

MyStudyBro - Revision Exercise Tool

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

Chapters:

Bad Debts and Provision - Paper 1 (Pearson Edexcel)

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Page 16	(4AC0) 2012 Winter - Answer Also Includes: Accounting Concepts Accruals and Prepayments

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15 (a) Explain the difference between a bad debt and a provision for doubtful debts.

(2)

At the end of their financial year on 30 November 2017, Baker and Butcher provided the following information related to its debtors.

Balance	Amount (£)
1 December 2016	5 870
30 November 2017	7 000

On 30 November 2017 Baker and Butcher decided to write off a bad debt of £300 and create a provision for doubtful debts of 2% of remaining debtors.

(b) Prepare the journal entries to record **both** of these transactions. Narratives are required.

(6)

Date	Account	Debit (£)	Credit (£)



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(c) State **two** ways in which a business could ensure that the debtors pay on time.

(2)

(Total for Question 15 = 10 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 100 MARKS



Question Number	Answer	Mark																												
15 (a)	<p>Award up to 2 marks for a clear explanation of the difference between the two terms</p> <p>Eg A bad debt is written off when there is a reasonable certainty that a specific debtor is not going to pay (1) whereas a provision for doubtful debts is made when there is some doubt that the total value of debtors will be collected. (1)</p>	(2)																												
Question Number	Answer	Mark																												
15 (b)	<p>Award marks for correct labels, amounts and narratives as shown</p> <table><tr><th>Date</th><th>Account</th><th>Debit</th><th>Credit</th></tr><tr><td>Nov 30</td><td>Bad debts</td><td>300 (1)</td><td></td></tr><tr><td></td><td>Sales ledger control account</td><td></td><td>300 (1)</td></tr><tr><td></td><td>Being the writing off of a bad debt. (1)</td><td></td><td></td></tr><tr><td></td><td>Profit and loss</td><td>134 (1)</td><td></td></tr><tr><td></td><td>Provision for doubtful debts</td><td></td><td>134 (1)</td></tr><tr><td></td><td>Being the creation of a provision for doubtful debts (1)</td><td></td><td></td></tr></table>	Date	Account	Debit	Credit	Nov 30	Bad debts	300 (1)			Sales ledger control account		300 (1)		Being the writing off of a bad debt. (1)				Profit and loss	134 (1)			Provision for doubtful debts		134 (1)		Being the creation of a provision for doubtful debts (1)			(6)
Date	Account	Debit	Credit																											
Nov 30	Bad debts	300 (1)																												
	Sales ledger control account		300 (1)																											
	Being the writing off of a bad debt. (1)																													
	Profit and loss	134 (1)																												
	Provision for doubtful debts		134 (1)																											
	Being the creation of a provision for doubtful debts (1)																													
Question Number	Answer																													
15 (c)	<p>Award 1 mark for each correct response max 2</p> <p>Eg Offer cash discount (1) Improve credit control (1) Charge interest on overdue payments (1) Send invoices and/or statements of account regularly (1)</p>	(2)																												

(Total for Question 15 = 10 marks)

- 15 (a) Explain the difference between writing off a bad debt and making a provision for doubtful debts.

(4)

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- (b) State which accounting concept is being applied when creating a provision for doubtful debts.

(1)

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On 1 July 2016 Cao was advised that Mayo, a debtor, had ceased trading owing them £580. Cao decides to write this off as a bad debt.

- (c) Prepare the journal entry to record this write off. A narrative is **not** required.

(2)

Date	Account	Debit £	Credit £

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On 31 August 2016 Cao receives a cheque for £275 from Mayo in payment of the debt that had been written off on 1 July 2016.

- (d) Prepare the bad debts recovered account to record this transaction. Show the transfer to the financial statements at the year end of 31 December 2016.

