

MyStudyBro - Revision Exercise Tool

This Revision Handout includes the Questions and Answers of a total of 3 exercises!

Chapters:

Final Accounts - Unit 1 (Pearson Edexcel)

Page 1	(WAC01 or WAC11) 2014 Summer
Page 3	(WAC01 or WAC11) 2014 Summer - Answer
Page 6	(WAC01 or WAC11) 2013 Summer
Page 8	(WAC01 or WAC11) 2013 Summer - Answer
Page 10	(WAC01 or WAC11) 2011 Summer
Page 12	(WAC01 or WAC11) 2011 Summer - Answer

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Marianna owns an information technology consultancy business, advising customers on computer hardware and software. The following balances were extracted from her books on 31 March 2014.

	£
Revenue from consultancy	295 000
Commission received from software sales	45 600
Staff wages and salaries	154 000
Drawings	32 000
Rent and rates	36 000
Heating and electricity	6 300
Trade receivables	34 000
Trade payables	7 700
Internet and communication charges	5 800
Cash and bank	4 450 Dr
Marketing expenses	55 000
Disposal account	6 250 Cr
Non-current assets (at cost):	
Fixtures and fittings	60 000
Computer equipment	76 000
Motor vehicles	90 000
Provisions for depreciation:	
Fixtures and fittings	18 000
Computer equipment	40 000
Motor vehicles	36 000
6% Bank loan (repayable on 31 March 2020)	50 000
Capital	55 000

Additional information at 31 March 2014:

- (1) A customer was invoiced £7 500 for consultancy on 28 March 2014. This had not been recorded in the books.
- (2) During the year only 9 months' rent and rates had been paid.
- (3) Marketing expenses of £2 800 were pre-paid.
- (4) The bank loan interest for the year is owing.
- (5) Depreciation is to be charged as follows:
 - Fixtures and fittings at the rate of 15% per annum straight line
 - Computer equipment at the rate of 25% per annum reducing balance
 - Motor vehicles at the rate of 20% per annum straight line.
- (6) Trade receivables of £1 500 are irrecoverable. A provision for doubtful debts of 5% of remaining debts is to be created.
- (7) On 1 April 2013 there was a credit balance on the Commission Received for Software Sales Account of £600. During the year cheques totalling £45 000 were received from the software company. On 31 March 2014 £2 900 commission was owed to Marianna by the software company.

Required:

- (a) Prepare the Commission Received on Software Sales Account for the year ended 31 March 2014, showing the transfer to the Statement of Comprehensive Income. (6)
 - (b) Prepare the Statement of Comprehensive Income for the year ended 31 March 2014. (16)
 - (c) Prepare the Statement of Financial Position at 31 March 2014. (16)
- Marianna is considering a major expansion of her business with the help of a new 10-year bank loan of £200 000. The terms of the new bank loan are that repayment will be by 10 equal annual instalments.
- (d) Explain the treatment in the Statement of Financial Position for the:
 - (i) existing £50 000 6% bank loan (repayable on 31 March 2020) (3)
 - (ii) proposed new bank loan of £200 000. (3)
 - (e) Evaluate the use of accounting concepts in the preparation of financial statements. (8)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 8 of the question paper.

WAC01/01
June 2014
MARKING SCHEME

1(a)

Commission Received from Software Sales Account

	£		£
		1 April 2013	Balance b/d
			600 v
31 Mar 2014	Income Statement v	48 500 v of	Bank
			45 000 v
		31 Mar 2014	Balance c/d
			<u>2 900 v</u>
			<u>48 500</u>
1 April 2014	Balance	b/d	2 900 v of if on debit side

(6)

(b)

