

MyStudyBro - Revision Exercise Tool

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

Chapters:

Manufacturing - Paper 1 (Pearson Edexcel)

Page 1	(4AC0) 2018 Winter
Page 6	(4AC0) 2018 Winter - Answer
Page 9	(4AC0) 2017 Winter Ratios
Page 11	(4AC0) 2017 Winter - Answer Also Includes: Ratios
Page 13	(4AC0) 2016 Summer
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Page 17	(4AC0) 2015 Winter Ratios
Page 20	(4AC0) 2015 Winter - Answer Also Includes: Ratios
Page 22	(4AC0) 2014 Summer Correction of Errors
Page 24	(4AC0) 2014 Summer - Answer Also Includes: Correction of Errors

- 14 Tornby, a manufacturer of children's toys, provided the following information for the year ended 31 October 2017.

	£
Stock 1 November 2016	
Finished goods	68 000
Raw materials	45 000
Work in progress	13 650
Stock 31 October 2017	
Finished goods	62 000
Raw materials	50 600
Work in progress	16 105
Factory machinery	
Cost	350 000
Accumulated depreciation	200 000
Office equipment	
Cost	75 000
Accumulated depreciation	25 000
Direct factory wages	78 600
Heat and light	26 000
Indirect factory wages	28 930
Insurance	1 750
Purchases of finished goods	22 000
Purchases of raw materials	245 000
Rent and rates	8 000
Revenue	563 000

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Manufacturing Account For The Year Ended 31 October 2017

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(b) Prepare the income statement for the year ended 31 October 2017.

(10)

Tornby

Income Statement For The Year Ended 31 October 2017

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(5)

Extract Of The Balance Sheet At 31 October 2017

(Total for Question 14 = 25 marks)

