into account the additional information given for the year ended 31 December 2012.
(14)

(c) Prepare the Purchases Ledger Control Account, calculating the trade payables balance at 31 December 2012.
(6)

(d) Prepare the Statement of Financial Position at 31 December 2012.
(15)

(e) Evaluate the use of accounting concepts when preparing financial statements.
(8)
(Total 52 marks)

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

Question Number	Answer	Mark
2(g)(ii)	Machinery – Provision for Depreciation account <table><tr><td></td><td>£</td><td></td><td>£</td></tr><tr><td></td><td></td><td>Balance b/d</td><td>13 600 √of</td></tr><tr><td></td><td></td><td>Income Statement- Adjustment</td><td>2 150 √of</td></tr><tr><td>Balance c/d</td><td>23 213</td><td>2012 charge</td><td>7 463 √√</td></tr><tr><td></td><td>23 213</td><td></td><td>23 213</td></tr><tr><td></td><td></td><td>Balance b/d</td><td>23 213 √of (if on credit)</td></tr></table>Note: If Balance b/d stated as £15 750 award √√ (£13 600 + £2 150) If charge to income statement £9 613 award √√√ (£2 150 + £7 463)	**(5)**

Question Number	Answer	Mark
2(h)	Valid answers may include: Points for • Greater depreciation will be charged in the early years which reflects the situation with machinery • Carry over value will be closer to market value resulting in more accurate financial statement value. • Evens out total cost of ownership when repair costs are added to depreciation. • Provides a more realistic book value Points against: • Distorts profit calculation • Not consistent with previous practice. • Not appropriate if machine used equally from year to year √√ per valid point x 4 points. MAX 2 points for and MAX two points against. **NOT** • Difficult to calculate • Time consuming • Costly	**(8)**

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

Question Number	Answer	Mark
3(a)(ii)	Accrual (matching)-Net profit is the difference between income and expenditure rather than cash receipts and cash expenditure. Revenues matched with expenses for a period. √√ Breach-Adjustments for general expenses.√	**(3)**

Question Number	Answer	Mark
3(a)(iii)	Going concern-Unless it is known to the contrary, it is assumed that the business will exist and operate for an indefinitely long period of time.√√ Breach- Charging the full cost of non-current assets to a single accounting period.√	**(3)**

Question Number	Answer	Mark
3(b)	Xevana – Statement of Comprehensive Income for the year ended 31 December 2012	**(14)**

		£	£	
Revenue	(110 000 – 2 000)		108 000	√
Less				
Purchases		103 500		
Less Purchase returns		(2 300)		
		101 200		
Carriage inwards		1 200		√
		102 400		
Less Closing inventory	(16 000 + 1 600)	(17 600)		√√(√of other than 20 000)
Cost of sales			(84 800)	
Gross profit			23 200	
Plus other income:				
Profit on sale of fixtures and fittings			200	√
Rent receivable	(1 000 + 1 000)		2 000	√
Discount received			1 870	√
			27 270	
Less expenses:				
Carriage outwards		2 400		√
Rent and rates		4 000		√
Wages		6 000		√
General expenses	(4 550 + 470 √ – 750 √)	4 270		
Depreciation: Fixtures and fittings		400		√
Motor vehicles		1 500		√
			(18 570)	
Profit for the year			8 700	

If discount received is deducted from purchases (103 500 – 1 870) = 101 630 √

Question Number	Answer	Mark
3(c)	Purchases Ledger Control Account	

	£		£
Purchase returns	2 300 √	Balance b/d	-
Payments to trade creditors	93 030 √	Purchases	103 500 √
Discount received	1 870 √		
Balance c/d	6 300 √		
	103 500		103 500
		Balance b/d	6300 √of

If purchases reduced by discount received (103 500 – 1 870) = 101 630 √√ **(6)**

Question Number	Answer	Mark
3(d)	Statement of financial position at 31 December 2012 √	

	Cost	Aggregate Depreciation	Carry over	
	£	£	£	
Non-current assets				
Motor vehicles	9 000	1 500	7 500 √	
Fixtures and fittings	3 800	400	3 400 √	
	12 800	1 900	10 900 √	
Current assets				
Inventory		17 600		√of (other than 20 000)
Trade receivables (12 870 √– 2 000 √)		10 870		
Rent receivables owing		1 000		√
General expenses prepaid		750		√
			30 220	
			41 120	
		£	£	
Equity and Capital:				
Opening capital			12 000 √	
Plus Profit for the year			8 700	
			20 700	
Drawings			(4 800)√	
			15 900	
Current liabilities				
Trade payables		6 300		√√(√of)
General expenses accrued		470		√
Bank overdraft		18 450		√
			25 220	
			41 120	