(3)

Bad Debts Recovered Account

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

(Total for Question 15 = 10 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 100 MARKS



Question Number	Answer	Mark																
15 (a)	<p>Award up to 4 marks for a clear explanation of the difference between the two - maximum of 2 marks for each.</p> <p>When a bad debt is written off there is reasonable certainty that a specific debtor is not going to pay (1). The profit and loss account is charged with the bad debt and the amount is taken off the sales ledger control account (1).</p> <p>A provision for doubtful debts is made when there is some doubt that the total value of debtors will be collected. (1) The change in the provision is charged to the profit and loss account through the adjustment account. The total provision is deducted from the debtors in the balance sheet. (1)</p>	(4)																
Question Number	Answer	Mark																
15 (b)	<p>Prudence (1)</p> <p>Accept Prudence concept or the concept of prudence Do not accept misspellings</p>	(1)																
Question Number	Answer																	
15 (c)	<p>Award marks for correct figure and label. No date required</p> <table><tr><th>Date</th><th>Account</th><th>Debit</th><th>Credit</th></tr><tr><td>July 1</td><td>Bad debts</td><td>580 (1)</td><td></td></tr><tr><td></td><td>Mayo</td><td></td><td>580 (1)</td></tr><tr><td></td><td></td><td></td><td></td></tr></table>	Date	Account	Debit	Credit	July 1	Bad debts	580 (1)			Mayo		580 (1)					(2)
Date	Account	Debit	Credit															
July 1	Bad debts	580 (1)																
	Mayo		580 (1)															
Question Number	Answer	Mark																
15 (d)	<p>Award marks for correct dates, narrative and amounts</p> <p style="text-align: center;">Bad Debts Recovered Account</p> <table><tr><th>Date</th><th>Narrative</th><th>£</th><th>Date</th><th>Narrative</th><th>£</th></tr><tr><td>Dec 31</td><td>Profit and loss (1)</td><td><u>275</u>(1)</td><td>Aug 31</td><td>Bank</td><td><u>275</u>(1)</td></tr></table>	Date	Narrative	£	Date	Narrative	£	Dec 31	Profit and loss (1)	<u>275</u> (1)	Aug 31	Bank	<u>275</u> (1)	(3)				
Date	Narrative	£	Date	Narrative	£													
Dec 31	Profit and loss (1)	<u>275</u> (1)	Aug 31	Bank	<u>275</u> (1)													

15 Barat, a trader, is experiencing late payments from debtors.

- (a) Explain **two** ways in which he can encourage his debtors to pay their accounts on time.

(4)

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Barat maintains a provision for doubtful debts of 5% of debtors. His debtors amounted to £35 000 on 1 April 2013 and £40 000 on 31 March 2014.

- (b) Prepare the provision for doubtful debts account for the year ended 31 March 2014. Balance the account at that date and bring the balance down on 1 April 2014.

(5)

Provision for doubtful debts account

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



- (c) Explain the effect on the net profit for the year ended 31 March 2014 if Barat's debtors had decreased and his provision for doubtful debts was maintained at 5%.

(2)

(Total for Question 15 = 11 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 100 MARKS



Question Number	Answer	Mark
14 (b)	<p>Rekha is considering investing in a computerised accounting package.</p> <p>(i) Evaluate the advantages of this proposal</p> <p>Award (1) mark for identification of an advantage and a further (1) mark for development of the response. A further (1) mark to be awarded for any appropriate conclusion. (Max 5)</p> <p>Sample answer</p> <p>The accuracy of the bookkeeping process will improve (1) as the calculations are done automatically by the program (1). The processing of financial information will be faster (1) as Rekha will only have to make one entry and the system will process the other entry automatically (1). Therefore Rekha's business could benefit from this investment (1)</p> <p>(ii) Evaluate the disadvantages of this proposal</p> <p>Award (1) mark for identification of a disadvantage and a further (1) mark for development of the response. A further (1) mark to be awarded for any appropriate conclusion. (Max 5)</p> <p>Sample answer</p> <p>The cost (1) of the hardware and software may require a fresh injection of capital (1). (Candidates may also refer to the cost of training staff or the cost of making staff redundant.) There is a risk (1) that data may be lost or corrupted due to computer viruses (1). Therefore Rekha's business may not benefit from this investment. (1)</p> <p>In both (i) and (ii) where candidate has only provided a list award Max (2) in each instance.</p>	(10)

Question Number	Answer	Mark
15 (a)	<p>Award up to (2) marks for each suggestion.</p> <p>Sample Answers</p> <p>1. Barat could offer his debtors a cash discount if they pay their accounts within a specified period (1) which would improve his cash flow (1).</p> <p>2. Barat could ensure that invoices are issued promptly (1) or send regular monthly statements (1) to his debtors which should remind them to pay the amount due on time (1) (Max 2)</p>	(4)