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Question Number	Answer	Mark																																																									
14 (a)	<p>Award marks as shown</p> <p style="text-align: center;">Tornby Manufacturing account for the year ended 31 October 2017.</p> <table border="1"> <thead> <tr> <th></th><th>£</th><th>£</th></tr> </thead> <tbody> <tr> <td>Opening stock raw materials</td><td>45 000</td><td></td></tr> <tr> <td>Purchases</td><td><u>245 000</u></td><td></td></tr> <tr> <td></td><td>290 000</td><td></td></tr> <tr> <td>Closing stock raw materials</td><td><u>50 600</u></td><td></td></tr> <tr> <td>Cost of raw materials consumed</td><td></td><td>239 400 (1) w + f</td></tr> <tr> <td>Direct factory wages</td><td></td><td><u>80 000</u> (1)</td></tr> <tr> <td>Prime cost</td><td></td><td>319 400 (1of) w + f</td></tr> <tr> <td>Overheads</td><td></td><td></td></tr> <tr> <td>Heat and light</td><td>19 500 (1)</td><td></td></tr> <tr> <td>Insurance</td><td>1 125 (1)</td><td></td></tr> <tr> <td>Rent and rates</td><td>6 000 (1)</td><td></td></tr> <tr> <td>Indirect factory wages</td><td>28 930 (1)</td><td></td></tr> <tr> <td>Depreciation - machinery</td><td>37 500 (1)</td><td></td></tr> <tr> <td></td><td></td><td><u>93 055</u></td></tr> <tr> <td></td><td></td><td>412 455</td></tr> <tr> <td>Opening stock work in progress</td><td>13 650</td><td></td></tr> <tr> <td>Closing stock work in progress</td><td>(16 105)</td><td><u>(2 455) (1)</u></td></tr> <tr> <td>Production cost</td><td></td><td>410 000 (1of w + f)</td></tr> </tbody> </table>		£	£	Opening stock raw materials	45 000		Purchases	<u>245 000</u>			290 000		Closing stock raw materials	<u>50 600</u>		Cost of raw materials consumed		239 400 (1) w + f	Direct factory wages		<u>80 000</u> (1)	Prime cost		319 400 (1of) w + f	Overheads			Heat and light	19 500 (1)		Insurance	1 125 (1)		Rent and rates	6 000 (1)		Indirect factory wages	28 930 (1)		Depreciation - machinery	37 500 (1)				<u>93 055</u>			412 455	Opening stock work in progress	13 650		Closing stock work in progress	(16 105)	<u>(2 455) (1)</u>	Production cost		410 000 (1of w + f)	(10)
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14 (b)	<p>Award marks as shown</p> <p style="text-align: center;">Tornby Income statement for the year ended 31 October 2017.</p> <table border="1"> <thead> <tr> <th></th><th>£</th><th>£</th></tr> </thead> <tbody> <tr> <td>Revenue</td><td></td><td>563 000</td></tr> <tr> <td>Cost of sales</td><td></td><td></td></tr> <tr> <td>Opening stock - FG</td><td>68 000</td><td></td></tr> <tr> <td>Production cost</td><td>410 000</td><td></td></tr> <tr> <td></td><td>(1 of)</td><td></td></tr> <tr> <td>Purchases of FG</td><td><u>22 000</u> (1)</td><td></td></tr> <tr> <td></td><td>500 000</td><td></td></tr> <tr> <td>Closing stock - FG</td><td><u>62 000</u></td><td></td></tr> <tr> <td></td><td>(1)</td><td></td></tr> <tr> <td>Cost of sales</td><td></td><td><u>438 000</u></td></tr> <tr> <td></td><td></td><td>(1 of)</td></tr> <tr> <td>Gross profit</td><td></td><td>125 000</td></tr> <tr> <td></td><td></td><td>(1 of)</td></tr> <tr> <td>Expenses</td><td></td><td></td></tr> <tr> <td>Heat and light</td><td>6 500 (1)</td><td></td></tr> <tr> <td>Insurance</td><td>375 (1)</td><td></td></tr> <tr> <td>Rent and rates</td><td>2 000 (1)</td><td></td></tr> <tr> <td>Depreciation office equipment</td><td>15 000 (1)</td><td></td></tr> <tr> <td></td><td></td><td>23 875</td></tr> <tr> <td>Net profit</td><td></td><td>101 125</td></tr> <tr> <td></td><td></td><td>(1 of)</td></tr> </tbody> </table>		£	£	Revenue		563 000	Cost of sales			Opening stock - FG	68 000		Production cost	410 000			(1 of)		Purchases of FG	<u>22 000</u> (1)			500 000		Closing stock - FG	<u>62 000</u>			(1)		Cost of sales		<u>438 000</u>			(1 of)	Gross profit		125 000			(1 of)	Expenses			Heat and light	6 500 (1)		Insurance	375 (1)		Rent and rates	2 000 (1)		Depreciation office equipment	15 000 (1)				23 875	Net profit		101 125			(1 of)	(10)
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14 (c)	<p>Award marks as shown</p> <p style="text-align: center;">Tornby Extract of the balance sheet at 31 October 2017.</p> <table><tr><td></td><td>£</td><td>£</td><td>£</td></tr><tr><td>Fixed assets</td><td>Cost</td><td>Depr</td><td>Net book value</td></tr><tr><td>Factory machinery</td><td>350 000</td><td>237 500 (1 of)</td><td>112 500 (1 of)</td></tr><tr><td>Office equipment</td><td><u>75 000</u></td><td><u>40 000 (1 of)</u></td><td><u>35 000 (1 of)</u></td></tr><tr><td></td><td><u>425 000</u></td><td><u>277 500</u></td><td>147 500 (1 of)</td></tr></table>		£	£	£	Fixed assets	Cost	Depr	Net book value	Factory machinery	350 000	237 500 (1 of)	112 500 (1 of)	Office equipment	<u>75 000</u>	<u>40 000 (1 of)</u>	<u>35 000 (1 of)</u>		<u>425 000</u>	<u>277 500</u>	147 500 (1 of)	(5)
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(Total for Question 14 = 25 marks)

- 14 The following information was extracted from the books of Mihai Manufacturing on 31 December 2016 at the end of the first year of business.

	£
Raw materials	55 213
Work-in-progress	12 543
Finished goods	82 134
Production cost	236 112
Purchases of finished goods	96 022

Mihai Manufacturing marks up its cost of sales by 50%.

- (a) Prepare the trading account for the year ended 31 December 2016.