Marianna

Statement of Comprehensive Income for the year ended 31 March 2014

	£	£
<u>Income</u>		
Revenue from consultancy	295 000 v + 7 500 v	302 500
Commission received from software sales		48 500 v v (v of)
Disposal of non-current assets		<u>6 250 v</u>
		357 250
<u>Less Expenses</u>		
Wages and salaries		154 000 v
Rent and rates	36 000 + 12 000	48 000 v
Heating and electricity		6 300 v
Internet and communication		5 800 v
Marketing	55 000 – 2 800	52 200 v
Depreciation-		
Fixtures		9 000 v
Computers		9 000 v
Motor vehicles		18 000 v
Bank loan interest		3 000 v
Bad debts		1 500 v
Provision for doubtful debts		<u>2 000 v</u>
		308 800
Profit for the year		<u>48 450</u>
		<u>357 250</u>

(16)

(c)

Statement of Financial Position

Non-current assets

	Cost	Aggregate depreciation	Carry over
	£	£	£
Fixtures and fittings	60 000	27 000	33 000 vof
Computers	76 000	49 000	27 000 vof
Motor vehicles	<u>90 000</u>	<u>54 000</u>	<u>36 000</u> vof
	<u>226 000</u>	<u>130 000</u>	96 000 v

Current assets

Trade receivables	34 000 v + 7 500 v – 1 500 v	40 000	
Less Provision for doubtful debts		<u>2 000</u>	
			38 000 vof
Other receivables	2 900 v + 2 800 v	5 700	
Cash and bank		<u>4 450</u> v	
			<u>48 150</u>
			<u>144 150</u>

Capital and equity:

Capital		55 000	
Profit for the year		<u>48 450</u>	
		103 450	
Drawings		<u>(32 000)</u>	
			71 450 vof

Non-current liabilities

6% Bank loan			50 000 v
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Current liabilities

Trade payables		7 700 v	
Other payables	12 000 v + 3 000 v	<u>15 000</u>	
			<u>22 700</u>
			<u>144 150</u>
			(16)

(d)

(i) Existing loan is repayable in more than one year into the future v. Therefore the whole loan is a long term/Non-current liability v payable by a single sum at the end of the term. v

(ii) Proposed loan is repayable in equal instalments over the life of the loan v not at the end of the loan period. Therefore, the capital sum repayable within the next year will be a current liability v the remaining capital of the outstanding loan will be a long term/non-current liability v.

(6)

(e)

Valid points may include:

Positive

- Provides a framework for preparing financial statements
- Readers can rely upon the accuracy of the financial statements
- Can be relied upon globally
- Provides a true and fair view
- Meets legal requirements
- Enables comparisons to be made.

Negative

- Many concepts are open to interpretation
- Concepts can contradict each other
- Many non-financial aspects of a business are not considered by accounting concepts
- Need for specialist knowledge to implement which has cost implications

NOT Time consuming, easy/difficult to understand, aid to decision making, examples of accounting concepts, not accuracy/mathematical accuracy without qualification

✓✓ per point x 4 - MAX 2 points positive and 2 points negative

(8)

(Total 52 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Shopalot purchased a building which it converted into a shopping centre with ten separate shops of equal floor area. The building also has walkways and seating areas between the shops.

On 30 April 2013 Shopalot completed its first year of trading. The following information is available:

1. Purchase price of the building £500 000
Conversion of the building £200 000
Purchase of computer network £150 000
2. On 1 May 2012, Shopalot invested £400 000 cash and obtained a 10 year 8% Bank loan of £550 000. Interest is charged on the loan on 30 April each year.
3. Nine of the ten shops were rented out throughout the year. The tenth shop was unoccupied throughout the year.
4. Shopalot received the following income:
 - Rental of £4 000 per quarter (three months) per shop
 - A service charge of £1 500 per quarter (three months) per occupied shop for security and cleaning
 - 2% of the revenue (sales) of each shop
5. The total revenue (sales) of the nine occupied shops for the year was £1 350 000.
6. Depreciation was charged as follows:
 - Building – 2% per annum straight line method
 - Conversion of building – equal instalments over a 10 year period
 - Computer network – 30% reducing balance method
7. Other expenses paid:

	£
Security	30 000
Cleaning	21 000
Administration	24 500
Electricity	9 700
Government rates	17 500
8. On 30 April 2013 the following were owing to Shopalot:
 - Rent by two shops for the last quarter (three months) of the year
 - Service charge by two shops for the last quarter (three months) of the year
9. On 30 April 2013 the following was owed by Shopalot:
 - Government rates £9 000.

