

MyStudyBro - Revision Exercise Tool

This Revision Handout includes the Questions and Answers of a total of 5 exercises!

Chapters:

Partnerships - Paper 1 (Pearson Edexcel)

Page 1	(4AC0) 2019 Winter
Page 4	(4AC0) 2019 Winter - Answer
Page 7	(4AC0) 2018 Summer
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Page 17	(4AC0) 2015 Summer - Answer
Page 18	(4AC0) 2014 Winter Ratios
Page 22	(4AC0) 2014 Winter - Answer Also Includes: Ratios

14 Stylos and Kristos are in partnership sharing profits and losses in the ratio 3:1.

Their partnership agreement allows for interest on capital at 4% per annum and a partnership salary to Stylos of £8 000 per annum.

The following balances were extracted from the books of account after the calculation of the gross profit for the year ended 30 November 2018.

	£
Bank	9 400
Capital accounts: Stylos	120 000
Kristos	70 000
Current accounts: Stylos	13 750
Kristos	1 850 Dr
Creditors	14 700
Debtors	29 000
Drawings: Stylos	12 000
Kristos	16 500
Gross profit	109 150
Land and buildings at cost	250 000
Motor vehicles	
Cost	36 000
Provision for depreciation	6 000
Rent, rates and insurance	16 800
Wages and salaries	26 500

Additional information

1. Wages and salaries of £2 800 were owing at 30 November 2018.
2. A provision for doubtful debts of 5% of debtors was to be created.
3. Motor vehicles are to be depreciated by 20% per annum using the reducing balance method. No depreciation is to be charged on land and buildings.

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- (a) Prepare the profit and loss and appropriation account of Stylos and Kristos for the year ended 30 November 2018.

(13)

Stylos and Kristos
Profit and Loss and Appropriation Account
For the year ended 30 November 2018

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P 5 5 8 9 1 A 0 1 7 2 4

- (b) Prepare the current account of Stylos for the year ended 30 November 2018.
Balance the account on this date and bring the balance down to
1 December 2018.

(7)

Current Account – Stylos

Date	Narrative	£	Date	Narrative	£

Stylos and Kristos are considering converting their business to a private limited company.

- (c) Evaluate this proposed change to their business structure.

(5)

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(Total for Question 14 = 25 marks)



Question Number	Mark	
13 (b)	<p>Award 1 mark for identification of the accruals concept and up to 2 marks for the application of this to the scenario.</p> <p>Sample answer Ciao has applied the accruals concept (1) as he has accounted correctly for the rent received which relates to that financial year (1) with any balances for the previous year and the next year being excluded (1)</p>	(3)

(Total for Question 13 = 15 marks)