(6)

**Mihai Manufacturing
Trading Account
Year ended 31 December 2016**

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- (b) Suggest **one** reason why Mihai Manufacturing purchased finished goods.

(1)

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Mihai Manufacturing sells all goods on credit, with debtors being allowed 30 days credit.

On 31 December 2016 total debtors were £56 515.

(c) Calculate the debtors' collection period.

(2)

(d) Explain the implications for the business of the debtors' collection period.

(3)

(e) Suggest **three** steps that Mihai Manufacturing could take to improve the debtors' collection period.

(3)

1

2

3

(Total for Question 14 = 15 marks)



Question Number	Answer	Mark																											
14 (a)	<p style="text-align: center;">Mihai Manufacturing Trading account Year ended 31 December 2016</p> <table border="1" 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*</td><td></td><td style="text-align: right;">375 000 (2/1of)</td></tr> <tr> <td>Cost of sales</td><td></td><td></td></tr> <tr> <td>Production cost</td><td style="text-align: right;">236112 (1)</td><td></td></tr> <tr> <td>Purchases of FG</td><td style="text-align: right;">96 022 (1)</td><td></td></tr> <tr> <td></td><td style="text-align: right;">332 134</td><td></td></tr> <tr> <td>Closing stock - FG</td><td style="text-align: right;">82 134 (1)</td><td></td></tr> <tr> <td>Cost of sales</td><td></td><td style="text-align: right;">250 000</td></tr> <tr> <td>Gross profit</td><td></td><td style="text-align: right;">125 000 (1of)</td></tr> </tbody> </table> <p>Award marks only where candidate has calculated the revenue figure based on 150% of cost of sales (of)</p>		£	£	Revenue*		375 000 (2/1of)	Cost of sales			Production cost	236112 (1)		Purchases of FG	96 022 (1)			332 134		Closing stock - FG	82 134 (1)		Cost of sales		250 000	Gross profit		125 000 (1of)	(6)
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4 (b)	<p>Award 1 mark for any suitable suggestion.</p> <p>Sample responses</p> <p>To meet an urgent order Machinery breakdown Delays in production Cheaper to purchase than produce</p>	(1)																											

Question Number	Answer	Mark
14 (c)	<p>Award 2 marks for correct calculation.</p> <p>56 515/375 000 (1of) x 365 =</p> <p>55 days (1of)</p>	(2)

Question Number	Answer	Mark
14 (d)	<p>Award (1) mark for identifying that the collection period has exceeded that allowed.</p> <p>Award (1) mark for identifying the effect on the businesses ability to pay its own debts and (1) mark for stating that bad debts may increase. up to 3 marks</p> <p>Sample answer</p> <p>The debtor's collection period exceeds (1) the period allowed by Mihai Manufacturing. This could result in the business being unable to meet its own debts (1). There is also a possibility that bad debts may increase (1)</p>	(3)
Question Number	Answer	Mark
14 (e)	<p>Award 1 mark for each appropriate suggestion (Max 3)</p> <p>Sample responses</p> <p>Offer cash discount for early payment Send out regular statements of account Charge interest on late payments Stop selling on credit</p>	(3)

- 13 Sohal, a manufacturer of footwear, provided the following information for the year ended 31 March 2016.

	At 1 April 2015	At 31 March 2016
	£	£
Raw materials	3 600	4 000
Work-in-progress	5 800	6 100
Finished goods	19 600	26 600

- (a) Explain the difference between each of these types of stock.

(3)

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In addition the following information was provided for the year ended 31 March 2016.

	£
Purchases of raw materials	390 600
Direct wages	110 000
Salary of factory supervisor	45 000
Carriage on raw materials	9 800
Sales and administration costs	159 000
Depreciation of factory machinery	33 000
Rent	30 000
Power	5 000
Insurance	8 000

The costs of rent, power and insurance are apportioned 60% to the factory and 40% to the office.

- (b) Prepare the manufacturing account for the year ended 31 March 2016.

(12)



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Sohal

Manufacturing Account Year ended 31 March 2016

Area for writing the Manufacturing Account. The area contains horizontal dotted lines for writing.