Required:

- (a) Prepare for Shopalot, for the year ended 30 April 2013, the:
- (i) Statement of Comprehensive Income (12)
 - (ii) summarised Bank Account. (8)
- (b) Prepare the Statement of Financial Position extract, showing the Non-current Assets and Current Assets sections only. (4)
- (c) Calculate the return on capital employed for Shopalot. (4)
- (d) Evaluate the financial position of Shopalot. (4)

(Total 32 marks)

Answer space for question 6 is on pages 29 to 32 of the question paper.

Question Number	Answer	Mark																																																																				
6(a)(i)	<div>Shopalot</div> <div>Statement of Comprehensive Income for the year ended 30 April 2013</div> <table><tr><td></td><td>£</td><td>£</td><td></td></tr><tr><td>Revenue - Rent (£4 000 x 4 x 9)</td><td>144 000</td><td></td><td>✓</td></tr><tr><td>Service charge (£1 500 x 4 x 9)</td><td>54 000</td><td></td><td>✓</td></tr><tr><td>2% in income</td><td><u>27 000</u></td><td></td><td>✓</td></tr><tr><td></td><td></td><td>225 000</td><td></td></tr><tr><td>Less</td><td></td><td></td><td></td></tr><tr><td>Security</td><td>30 000</td><td></td><td>✓</td></tr><tr><td>Cleaning</td><td>21 000</td><td></td><td>✓</td></tr><tr><td>Administration</td><td>24 500</td><td></td><td>✓</td></tr><tr><td>Electricity</td><td>9 700</td><td></td><td>✓</td></tr><tr><td>Government rates</td><td>26 500</td><td></td><td>✓</td></tr><tr><td>Depreciation - Building</td><td>10 000</td><td></td><td>✓</td></tr><tr><td>Conversion</td><td>20 000</td><td></td><td>✓</td></tr><tr><td>Computers</td><td>45 000</td><td></td><td>✓</td></tr><tr><td>Loan interest</td><td><u>44 000</u></td><td></td><td>✓</td></tr><tr><td></td><td></td><td><u>230 700</u></td><td></td></tr><tr><td>Loss for the year</td><td></td><td><u>(5 700)</u></td><td></td></tr></table>		£	£		Revenue - Rent (£4 000 x 4 x 9)	144 000		✓	Service charge (£1 500 x 4 x 9)	54 000		✓	2% in income	<u>27 000</u>		✓			225 000		Less				Security	30 000		✓	Cleaning	21 000		✓	Administration	24 500		✓	Electricity	9 700		✓	Government rates	26 500		✓	Depreciation - Building	10 000		✓	Conversion	20 000		✓	Computers	45 000		✓	Loan interest	<u>44 000</u>		✓			<u>230 700</u>		Loss for the year		<u>(5 700)</u>		(12)
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Question Number	Answer				Mark
6(a)(ii)	Bank Account				
		£		£	
	Investment	400 000	Non-current assets purchased	850 000 ✓	
	Loan	550 000 ✓	Security	30 000 ✓	
	Rent (144 000-8 000)	136 000 ✓	Cleaning	21 000 ✓	
	Service charge		Administration	24 500	
	(54 000 - 3 000)	51 000 ✓	Electricity and power	9 700	
	Income 2%	27 000	Government rates	17 500 ✓	
			Bank interest	44 000 ✓	
			Balance c/d	<u>167 300</u>	
		<u>1 164 000</u>		<u>1 164 000</u>	
	Balance b/d	167 300			(8)