Question Number	Mark																																																													
14 (a)	<p>Award marks as indicated</p> <p style="text-align: center;">Stylos and Kristos Profit and loss, and Appropriation account For the year ended 30 November 2018</p> <table border="1"> <thead> <tr> <th></th><th>£</th><th>£</th></tr> </thead> <tbody> <tr> <td>Gross profit</td><td></td><td>109 150 (1)</td></tr> <tr> <td>Expenses</td><td></td><td></td></tr> <tr> <td>Wages and salaries W1</td><td>29 300 (2)</td><td></td></tr> <tr> <td>Provision for doubtful debts</td><td>1 450 (1)</td><td></td></tr> <tr> <td>Depreciation charge W2</td><td>6 000 (2)</td><td></td></tr> <tr> <td>Rent rates and insurance</td><td>16 800 (1)</td><td></td></tr> <tr> <td></td><td></td><td>53 550</td></tr> <tr> <td>Profit for the year</td><td></td><td>55 600 (1of)</td></tr> <tr> <td>Appropriations</td><td></td><td></td></tr> <tr> <td>Interest on capital:</td><td></td><td></td></tr> <tr> <td>Stylos</td><td>4 800</td><td></td></tr> <tr> <td>Kristos</td><td>2 800 (1)</td><td></td></tr> <tr> <td>Salary Stylos</td><td>8 000 (1)</td><td></td></tr> <tr> <td></td><td></td><td>15 600</td></tr> <tr> <td>Residual profit</td><td></td><td>40 000 (1of)</td></tr> <tr> <td>Share of profits:</td><td>30 000 (1of)</td><td></td></tr> <tr> <td>Stylos</td><td>10 000 (1of)</td><td></td></tr> <tr> <td>Kristos</td><td></td><td></td></tr> <tr> <td></td><td></td><td><u>40 000</u></td></tr> </tbody> </table> <p>W1 26 500 (1) + 2 800 (1) = 29300 W2 36 000 (1) – 6000 (1) × 20% = 6 000</p>		£	£	Gross profit		109 150 (1)	Expenses			Wages and salaries W1	29 300 (2)		Provision for doubtful debts	1 450 (1)		Depreciation charge W2	6 000 (2)		Rent rates and insurance	16 800 (1)				53 550	Profit for the year		55 600 (1of)	Appropriations			Interest on capital:			Stylos	4 800		Kristos	2 800 (1)		Salary Stylos	8 000 (1)				15 600	Residual profit		40 000 (1of)	Share of profits:	30 000 (1of)		Stylos	10 000 (1of)		Kristos					<u>40 000</u>	(13)
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Question Number	Mark																																											
14 (b)	<p>Award marks for correct amounts as indicated.</p> <p>Award 1 mark for ALL correct dates and narratives</p> <p>Current Account - Stylos</p> <table><tr><th>Date</th><th>Narrative</th><th>£</th><th>Date</th><th>Narrative</th><th>£</th></tr><tr><td>Nov 30</td><td>Drawings</td><td>12000(1)</td><td>Dec 1</td><td>Balance b/f</td><td>13 750 (1)</td></tr><tr><td></td><td>Balance c/d</td><td>44 550</td><td>Nov 30</td><td>Salary</td><td>8 000 (1)</td></tr><tr><td></td><td></td><td></td><td></td><td>Interest on capital</td><td>4 800 (1of)</td></tr><tr><td></td><td></td><td></td><td></td><td>Share of profits</td><td>30000(1of)</td></tr><tr><td></td><td></td><td><u>56 550</u></td><td></td><td></td><td><u>56 550</u></td></tr><tr><td></td><td></td><td></td><td>Dec 1</td><td>Balance b/d</td><td>44550(1of)</td></tr></table>	Date	Narrative	£	Date	Narrative	£	Nov 30	Drawings	12000 (1)	Dec 1	Balance b/f	13 750 (1)		Balance c/d	44 550	Nov 30	Salary	8 000 (1)					Interest on capital	4 800 (1of)					Share of profits	30000 (1of)			<u>56 550</u>			<u>56 550</u>				Dec 1	Balance b/d	44550 (1of)	(7)
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Question Number		Mark
14 (c)	<p>Award up to 2 marks for advantages of this proposal, a further 2 marks for any disadvantages</p> <p>Award (1) mark for a conclusion.</p> <p>Sample response</p> <p>Advantages</p> <p>Both partners will become shareholders of the business and as such will have limited liability which means that the extent of their liability for business debts will be limited to the amount of money they have invested in the business (1).</p> <p>The partners may also become employees of this new business as directors and as such will receive a directors salary as opposed to just one of them receiving a salary as at present (1)</p> <p>They may be able to attract more investment from outside agencies such as banks that are more likely to lend money where the ownership of the business is wider (1).</p> <p>Disadvantages</p> <p>However they may find that they have less control over the day to day operations of the business as they may have other shareholders who have a say in the running of the business (1).</p> <p>There will also be a change to the way in which the accounts are prepared and to the type of taxation paid on the business profits (1)</p> <p>They will also have to ensure that they abide by all the legislation which relates to the management and administration of companies. (1)</p> <p>Conclusion</p> <p>Although there are many advantages to the partnership of this proposal Stylos and Kristos will be well advised to seek professional advice before embarking on this change as they need to be aware of the disadvantages too. (1)</p>	(5)

(Total for Question 14 = 25 marks)

15 Stavros has been in business for some years as a sole trader. He has recently been approached by a friend who wishes to join him in business and form a partnership.

(a) State **two** advantages and **two** disadvantages for Stavros of forming a partnership.

(4)

Advantages

1

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2

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Disadvantages

1

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2

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- (b) Describe the changes that Stavros will need to make to his accounting system if he decides to proceed with forming a partnership.