(Total for Question 13 = 15 marks)



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

Question Number	Answer	Mark
12 (b iv)	$\text{£}180\,000 \text{ (1of)} / 217\,925 \times 100 = 82.60\% \text{ (1of)}$	(2)

Question Number	Answer	Mark
12 (c)	<p>Award up to 2 marks for an appropriate comment on each profitability ratio (Max 4 marks).</p> <p>Award 1 mark for a concluding statement</p> <p>Sample answers</p> <p>The mark-up has decreased from 30% to 25%. This indicates that Aaron is either selling his goods at a lower price (1) and/or purchasing his goods at a higher price (1) than the previous year.</p> <p>The net profit percentage had decreased from 20% to 15%. This indicates that Aaron may be spending more money on his overheads this year than previously (1). However this may be due to the decrease in his mark up rather than any increase in overhead costs (1)</p> <p>The return on capital employed has increased from 65% to 82.6% which indicates that Aaron is earning more profit from his capital this year than the previous year (1). This may be due to improved efficiency in his business operations (1)</p> <p>In spite of a decrease in his mark up Aaron's business's profitability is improving which is evident from the increase in the capital employed (1)</p>	(5)

Question Number	Answer	Mark
13 (a)	<p>Raw materials stock is the stock of crude or processed material that can be converted by manufacture into a saleable good (1).</p> <p>Work in progress stock is goods which have started their manufacturing process so are no longer included in the raw materials stock, but have not yet reached a stage where they are fit to be sold (1)</p> <p>Finished goods stock is goods which have completed the manufacturing process and are available to be sold (1)</p>	(3)

Question Number	Answer	Mark																																																																																																									
13 (b)	<div><div><div>Sohal</div><div>Manufacturing Account</div><div>Year ended 31 March 2016</div></div><table><tr><td></td><td>£</td><td>£</td><td>£</td><td></td></tr><tr><td>Opening stock RM</td><td>3 600</td><td></td><td></td><td>(1 for both)</td></tr><tr><td>Purchases RM</td><td><div>390</div><div>600</div></td><td></td><td></td><td></td></tr><tr><td></td><td><div>394</div><div>200</div></td><td></td><td></td><td></td></tr><tr><td>Carriage inwards</td><td><div>9 800</div></td><td></td><td></td><td>(1)</td></tr><tr><td></td><td><div>404</div><div>000</div></td><td></td><td></td><td></td></tr><tr><td>Closing stock RM</td><td><div>4 000</div></td><td></td><td></td><td></td></tr><tr><td>Cost of raw materials consumed</td><td></td><td>400 000</td><td></td><td>(1)</td></tr><tr><td>Direct wages</td><td></td><td><div>110 000</div></td><td></td><td>(1)</td></tr><tr><td>Prime cost</td><td></td><td></td><td>510 000</td><td>(1of)</td></tr><tr><td>Overheads</td><td></td><td></td><td></td><td></td></tr><tr><td>Factory supervisor salary</td><td></td><td>45 000</td><td></td><td>(1)</td></tr><tr><td>Factory machinery dep</td><td></td><td>33 000</td><td></td><td>(1)</td></tr><tr><td>Rent</td><td></td><td>18 000</td><td></td><td>(1)</td></tr><tr><td>Power</td><td></td><td>3 000</td><td></td><td>(1)</td></tr><tr><td>Insurance</td><td></td><td><div>4 800</div></td><td></td><td>(1)</td></tr><tr><td></td><td></td><td></td><td><div>103 800</div></td><td></td></tr><tr><td></td><td></td><td></td><td>613 800</td><td></td></tr><tr><td>Opening stock WIP</td><td></td><td>5 800</td><td></td><td>(1for both)</td></tr><tr><td>Closing stock WIP</td><td></td><td><div>(6 100)</div></td><td></td><td></td></tr><tr><td>Production cost</td><td></td><td></td><td><div>613 500</div></td><td>(1of)</td></tr></table></div>		£	£	£		Opening stock RM	3 600			(1 for both)	Purchases RM	<div>390</div> <div>600</div>					<div>394</div> <div>200</div>				Carriage inwards	<div>9 800</div>			(1)		<div>404</div> <div>000</div>				Closing stock RM	<div>4 000</div>				Cost of raw materials consumed		400 000		(1)	Direct wages		<div>110 000</div>		(1)	Prime cost			510 000	(1of)	Overheads					Factory supervisor salary		45 000		(1)	Factory machinery dep		33 000		(1)	Rent		18 000		(1)	Power		3 000		(1)	Insurance		<div>4 800</div>		(1)				<div>103 800</div>					613 800		Opening stock WIP		5 800		(1for both)	Closing stock WIP		<div>(6 100)</div>			Production cost			<div>613 500</div>	(1of)	(12)
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- 14** Red Limited manufactures footwear. It provided the following information for the year ended 31 October 2014.