Question Number	Answer	Mark																																				
6(b)	<div>Shopalot</div> <div>Statement of Financial Position extract at 30 April 2013</div> <table><thead><tr><th><u>Non-current assets</u></th><th>Cost</th><th>Aggregate depreciation</th><th>Carry over</th></tr><tr><td></td><td>£</td><td>£</td><td>£</td></tr></thead><tbody><tr><td>Buildings</td><td>700 000</td><td>30 000</td><td>670 000 ✓</td></tr><tr><td>Computer network</td><td><u>150 000</u></td><td><u>45 000</u></td><td><u>105 000</u> ✓</td></tr><tr><td></td><td><u>850 000</u></td><td><u>75 000</u></td><td>775 000</td></tr><tr><td colspan="4"><u>Current assets</u></td></tr><tr><td>Trade receivables (4 000 x 2 + 1 500 x 2)</td><td></td><td></td><td>11 000 ✓</td></tr><tr><td>Bank</td><td></td><td></td><td><u>167 300</u> ✓ of</td></tr><tr><td></td><td></td><td></td><td>178 300</td></tr></tbody></table> <div>(4)</div>	<u>Non-current assets</u>	Cost	Aggregate depreciation	Carry over		£	£	£	Buildings	700 000	30 000	670 000 ✓	Computer network	<u>150 000</u>	<u>45 000</u>	<u>105 000</u> ✓		<u>850 000</u>	<u>75 000</u>	775 000	<u>Current assets</u>				Trade receivables (4 000 x 2 + 1 500 x 2)			11 000 ✓	Bank			<u>167 300</u> ✓ of				178 300	
<u>Non-current assets</u>	Cost	Aggregate depreciation	Carry over																																			
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			178 300																																			

Question Number	Answer	Mark
6(c)	ROCE $\frac{\text{Profit for the year before interest}}{\text{Capital} + \text{Non-current liabilities}} = \frac{(5\,700)\text{ of } + 44\,000\text{ of } \pounds}{400\,000 + 550\,000 \pounds} = 4\% \checkmark \checkmark \text{ of}$	(4)

Question Number	Answer	Mark
6(d)	<p>Valid points may include:</p> <p>Points for</p> <ul style="list-style-type: none"> • A very strong cash position (of) • Further income and profit if tenth shop can be rented <p>Points against</p> <ul style="list-style-type: none"> • Loss for the year (of) • Building not fully occupied <p>NOT</p> <ul style="list-style-type: none"> • Total assets higher <p>✓✓ per valid point x Max one point in favour and one point against</p>	(4)

Question Number	Answer	Mark
7(a)(i)	Current ratio $\frac{50\,000 \pounds}{40\,000 \pounds} = 1.25:1 \checkmark$	(3)

Question Number	Answer	Mark
7(a)(ii)	Liquid acid test ratio $\frac{13\,000 \pounds}{40\,000 \pounds} = 0.325:1 \checkmark$	(3)

Question Number	Answer	Mark
7(b)	<p>Both ratios are low ✓</p> <p>There appears to be excess inventory ✓</p>	(2)

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Pavlena is in business buying and selling goods on credit. The following balances were extracted from her books on 30 April 2011:

	£
Revenue (Sales)	85 524
Non-current (Fixed) assets:	
Intangible assets (Goodwill)	25 000
Property (Leasehold premises)	40 000
Motor vehicle	15 000
Fixtures and fittings	14 000
Provisions for depreciation:	
Property (Leasehold premises)	6 400
Motor vehicle	8 000
Fixtures and fittings	3 600
Ordinary goods purchased (Purchases)	32 890
Inventory (Stock) 1 May 2010	3 810
Motor vehicle running expenses	4 250
General expenses and repairs	6 910
Telephone and broadband expenses	1 450
Wages	23 860
Drawings	8 704
Loan interest paid	1 750
Trade receivables (Debtors)	7 850
Trade payables (Creditors)	6 900
Capital	50 600
8% Bank loan repayable 30 April 2015	30 000
Cash (cash and bank)	5 750
Provision for doubtful debts	200

Additional information at 30 April 2011:

- (i) Inventory (Stock) was valued at £4 630
- (ii) Wages of £1 600 were prepaid
- (iii) An invoice for ordinary goods purchased (purchases) £400, bought on credit, had been mislaid and no entries had been made in the books
- (iv) During the year repairs to fixtures and fittings costing £2 000 had been posted, in error, to the fixtures and fittings account
- (v) Depreciation is charged on non-current (fixed) assets on the following basis:
 - The property (leasehold premises) has an expected life of 50 years
 - Motor vehicles at the rate of 20% per annum diminishing balance
 - Fixtures and fittings at the rate of 15% per annum straight line
- (vi) The 8% Bank loan was taken out on 1 May 2010
- (vii) A debt of £600 is considered irrecoverable. A provision of 4% is to be maintained on all remaining debts.

Required:

(a) Prepare for Pavlena the:

(i) statement of comprehensive income (trading and profit & loss account) for the year ended 30 April 2011

(15)

(ii) statement of financial position (balance sheet) as at 30 April 2011.

(15)

During the year repairs to fixtures and fittings were posted, in error, to the fixtures and fittings account.

(b) (i) Name this type of error.

(1)

(ii) Explain why the posting to the fixtures and fittings account was an error.

(4)

(iii) Prepare the journal entries, **including** narrative, to correct the error.

(3)

(c) Distinguish between **straight line** and **diminishing balance** as methods of depreciation.

(6)

(d) Evaluate the decision of Pavlena to use the diminishing balance method to depreciate her motor vehicles.

(8)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 8 of the question paper.

Question Number	Answer	Mark																																																																								
1(a)(i)	<p style="text-align: center;">Statement of comprehensive income (Trading and profit and loss account) for the year ended 30 April 2011</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th style="text-align: right;">£</th><th style="text-align: right;">£</th></tr> </thead> <tbody> <tr> <td>Revenue (sales)</td><td></td><td style="text-align: right;">85 524 ✓</td></tr> <tr> <td>Less</td><td></td><td></td></tr> <tr> <td>Opening inventory (Stock)</td><td style="text-align: right;">3 810</td><td></td></tr> <tr> <td>Ordinary goods purchased (Purchases)</td><td style="text-align: right;"><u>33 290</u></td><td style="text-align: right;">✓</td></tr> <tr> <td style="padding-left: 20px;">(32 890 + 400)</td><td style="text-align: right;">37 100</td><td></td></tr> <tr> <td>Less Closing inventory (Stock)</td><td style="text-align: right;"><u>4 630</u></td><td></td></tr> <tr> <td>Cost of sales (Cost of goods sold)</td><td></td><td style="text-align: right;"><u>32 470</u> ✓</td></tr> <tr> <td>Gross profit</td><td></td><td style="text-align: right;">53 054</td></tr> <tr> <td>Less</td><td></td><td></td></tr> <tr> <td>Motor vehicle running</td><td style="text-align: right;">4 250</td><td style="text-align: right;">✓</td></tr> <tr> <td>General expenses</td><td style="text-align: right;">6 910</td><td style="text-align: right;">✓</td></tr> <tr> <td>Repairs to fixtures and fittings</td><td style="text-align: right;">2 000</td><td style="text-align: right;">✓</td></tr> <tr> <td>Telephone and broadband</td><td style="text-align: right;">1 450</td><td style="text-align: right;">✓</td></tr> <tr> <td>Wages (23 860 - 1 600)</td><td style="text-align: right;">22 260</td><td style="text-align: right;">✓</td></tr> <tr> <td>Loan interest (1 750 + 650)</td><td style="text-align: right;">2 400</td><td style="text-align: right;">✓</td></tr> <tr> <td>Depreciation - Property</td><td style="text-align: right;">800</td><td style="text-align: right;">✓</td></tr> <tr> <td style="padding-left: 20px;">- Motor vehicle</td><td style="text-align: right;">1 400</td><td style="text-align: right;">✓</td></tr> <tr> <td style="padding-left: 20px;">- Fixtures and fittings</td><td style="text-align: right;">1 800</td><td style="text-align: right;">✓</td></tr> <tr> <td>Bad debt</td><td style="text-align: right;">600</td><td style="text-align: right;">✓</td></tr> <tr> <td>Increase in PDD</td><td style="text-align: right;"><u>90</u></td><td style="text-align: right;">✓</td></tr> <tr> <td></td><td></td><td style="text-align: right;"><u>43 960</u></td></tr> <tr> <td>Profit for the year (Net profit)</td><td></td><td style="text-align: right;"><u>9 094</u> ✓ OF</td></tr> <tr> <td></td><td></td><td style="text-align: right;"><u>53 054</u></td></tr> </tbody> </table>		£	£	Revenue (sales)		85 524 ✓	Less			Opening inventory (Stock)	3 810		Ordinary goods purchased (Purchases)	<u>33 290</u>	✓	(32 890 + 400)	37 100		Less Closing inventory (Stock)	<u>4 630</u>		Cost of sales (Cost of goods sold)		<u>32 470</u> ✓	Gross profit		53 054	Less			Motor vehicle running	4 250	✓	General expenses	6 910	✓	Repairs to fixtures and fittings	2 000	✓	Telephone and broadband	1 450	✓	Wages (23 860 - 1 600)	22 260	✓	Loan interest (1 750 + 650)	2 400	✓	Depreciation - Property	800	✓	- Motor vehicle	1 400	✓	- Fixtures and fittings	1 800	✓	Bad debt	600	✓	Increase in PDD	<u>90</u>	✓			<u>43 960</u>	Profit for the year (Net profit)		<u>9 094</u> ✓ OF			<u>53 054</u>	(15)
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Question Number	Answer	Mark
1(b)(i)	Error of principle ✓	(1)