(6)

(Total for Question 15 = 10 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 100 MARKS



Question Number	Answer	Mark				
14 (b)	<p>Award 1 mark for each correct concept</p> <table><tr><td>Concept</td></tr><tr><td>Materiality (1)</td></tr><tr><td>Consistency (1)</td></tr><tr><td>Business entity/ entity (1)</td></tr></table> <p>Accept any appropriate spelling</p>	Concept	Materiality (1)	Consistency (1)	Business entity/ entity (1)	(3)
Concept						
Materiality (1)						
Consistency (1)						
Business entity/ entity (1)						

Question Number	Answer	Mark
15 (a)	<p>Award up to 2 marks for advantages and up to 2 marks for disadvantages.</p> <p>Advantages</p> <ul style="list-style-type: none"> • additional capital • share the risk • share the workload • new ideas • additional skills <p>Disadvantages</p> <ul style="list-style-type: none"> • receiving less profit • delaying business decisions • possible conflicts • responsible for all debts <p>Accept other appropriate responses</p>	(4)

Question Number	Answer	Mark
15 (b)	<p>Award 1 mark for identifying the changes to each category with a further 1 mark for each point of development – max 2 marks for each.</p> <p>Sample answer</p> <p>Current accounts (1) will be required which will record drawings , interest on capital etc. (1)</p> <p>The partnership will be required to produce an appropriation account (1) which will show the share of profit/loss for each partner (1)</p> <p>The financed by section of the balance sheet (1) will now include separate balances for each partners capital and current accounts. (1)</p>	(6)

13 Adam and Bob are in partnership. Their partnership agreement provides for Adam to receive a salary of £20 000 per annum.

(a) State **two** advantages of forming a partnership.

(2)

1

2

(b) Explain why it is advisable to maintain individual current accounts for each partner.

(2)

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During the year ended 31 October 2016 Adam withdrew goods costing £2 490 and Bob withdrew cash of £ 3 100.

(c) Update the current accounts to show the partners' salaries and drawings for the year. It is not necessary to balance the accounts.

(2)

Current Accounts

Date	Narrative	Adam (£)	Bob (£)	Date	Narrative	Adam (£)	Bob (£)
2015 Nov 1	Balance b/f		235	2015 Nov 1	Balance b/f	2780	

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(d) State **two** other entries you may find in a partnership current account.

(2)

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2

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(e) Explain the meaning of the balance on Bob's current account on 1 November 2015.

(2)

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Adam and Bob are considering dissolving their partnership and forming a limited company.

(f) Evaluate this proposal and explain the implications for the partners of this change of business structure.

(5)

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(Total for Question 13 = 15 marks)



Question Number	Answer	Mark																								
13 (a)	<p>Award 1 mark for each correctly stated advantage (Max 2)</p> <p>Sample responses</p> <p>Share workload Additional capital Expertise</p> <p>N.B. Do not accept sharing profits.</p>	(2)																								
Question Number	Answer	Mark																								
13 (b)	<p>Award up to 2 marks for a clear explanation</p> <p>Sample response</p> <p>A partnership maintains individual current accounts as it is important to be able to see for each partner separately (1) how much is owed to them by the partnership (credit balance)/how much they owe the partnership (debit balance) (1).</p>	(2)																								
Question Number	Answer	Mark																								
13 (c)	<p>Award marks for correct date, details and amounts in combination.</p> <p style="text-align: center;">Current Accounts</p> <table><tr><th>Date</th><th>Narrative</th><th>Adam (£)</th><th>Bob (£)</th><th>Date</th><th>Narrative</th><th>Adam (£)</th><th>Bob (£)</th></tr><tr><td>2015 Nov 1</td><td>Balance b/f</td><td></td><td>235</td><td>2015 Nov 1</td><td>Balance b/f</td><td>2780</td><td></td></tr><tr><td>2016 Oct 31</td><td>Drawings</td><td>2 490</td><td>3 100 (1for both)</td><td>2016 Oct 31</td><td>Salary</td><td>20 000 (1)</td><td></td></tr></table>	Date	Narrative	Adam (£)	Bob (£)	Date	Narrative	Adam (£)	Bob (£)	2015 Nov 1	Balance b/f		235	2015 Nov 1	Balance b/f	2780		2016 Oct 31	Drawings	2 490	3 100 (1for both)	2016 Oct 31	Salary	20 000 (1)		(2)
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Question Number	Answer	Mark
13 (d)	<p>Award 1 mark for each item (Max 2)</p> <p>Sample responses</p> <p>Interest on drawings Interest on capital/loans Share of profits</p>	(2)
Question Number	Answer	Mark
13 (e)	<p>Award marks as below:</p> <p>On 1 November 2015 Bob owed the partnership (1). This may be because he withdrew too much money from the partnership the previous year (1).</p>	(2)
Question Number	Answer	Mark
13 (f)	<p>Award marks as below:</p> <p>Award up to (2) marks for identifying that the company will have limited liability and for clearly stating the implications this will have for each partner.</p> <p>Award up to (2) marks for reference to possible loss of control of their business due to the issue of shares, and the implications for the partnership of receiving dividends only.</p> <p>A final (1) mark can be awarded for an appropriate conclusion.</p> <p>Sample answer</p> <p>This change of structure will result in the partners having limited liability (1) which means that each partner's liability is limited to the amount of money they have invested in the business (1).</p> <p>The partners may lose some control of their business (1) due to the issue of shares and may also suffer financially as they will now be rewarded through dividends (1)</p> <p>However they may be able to have access to more sources of finance and see their business grow. (1)</p>	(5)