(15)

Question Number	Answer	Mark
3(e)	Valid answers may include: Points for • Provides a framework of consistency in preparing all financial statements • Provides assurance to users about the preparation of the accounts • Can be used internationally to compare business • True and fair view • Meets legal requirements • Profit can be relied upon Points against: • Concepts can be contradictory • Many non-financial aspects of a business are not considered by accounting concepts • Open to wide interpretation √√ per valid point x 4 points. MAX 2 points for and MAX two points against. Do **NOT** accept • Costly • Time consuming	**(8)**

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

Question Number	Answer	Mark
4(b)(i)	Molara – Statement of Comprehensive Income for the year ended 31 December 2012	

	£	£	
Revenue		140 000	
Less			
Opening inventory	12 000		
Purchases	119 000		
	131 000		
Closing inventory	(27 000)		√√
Cost of sales		(104 000)	
Gross profit		36 000	

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Haider is in business as a travel consultant. She sells holidays and collects the payment from customers. She receives from the travel company a commission of 10% of the revenue (sales) value of the holidays.

Haider operates a single Sales Ledger Control Account for her business. The following information is available:

	£
Trade receivables (Debtors) 1 April 2010	19 900
Receipts from customers	425 000
Refunds to customers	8 350
Dishonoured cheques	1 600
Trade receivables (Debtors) 31 March 2011	24 850

Required:

(a) Prepare the Sales Ledger Control Account for the year ended 31 March 2011, showing the total value of the revenue (sales) for the year.

(7)

On 1 April 2010, the following balances were in the books of Haider:

	£
Commission receivable, owing to Haider:	4 800
Rent, 3 months prepaid:	1 250
Wages, prepaid:	400
Marketing expenses, owing:	750

The following is a summary of some of the transactions of the business for the year ended 31 March 2011:

	£
Receipts of commission from the travel company	43 500
Payment of 9 months rent	3 750
Wages paid	17 800
Marketing expenses paid	11 250

At 31 March 2011:

Wages £350 were owing
Marketing expenses – there was a closing inventory (stock) of brochures £2 150

Required:

(b) Prepare the following ledger accounts for the year ended 31 March 2011, showing the transfers to the statement of comprehensive income (profit & loss account). Balance the accounts as necessary.

(i) Commission receivable account
(ii) Rent account
(iii) Wages account
(iv) Marketing expenses account

(23)

In addition to the incomes and expenses above, Haider also incurred the following for the year ended 31 March 2011:

Sundry expenses	£3 600
Depreciation on non-current (fixed) assets	£4 600

(c) Prepare the statement of comprehensive income (profit & loss account) for the year ended 31 March 2011.

(8)

At a meeting with her accountant, Haider was informed that her accounts would need to comply with the accounting concepts of accruals and going concern.

(d) Explain the meaning of:

(i) accounting concepts
(ii) the accounting concept of accruals
(iii) the accounting concept of going concern.

(6)

(e) Evaluate the use of accounting concepts when preparing financial statements (final accounts).

(8)

(Total 52 marks)

Answer space for question 2 is on pages 9 to 15 of the question paper.