	£
Stocks 1 November 2013: Raw materials	45 000
Work in progress	13 650
Finished goods	68 000
Purchases of raw materials	262 000
Carriage on raw materials	9 000
Direct factory wages	78 600
Indirect factory wages	28 930
Factory machinery – cost	350 000
Factory machinery – provision for depreciation	200 000
Factory power	22 379
Heat and light	26 000
Insurance	1 500
Rent and rates	8 000
Stocks 31 October 2014: Raw materials	51 000
Work in progress	13 709
Finished goods	76 000

Additional information

On 31 October 2014 insurance paid in advance amounted to £500 and direct factory wages owing were £6 400.

Heat and light, insurance, and rent and rates are to be apportioned $\frac{3}{4}$ to the factory and $\frac{1}{4}$ to the administration building.

Factory machinery is depreciated at the rate of 25% on the reducing balance basis.



(10)

Manufacturing Account for the year ended 31 October 2014

[illegible]

The return on capital employed has decreased from 28% for the year ended 31 October 2012 to 25% for the year ended 31 October 2013.

- (2)

Formula	Calculation

- (5)

[illegible]

(Total for Question 14 = 17 marks)



Question Number	Answer	Mark
14 (a)		(10)

Red Limited

Manufacturing account for the year ended 31 October 2014.

	£	£	£	
Opening stock – raw materials	45 000			
Purchases of raw materials	<u>262 000</u>			
	307 000			
Carriage on raw materials	<u>9 000</u>			
	316 000			
Closing stock – raw materials	<u>51 000</u>			
Cost of raw material consumed		265 000		(1)
Direct factory wages (78600 + 6400)		85 000		(1)
Prime cost			350 000	(1)
Factory overheads				
Indirect factory wages		28 930		
Factory power		22 379		
Heat and light		19 500		(1)
Insurance		750		(1)
Rent and rates		6 000		(1)
Depreciation – factory machinery		<u>37 500</u>		(1)
			<u>115 059</u>	
			465 059	
Opening work in progress			13 650	
Closing work in progress			<u>(13 709)</u>	(1)
Production cost (1)			<u>465 000</u>	(1)

Question Number	Answer	Mark
14 (b)(i)	$\text{Net profit/Capital employed} \times 100 \text{ (1)}$ $113000/565000 \times 100 = 20\% \text{ (1)}$	(2)

Question Number	Answer	Mark
14 (b)(ii)	<p>Award (1) for identifying that the ROCE is worsening over the three year period.</p> <p>Award up to (3) for statements relating to how efficient or otherwise the company is.</p> <p>Award (1) for an appropriate conclusion.</p> <p>Sample answer</p> <p>The ratio indicates that their ROCE has declined (1) over the three year period. This indicates that the company is not (1) operating as efficiently (1) as it should be and that they are not making the most effective use of their capital employed (1). If this trend continues shareholders may decide to sell their shares and the company may have difficulty attracting further investments in the future (1).</p>	(5)

- 13** The following information was extracted from the books of Ajit Manufacturing on 31 March 2014.

	1 April 2013	31 March 2014
Stocks:		
Raw materials	£26 000	£31 000
Work in progress	£15 000	£12 000
Finished goods	£186 000	£217 500

For the year ended 31 March 2014

Purchases of raw materials	£134 000
Carriage inwards	£1 000
Factory wages:	
Direct	£70 000
Indirect	£22 000

- (a) Explain the difference between direct and indirect factory wages.

(2)

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- (b) Calculate the prime cost.

(6)

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On 31 March 2014 Ajit's Manufacturing's trial balance failed to agree and the difference was entered into a suspense account. The following errors and omissions were later discovered.