- 12** Bob and Carol are in partnership sharing profits and losses in the ratio of 2:1 respectively.

Their partnership agreement also provides for interest on capital at the rate of 5% per annum and a salary for Carol of £10 000 per annum.

After the preparation of the trading account for the year ended 31 March 2015, the following balances remained in the books.

	£
Capital accounts: Bob	100 000
Carol	50 000
Current accounts: Bob	5 623 (Cr)
Carol	6 822 (Dr)
Cash at bank	4 500 (Dr)
Cash in hand	632
Closing stock	45 981
Discount allowed	371
Discount received	521
Fixtures and fittings – cost	30 000
Fixtures and fittings – provision for depreciation	10 000
Gross profit	85 321
Heat and light	1 329
Rent	4 500
Trade creditors	3 925
Trade debtors	4 980
Wages and salaries	13 002

Additional information

Fixtures and fittings are to be depreciated at the rate of 25% per annum on a straight line basis.

On 31 March 2015 wages and salaries, £240, were outstanding, and a payment of rent, £600, for the year ending 31 March 2016 had been made.



Bob and Carol
Profit and Loss and Appropriation Account
Year ended 31 March 2015

[illegible]

(Total for Question 12 = 15 marks)

Question Number	Answer	Mark																																																																																								
12	<div><p style="text-align: center;">Bob and Carol Profit and Loss and Appropriation Account Year ended 31 March 2015</p><table><tr><td></td><td>£</td><td>£</td><td></td></tr><tr><td>Gross profit</td><td></td><td>85 321</td><td>(1)</td></tr><tr><td>Discount received</td><td></td><td><u>521</u></td><td>(1)</td></tr><tr><td></td><td></td><td>85 842</td><td></td></tr><tr><td>Expenses</td><td></td><td></td><td></td></tr><tr><td>Heat and light</td><td>1 329</td><td></td><td>(1)</td></tr><tr><td>Rent (4500 - 600)</td><td>3 900</td><td></td><td>(2)</td></tr><tr><td>Discount allowed</td><td>371</td><td></td><td>(1)</td></tr><tr><td>Wages and salaries (13 002 + 240)</td><td>13 242</td><td></td><td>(2)</td></tr><tr><td>Provision for depreciation (25% x 30000)</td><td>7 500</td><td></td><td>(1)</td></tr><tr><td></td><td></td><td><u>26 342</u></td><td></td></tr><tr><td>Net profit</td><td></td><td>59 500</td><td>(1of)</td></tr><tr><td></td><td></td><td></td><td></td></tr><tr><td>Salary – Carol</td><td>10 000</td><td></td><td>(1)</td></tr><tr><td>Interest on capitals – Bob</td><td>5 000</td><td></td><td>(1)</td></tr><tr><td>Carol</td><td>2 500</td><td></td><td>(1)</td></tr><tr><td></td><td></td><td>17 500</td><td></td></tr><tr><td></td><td></td><td>42 000</td><td></td></tr><tr><td>Share of profits:</td><td></td><td></td><td></td></tr><tr><td>Bob</td><td>28 000</td><td></td><td>(1of)</td></tr><tr><td>Carol</td><td>14 000</td><td></td><td>(1of)</td></tr><tr><td></td><td></td><td><u>42 000</u></td><td></td></tr></table></div>		£	£		Gross profit		85 321	(1)	Discount received		<u>521</u>	(1)			85 842		Expenses				Heat and light	1 329		(1)	Rent (4500 - 600)	3 900		(2)	Discount allowed	371		(1)	Wages and salaries (13 002 + 240)	13 242		(2)	Provision for depreciation (25% x 30000)	7 500		(1)			<u>26 342</u>		Net profit		59 500	(1of)					Salary – Carol	10 000		(1)	Interest on capitals – Bob	5 000		(1)	Carol	2 500		(1)			17 500				42 000		Share of profits:				Bob	28 000		(1of)	Carol	14 000		(1of)			<u>42 000</u>		(15)
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12 Cable and Carr are in partnership sharing profits and losses equally.