Question Number	Answer	Mark																														
15 (b)	<div><div>Provision for doubtful debts account</div><table><tr><th>Date</th><th>Narrative</th><th>Amount (£)</th><th>Date</th><th>Narrative</th><th>Amount (£)</th></tr><tr><td>Mar 31</td><td>Bal c/d</td><td>2 000</td><td>Apr 1</td><td>Bal b/f</td><td>1 750 (1cf)</td></tr><tr><td></td><td></td><td></td><td>Mar 31</td><td>Profit and loss (1)</td><td>250 (2cf)</td></tr><tr><td></td><td></td><td><u>2 000</u></td><td></td><td></td><td><u>2 000</u></td></tr><tr><td></td><td></td><td></td><td>Apr 1</td><td>Bal b/d</td><td>2 000 (1of)</td></tr></table></div>	Date	Narrative	Amount (£)	Date	Narrative	Amount (£)	Mar 31	Bal c/d	2 000	Apr 1	Bal b/f	1 750 (1cf)				Mar 31	Profit and loss (1)	250 (2cf)			<u>2 000</u>			<u>2 000</u>				Apr 1	Bal b/d	2 000 (1of)	(5)
Date	Narrative	Amount (£)	Date	Narrative	Amount (£)																											
Mar 31	Bal c/d	2 000	Apr 1	Bal b/f	1 750 (1cf)																											
			Mar 31	Profit and loss (1)	250 (2cf)																											
		<u>2 000</u>			<u>2 000</u>																											
			Apr 1	Bal b/d	2 000 (1of)																											

Question Number	Answer	Mark
15 (c)	<p>Increase (1)</p> <p>As Barat's debtors have decreased then his provision would also decrease resulting in additional income (1) which would increase his profit.</p>	(2)

- 15** During the year ended 31 December 2012, Streep, a trader, wrote off the sum of £650 in bad debts. At this date she was also advised that a debtor, Thatcher, who owed £800 on 1 January 2012 had been declared bankrupt. Streep received £350 in full settlement of this debt and the remainder was to be written off.

- (a) Prepare the bad debts account in the books of Streep for the year ended 31 December 2012.

(4)

Bad Debts Account

Date	Narration	£	Date	Narration	£

- (b) Prepare the account of Thatcher for the year ended 31 December 2012.

(3)

Thatcher Account

Date	Narration	£	Date	Narration	£



Streep has recently purchased a new motor vehicle for use in the business.

- (c) Explain the difference between capital and revenue expenditure and state how each is treated in the end-of-year accounts.

(4)

- (d) Indicate by placing a tick (✓) which transactions are capital expenditure and which are revenue expenditure.

(4)

Transaction	Capital expenditure	Revenue expenditure
Purchase of new premises		
Insurance of premises		
Installing and testing an air conditioning system		
Repairs to premises roof		

(Total for Question 15 = 15 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 100 MARKS



Question Number	Answer						Mark
15 (a)	Bad Debts Account						(4)
	Date	Narration	£	Date	Narration	£	
	Dec 31	Sundry debtors	650 (1 cf)	Dec 31	Profit and Loss (1)	1 100 (1 of)	
	Dec 31	Thatcher	450 (1 of)				
			1 100			1 100	

Question Number	Answer						Mark
15 (b)	Thatcher Account						(3)
	Date	Narration	£	Date	Narration	£	
	Jan 1	Balance b/d	800 (1)	Dec 31	Bank	350 (1)	
				Dec 31	Bad Debts	450 (1)	
			800			800	

Question Number	Answer	Mark
15 (c)	<p>Capital expenditure is money spent by a business on purchasing fixed assets or improving existing fixed assets (1). These costs will appear in the balance sheet (1) Revenue expenditure is money spent on running a business on a day-to-day basis (1). These costs will appear in the profit and loss account (1).</p>	(4)