- 1 An invoice from a supplier for £500 had not been entered in the books.
- 2 Stock valued at £360, taken by Ajit, had been debited to both the drawings account and the purchases account.
- 3 A sale of goods, £245, had been entered correctly in the bank account but no other entries had been made.
- 4 The total of discount received, £68, recorded correctly in the cash book, had been debited to discount allowed.

(c) Complete the following table to show the necessary entries to correct these errors and omissions.

(8)

Errors/ omissions	Account(s) to be debited	Amount (£)	Account(s) to be credited	Amount (£)
1				
2				
3				
4				

(Total for Question 13 = 16 marks)

Question Number	Answer	Mark
12(c)	<p>Award (1) mark for indication satisfaction/dissatisfaction with the ratio with a further (1) mark for any development. Award up to a further (2) marks for an indication that the current ratio may be too high. A final (1) mark can be awarded for an appropriate conclusion.</p> <p>Sample answer</p> <p>Shaw will be satisfied (1) with this ratio as it indicates that he is able to meet his short term debts (1)</p> <p>However Shaw may have too much money tied up in his current assets (1) as a ratio which exceeds 2:1 can indicate poor management of the current assets (1)</p> <p>Although ratios between 1.5:1 and 2:1 are generally regarded as satisfactory consideration also needs to be given to the size and type of the business which Shaw operates (1)</p>	(5)

Question Number	Answer	Mark
13(a)	<p>Direct wages is the term used to describe the cost of the wages of the people who are employed in the factory making the goods (1) whereas indirect wages refers to the wages of those staff that are not directly involved in the manufacture of the product such as supervisors (1)</p>	(2)

Question Number	Answer	Mark																											
13(b)	<table border="1"> <thead> <tr> <th></th><th>£</th><th>£</th></tr> </thead> <tbody> <tr> <td>Opening stock raw materials</td><td>26 000</td><td></td></tr> <tr> <td>Purchases raw materials</td><td>134 000 (1 cf)</td><td></td></tr> <tr> <td>Carriage inwards</td><td>1 000 (1 cf)</td><td></td></tr> <tr> <td></td><td>161 000</td><td></td></tr> <tr> <td>Closing stock raw materials</td><td>31 000 (1 cf both)</td><td></td></tr> <tr> <td>Cost of raw materials consumed</td><td></td><td>130 000 (1 of)</td></tr> <tr> <td>Direct wages</td><td></td><td>70 000 (1 cf)</td></tr> <tr> <td>Prime Cost</td><td></td><td>200 000 (1 of)</td></tr> </tbody> </table>		£	£	Opening stock raw materials	26 000		Purchases raw materials	134 000 (1 cf)		Carriage inwards	1 000 (1 cf)			161 000		Closing stock raw materials	31 000 (1 cf both)		Cost of raw materials consumed		130 000 (1 of)	Direct wages		70 000 (1 cf)	Prime Cost		200 000 (1 of)	(6)
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Prime Cost		200 000 (1 of)																											

Question Number	Answer						Mark
13(c)		Error	Account(s) to be debited	Amount (£)	Account(s) to be credited	Amount (£)	(8)
		1	Purchases	500 (1)	Supplier/Creditors control	500 (1)	
		2	Suspense	720 (1)	Purchases	720 (1)	
		3	Suspense	245 (1)	Sales	245 (1)	
		4	Suspense	136 (1)	Discount allowed	68 (1 for both)	
					Discount received	68	
	Award (1) mark for each correct entry – mark for both correct account name and amount. Do not accept names of books.						

Question Number	Answer				Mark
14 (a)	Date	Transaction	Explanation	Double Entry	(8)
	Oct 12	Cash book	A cheque or cash payment has been made for insurance (1)	Credit side of the bank/cash account OR credit cash book (1)	
	Oct 12	Discount	Cash discount received (1) by Rekha	Credit side of the discount received account (1)	
	Oct 31	Profit and loss	The transfer to the profit and loss account for the expense of insurance for the period (1)	Debit side of the profit and loss account (1)	
	Oct 31	Balance c/d	The value of insurance prepaid/paid in advance (1) at the end of the period.	Debit side of the insurance account (1)	