Their partnership agreement also provides for the following:

interest on capital at 10% per annum

Cable to have a salary of £7 000 per annum.

(a) State **two** differences between a partnership and a limited liability company.

(2)

1

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2

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	Cable	Carr
	£	£
Capital account balance 1 November 2012	50 000	40 000
Current account balance 1 November 2012	6 450 (Cr)	13 500 (Dr)
Drawings for the year	6 575	12 300
Net profit for the year (before appropriations)	£ 37 900	

(6)

**Cable and Carr
Appropriation Account
for year ended 31 October 2013**

[illegible]

- (c) Prepare Cable's current account for the year ended 31 October 2013. Balance the account on that date and bring down the balance on 1 November 2013.

(6)

Cable – Current Account

Date	Narrative	Amount (£)	Date	Narrative	Amount (£)

The partnership trading account for the year ended 31 October 2013 provided the following information.

	£
Opening stock	36 000
Closing stock	48 000
Purchases	120 000
Sales	240 000

- (d) (i) Calculate the gross profit percentage for the year ended 31 October 2013. State clearly the formula used.

(3)

Formula	Gross Profit Percentage

- (ii) Calculate the rate of stock turnover (in days) for the year ended 31 October 2013. State clearly the formula used.

(3)

Formula	Rate of Stock Turnover



Gross profit percentage	75%
Rate of stock turnover	110 days

(5)

(Total for Question 12 = 25 marks)



	<p>Sample Answer</p> <p>The debtors ratio shows that the collection period for debtors was 60 days. Alcatraz will not (1) be satisfied with this figure as it is greater than the 30 days credit he allows his customers (1)</p> <p>If his debtors are not paying on time this could result in the business suffering cash flow problems (1) or in some instances an increase in the number of bad debts (1).</p> <p>It is therefore very important for the business to monitor the payment period of its debtors (1)</p>	(5)
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Question Number	Answer	Mark
12(a)	<p>Award (1) mark for each correct stated difference.</p> <p>Sample Answers</p> <p>A limited liability company has separate identity from its owners.</p> <p>The owners (shareholders) in a company have limited liability, unlike a partnership where each partner is liable for all debts of the partnership.</p> <p>Companies can raise capital through the issue of shares.</p> <p>Companies pay dividends to their shareholders</p>	(2)