Question Number	Answer	Mark															
15 (d)	<table border="1"> <thead> <tr> <th>Transaction</th><th>Capital expenditure</th><th>Revenue expenditure</th></tr> </thead> <tbody> <tr> <td>Purchase of new premises</td><td>✓ (1)</td><td></td></tr> <tr> <td>Insurance of premises</td><td></td><td>✓ (1)</td></tr> <tr> <td>Installing and testing an air conditioning system</td><td>✓ (1)</td><td></td></tr> <tr> <td>Repairs to premises roof</td><td></td><td>✓ (1)</td></tr> </tbody> </table>	Transaction	Capital expenditure	Revenue expenditure	Purchase of new premises	✓ (1)		Insurance of premises		✓ (1)	Installing and testing an air conditioning system	✓ (1)		Repairs to premises roof		✓ (1)	(4)
Transaction	Capital expenditure	Revenue expenditure															
Purchase of new premises	✓ (1)																
Insurance of premises		✓ (1)															
Installing and testing an air conditioning system	✓ (1)																
Repairs to premises roof		✓ (1)															

13 Raj Patel had the following balance in his books on 20 November 2011.

Rent received £22 000 Cr

Raj's financial year ends on 30 November 2011 and during the final week of November his tenant paid a further £2 000 to cover the outstanding rent for November and a further £2 000 to cover the rent for December 2011.

- (a) Prepare the rent received account for the month of November, clearly showing any transfers to the profit and loss account. Balance the account on 30 November 2011 and bring the balance down to 1 December 2011.

(4)

Rent Received Account

Date	Narration	£	Date	Narration	£

- (b) Explain the accounting concept Raj has applied.

(3)

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On 30 November Sunil Khan owed the business £3 500. Raj was advised that Sunil was unable to pay his outstanding debt and it was agreed to write this off as a bad debt.

- (c) Prepare the account of Sunil Khan and the bad debts account for the month of November, clearly showing any transfers to the profit and loss account.

(5)

Sunil Khan Account

Date	Narration	£	Date	Narration	£

Bad Debts Account

Date	Narration	£	Date	Narration	£

- (d) Explain which accounting concept Raj has applied.

(3)

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(Total for Question 13 = 15 marks)

Question Number	Answer	Mark
12(c)	<p>Award up to 2 marks for advantages of this proposal, a further 2 marks for any disadvantages and a one mark for a conclusion or advice etc.</p> <p>Sample Answer</p> <p>If the partners decide to change their business structure to a limited liability company they will find that there are several advantages and disadvantages to this. Firstly 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). 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). They may be able to attract more investment from outside agencies such as banks who are more likely to lend money where the ownership of the business is wider (1).</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). 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). 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>Although there are many advantages to the partnership of this proposal, Hinge and Bracket 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)

Question Number	Answer							Mark	
13(a)	Rent Received Account							(4)	
	Date	Narration		£	Date	Narration			£
	Nov 30	Profit and Loss (1)	(1of)	24000	Nov 20	Balance b/f			22 000
	Nov 30	Balance c/d		2 000	Nov 30	Cash Book	(1cf)		4 000
				26 000					26 000
					Dec 1	Balance b/d	(1of)		2 000

Question Number	Answer	Mark
13(b)	<p>Award 1 mark for identifying 'Accruals/Matching as the concept and a further 2 marks for stating that the rent in advance will be shown as income in next year's profit and loss account (1) and will be shown as a current liability on this year's balance sheet (1).</p>	(3)

Question Number	Answer							Mark
13(c)	Sunil Khan Account							(5)
	Date	Narration	£	Date	Narration		£	
	Nov 20	Balance b/f	3 500	Nov30	Bad Debts (1)	(1)	3 500	
	Bad Debts Account							
	Date	Narration		£	Date	Narration		
Nov 30	Sunil Khan	(1)	3 500	Nov 30	Profit and Loss(1)	(1)	3 500	

Question Number	Answer	Mark
13(d)	Award 1 mark for identifying 'Prudence' as the concept and a further 2 marks for stating that as the amount was irrecoverable the correct approach is to write it off in this years profit and loss account (1) and to reduce debtors in order not to overstate the value of the assets (1).	(3)

Question Number	Answer	Mark
14(a)	Award one mark for each correct answer up to three marks. Items could include bank charges, dishonoured cheques, standing order.	(3)

Question Number	Answer						Mark
14(b)	Cash Book (Bank Columns)						(4)
	Date	Narration	Bank (£)	Date	Narration	Bank (£)	
	Aug 31	Balance b/f	1 003 (1)	Aug 10	DD Council	125 (1)	
	Aug 21	CT - customer	200 (1)	Aug 31	Balance c/d	1 078	
			<u>1 203</u>			<u>1 203</u>	
	Sep 1	Balance b/d	1 078 (1 of)				