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>2(a)</td><td>
Sales Ledger Control Account
<table>
<tr><td></td><td>£</td><td></td><td>£</td></tr>
<tr><td>Balance b/d</td><td>19 900 ✓</td><td>Bank</td><td>425 000 ✓</td></tr>
<tr><td>Refunds to customers</td><td>8 350 ✓</td><td></td><td></td></tr>
<tr><td>Dishonoured cheques</td><td>1 600 ✓</td><td></td><td></td></tr>
<tr><td>Revenue (sales)</td><td>420 000 ✓✓</td><td>Balance c/d</td><td>24 850</td></tr>
<tr><td></td><td>449 850</td><td></td><td>449 850</td></tr>
<tr><td>Balance b/d</td><td>24 850 ✓</td><td></td><td></td></tr>
</table>
</td><td>(7)</td></tr>
<tr><td>2 (b)</td><td>
Commission Receivable Account
<table>
<tr><td></td><td>£</td><td></td><td>£</td></tr>
<tr><td>Balance b/d</td><td>4 800 ✓</td><td>Bank</td><td>43 500 ✓</td></tr>
<tr><td>Income statement (P/L) ✓</td><td>42 000 ✓✓OF</td><td>Balance c/d</td><td>3 300</td></tr>
<tr><td></td><td>46 800</td><td></td><td>46 800</td></tr>
<tr><td>Balance b/d</td><td>3 300 ✓OF</td><td></td><td></td></tr>
</table>
Rent Account
<table>
<tr><td></td><td>£</td><td></td><td>£</td></tr>
<tr><td>Balance b/d</td><td>1 250 ✓</td><td>Income statement (P/L)✓</td><td>5 000 ✓✓</td></tr>
<tr><td>Bank</td><td>3 750 ✓</td><td></td><td></td></tr>
<tr><td></td><td>5 000</td><td></td><td>5 000</td></tr>
</table>
Wages Account
<table>
<tr><td></td><td>£</td><td></td><td>£</td></tr>
<tr><td>Balance b/d</td><td>400 ✓</td><td>Income statement (P/L)✓</td><td>18 550 ✓✓</td></tr>
<tr><td>Bank</td><td>17 800 ✓</td><td></td><td></td></tr>
<tr><td>Balance c/d</td><td>350 ✓</td><td></td><td>.</td></tr>
<tr><td></td><td>18 550</td><td></td><td>18 550</td></tr>
<tr><td></td><td></td><td>Balance b/d</td><td>350</td></tr>
</table>
Marketing Expenses Account
<table>
<tr><td></td><td>£</td><td></td><td>£</td></tr>
<tr><td>Bank</td><td>11 250 ✓</td><td>Balance b/d</td><td>750 ✓</td></tr>
<tr><td></td><td></td><td>Income statement (P/L)✓</td><td>8 350 ✓✓</td></tr>
<tr><td></td><td></td><td>Balance c/d</td><td>2 150 ✓</td></tr>
<tr><td></td><td>11 250</td><td></td><td>11 250</td></tr>
<tr><td>Balance b/d</td><td>2 150</td><td></td><td></td></tr>
</table>
</td><td>(23)</td></tr>
<tr><td>2 (c)</td><td>
Statement of comprehensive income (profit and loss account)
for the year ended 31 March 2011
<table>
<tr><td></td><td>£</td><td>£</td></tr>
<tr><td>Revenue (sales) 420 000 x 10%</td><td></td><td>42 000 ✓✓OF</td></tr>
<tr><td>Less</td><td></td><td></td></tr>
<tr><td>Rent</td><td>5 000 ✓OF</td><td></td></tr>
<tr><td>Wages</td><td>18 550 ✓OF</td><td></td></tr>
<tr><td>Marketing</td><td>8 350 ✓OF</td><td></td></tr>
<tr><td>Sundry expenses</td><td>3 600 ✓</td><td></td></tr>
<tr><td>Depreciation</td><td>4 600 ✓</td><td>40 100</td></tr>
<tr><td>Profit for the year (net profit)</td><td></td><td>1 900 ✓OF</td></tr>
<tr><td></td><td></td><td>42 000</td></tr>
</table>
</td><td>(8)</td></tr>
</table>

Question Number	Answer	Mark
2(d)	Accounting concepts - In the search for objectivity, the rules which lay down the way in which the financial information of the business is recorded. ✓✓ Accruals concept - Calculates profit for the year on the basis of the difference between revenues and expenses for the year rather than the difference between cash receipts and expenditures. ✓✓ Going concern concept- Unless the opposite is known accounting always assumes that the business will continue to operate for an indefinite period. Therefore, it is not necessary to show what assets would fetch. ✓✓	**(6)**

Question Number	Answer	Mark
2(e)	Valid answers may include: In favour • Profit figures can be relied upon/asset values are accurate • Comparison between accounts is possible • Users can trust the accounts prepared/make decisions based on the accounts Against • Use of concepts often open to a wide interpretation • Different interpretation in different businesses e.g. materiality • Concepts can contradict each other ✓✓ per point x 2 in favour plus ✓✓ per point x 2 against	**(8)**