Question Number	Answer	Mark																																							
12(b)	<p style="text-align: center;">Cable and Carr Appropriation Account For year ended 31 October 2013</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th style="text-align: center;">£</th><th style="text-align: center;">£</th></tr> </thead> <tbody> <tr> <td>Net Profit</td><td></td><td style="text-align: right;">37 900 (1cf)</td></tr> <tr> <td>Appropriations</td><td></td><td></td></tr> <tr> <td>Salary Cable</td><td style="text-align: right;">7 000 (1cf)</td><td></td></tr> <tr> <td>Interest on capitals:</td><td></td><td></td></tr> <tr> <td> Cable</td><td style="text-align: right;">5 000 (1cf)</td><td></td></tr> <tr> <td> Carr</td><td style="text-align: right;">4 000 (1cf)</td><td></td></tr> <tr> <td></td><td></td><td style="text-align: right;">16 000</td></tr> <tr> <td></td><td></td><td style="text-align: right;">21 900</td></tr> <tr> <td>Share of profits:</td><td></td><td></td></tr> <tr> <td> Cable</td><td style="text-align: right;">10 950 (1of)</td><td></td></tr> <tr> <td> Carr</td><td style="text-align: right;">10 950 (1of)</td><td></td></tr> <tr> <td></td><td></td><td style="text-align: right;">21 900</td></tr> </tbody> </table>		£	£	Net Profit		37 900 (1cf)	Appropriations			Salary Cable	7 000 (1cf)		Interest on capitals:			Cable	5 000 (1cf)		Carr	4 000 (1cf)				16 000			21 900	Share of profits:			Cable	10 950 (1of)		Carr	10 950 (1of)				21 900	(6)
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Question Number	Answer						Mark
12(c)	Cable – Current Account						
	Date	Narrative	Amount (£)	Date	Narrative	Amount (£)	
	Oct 31	Drawings	6 575 (1)	Nov1	Balance b/d	6 450 (1)	
		Bal c/d	22 825	Oct 31	Salary	7 000 (1)	
					Interest on capital	5 000 (1)	
					Share of profits	10 950 (1)	
			<u>29 400</u>			<u>29 400</u>	
				Nov 1	Balance b/d	22 825 (1of)	

Question Number	Answer	Mark				
12(d)	(i)					
	<table><tr><th>Formula</th><th>Gross Profit Percentage</th></tr><tr><td>Gross profit/sales x 100 (1)</td><td>132 000 (1cf) /240 000 = 55% (1 of)</td></tr></table>		Formula	Gross Profit Percentage	Gross profit/sales x 100 (1)	132 000 (1cf) /240 000 = 55% (1 of)
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	(6)					

Question Number	Answer	Mark																																				
12(e)	<p>Award a maximum of 2 marks for evaluating the change in each ratio plus a further 1 mark for any indication of the possible effects of this on the business's future prospects</p> <p>Sample answers</p> <p>The gross profit percentage may have decreased due to the selling price being decreased (1) in order to increase the sales volume (1).</p> <p style="text-align: center;">OR</p> <p>The gross profit percentage has decreased due to an increase in the cost of goods sold (1) which has not been passed onto the customer in the form of higher prices (1)</p> <p>The rate of stock turnover has increased may indicate that the business is taking longer to sell its stock (1) which may lead to increase in the costs associated with stockholding (1) such as warehousing costs etc (1) (max 2)</p> <p>If the profitability of the business continues to fall the business may struggle in the future to pay its running expenses (1)</p> <p style="text-align: center;">OR</p> <p>By reducing the selling price of their products the business may attract more customers in the long term and see their overall profits increase. (1)</p>	(5)																																				
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13(a)	<p style="text-align: center;">Subscriptions Account</p> <table><tr><th>Date</th><th>Narrative</th><th>Amount (£)</th><th>Date</th><th>Narrative</th><th>Amount (£)</th></tr><tr><td>Nov 1</td><td>Balance b/f</td><td>265 (1 cf)</td><td>Nov 1</td><td>Balance b/f</td><td>450 (1 cf)</td></tr><tr><td>Oct 31</td><td>I + Exp</td><td>12 500 (1 of)</td><td>Oct 31</td><td>Bank</td><td>11 954 (1 cf)</td></tr><tr><td></td><td></td><td></td><td>Oct 31</td><td>Balance c/d</td><td>361</td></tr><tr><td></td><td></td><td><u>12 765</u></td><td></td><td></td><td><u>12 765</u></td></tr><tr><td>Nov 1</td><td>Balance b/d</td><td>361 (1 cf)</td><td></td><td></td><td></td></tr></table> <p>Mark is awarded for figure and appropriate narrative</p>	Date	Narrative	Amount (£)	Date	Narrative	Amount (£)	Nov 1	Balance b/f	265 (1 cf)	Nov 1	Balance b/f	450 (1 cf)	Oct 31	I + Exp	12 500 (1 of)	Oct 31	Bank	11 954 (1 cf)				Oct 31	Balance c/d	361			<u>12 765</u>			<u>12 765</u>	Nov 1	Balance b/d	361 (1 cf)				(5)
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