Question Number	Answer	Mark
1(b)(ii)	<p>Valid answers may include:</p> <ul style="list-style-type: none"> Repairs are classed as day to day expenses OR Repairs are revenue expenses ✓✓ Fixtures and fittings contain capital expenditure only OR Fixtures and fittings will last for many years ✓✓ 	(4)

Question Number	Answer	Mark																				
1(b)(iii)	<table><tr><td></td><td>Dr</td><td>Cr</td><td></td></tr><tr><td></td><td>£</td><td>£</td><td></td></tr><tr><td>General expenses and repairs</td><td>2 000</td><td></td><td>✓</td></tr><tr><td>Fixtures and fittings</td><td></td><td>2 000</td><td>✓</td></tr><tr><td>Correction of error/Repairs charged to fixtures and fittings account</td><td></td><td></td><td>✓</td></tr></table>		Dr	Cr			£	£		General expenses and repairs	2 000		✓	Fixtures and fittings		2 000	✓	Correction of error/Repairs charged to fixtures and fittings account			✓	(3)
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Question Number	Answer	Mark									
1(c)	<table border="0"> <tr> <td></td><td>Straight line</td><td>Diminishing balance</td></tr> <tr> <td>Calculation</td><td>Based upon cost less residual value ✓✓</td><td>Based upon % of outstanding book value ✓✓</td></tr> <tr> <td>Depreciation</td><td>Allows an even amount of depreciation in each year ✓</td><td>Allows more depreciation in the early years ✓</td></tr> </table>		Straight line	Diminishing balance	Calculation	Based upon cost less residual value ✓✓	Based upon % of outstanding book value ✓✓	Depreciation	Allows an even amount of depreciation in each year ✓	Allows more depreciation in the early years ✓	(6)
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Question Number	Answer	Mark
1(d)	<p>Valid answers may include:</p> <p>In favour</p> <ul style="list-style-type: none"> Motor vehicles lose more in value in the early years of ownership Statement of financial position (balance sheet) valuation will be more accurate When depreciation costs are added to repair costs the total cost of owning the asset are fairly even <p>Against</p> <ul style="list-style-type: none"> Benefit to the business will be the same over the early and later years After initial loss, motor vehicle loss in value is constant although depreciation charge will be variable <p>✓✓ per point x 2 in favour plus ✓✓ per point x 2 against.</p>	(8)