MyStudyBro - Revision Exercise Tool

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

Chapters:

Financial Statements - Paper 1 (Pearson Edexcel)

12 On 31 December 2015 the following balances were extracted from the books of Pip, a sole trader.

Account	**Balance**
	£
Bad debts	3 200
Business rates	4 650
Carriage inwards	12 318
Carriage outwards	28 663
Fixtures and fittings – cost	20 000
General expenses	23 897
Insurance	4 322
Motor expenses	27 690
Motor vehicles – cost	30 000
Opening stock	45 000
Premises – cost	250 000
Provision for depreciation – fixtures and fittings	5 000
Provision for depreciation – motor vehicles	10 000
Purchases	324 897
Returns outwards	12 579
Sales	487 600

The following additional information at 31 December 2015 should be taken into account.

1. Stock was valued at £56 346.
2. The purchase of a new motor vehicle, £12 000, has been included in the motor expenses account.
3. Depreciation on fixed assets is to be provided for as follows:

   fixtures and fittings 10% per annum using the straight line method

   motor vehicles 25% using the reducing balance method

   it is company policy to provide a full year's depreciation on all assets held at the year end.
4. On 31 December 2015 business rates, £500, were accrued and insurance, £322, was prepaid.
5. During the year Pip had withdrawn stock to the value of £3 290 for his own personal use.

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(a) Prepare the trading and profit and loss account for the year ending 31 December 2015.

(20)

Pip

Trading and profit and loss account for year ended 31 December 2015

(b) Making appropriate reference to the accounting concepts that you have used, explain your treatment of additional information (4) and (5).

(5)

(Total for Question 12 = 25 marks)

Question Number	Answer	Mark
12 (a)	Pip Trading and profit and loss account For year ended 31 December 2015	**(20)**

	£	£	£	
Sales			487 600	(1)
Cost of sales				
Opening stock		45 000		
Purchases	324 897			(1)
Returns outwards	(12 579)			(1)
Stock drawings	(3 290)			(1)
Carriage inwards	12 318			(1)
		321 346		
		366 346		
Closing stock		56 346		
Cost of goods sold			310 000	(1 of)
Gross Profit			177 600	(1 of)
Running expenses				
Bad debts		3 200		(1)
Business rates (4 650 + 500)		5 150		(2)
Carriage outwards		28 663		(1)
General expenses		23 897		(1)
Insurance (4 322 – 322)		4 000		(2)
Motor expenses (27 690 – 12 000)		15 690		(2)
Depreciation - FF		2 000		(1)
Depreciation – MV (30 000 + 12 000) (1) - 10 000 x 25% (1)		8 000		(2)
			90 600	
Net profit			87 000	(1 of)

Question Number	Answer	Mark
12 (b)	Award up to 2 marks for comments relative to the application of the accruals concept in respect of item 4. Award up to 2 marks for comments relative to the application of the business entity concept in respect of item 5. Award 1 mark for a concluding statement Sample answer It was necessary to adjust business rates and insurance in order to comply with the accruals concept (1). These adjustments ensure that the business' profits are not understated or overstated (1). It was necessary to adjust the purchases figure by the amount of stock withdrawn by the owner of the business in order to comply with the business entity concept (1). This adjustment ensures that the correct purchases figure is shown in the trading thus ensuring that a correct gross profit figure is shown (1). All of these adjustments also ensure that the balance sheet of the business shows a true and fair view of the business' assets and liabilities (1).	**(5)**

Question Number	Answer	Mark
13 (a)	Omission (1) Original entry (1) Commission (1)	**(3)**

12 C Shaw provided the following information for the year ended 30 November 2013 after the preparation of the profit and loss account.

	£
Fixtures and fittings – cost	50 000
Fixtures and fittings – accumulated depreciation	16 000
Motor vehicles – cost	32 000
Motor vehicles – accumulated depreciation	10 000
Bank loan – November 2020	20 000
Closing stock	41 289
Creditors	24 367
Debtors	48 521
Petty cash	400
Cash at bank	5 703 (Cr)
Capital	60 000
Drawings	17 500
Profit for the year	53 640

(a) Prepare the balance sheet for C Shaw as at 30 November 2013.

(12)

C Shaw
Balance Sheet
as at 30 November 2013

(b) Calculate the working capital (current) ratio. State clearly the formula used.

(3)

Formula	Working capital ratio

(c) Evaluate the working capital (current) ratio, stating whether C Shaw will be satisfied with this figure.

(5)

(Total for Question 12 = 20 marks)

Question Number	Answer	Mark
12(a)	**C Shaw** **Balance Sheet** **at 30 November 2013**	

	£	£	£
Fixed Assets	**Cost**	**Total Dep.**	**N.B.V.**
Fixtures and fittings	50 000	16 000	34 000(**1 cf**)
Motor vehicles	32 000	10 000	22 000(**1 cf**)
	82 000	26 000	56 000
Current Assets			
Stock	41 289(**1 cf**)		
Debtors	48 521 (**1 cf**)		
Petty cash	400 (**1 cf**)		
		90 210	
Current liabilities			
Creditors	24 367 (**1 cf**)		
Bank	5 703 (**1 cf**)		
		30 070	
Working capital			60 140 (**1 of**)
			116 140
Long term liabilities			
Bank loan			20 000 (**1 cf**)
			96140
Financed by			
Capital – opening balance		60 000 (**1 cf**)	
Net profit		53 640 (**1 cf**)	
		113 640	
Drawings		17 500 (**1 cf**)	
			96 140

(12)

Question Number	Answer	Mark
12(b)		

Formula	**Working capital ratio**
Current assets/current liabilities **(1)**	90210/30070 **(1 for both of)** = 3:1 **(1 of)**

(3)

Question Number	Answer	Mark
12(c)	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. **Sample answer** Shaw will be satisfied **(1)** with this ratio as it indicates that he is able to meet his short term debts **(1)** 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)** 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)**	**(5)**

Question Number	Answer	Mark
13(a)	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)**	**(2)**

Question Number	Answer	Mark
13(b)		**(6)**

	£	£
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)**

14 The following trial balance was extracted from the accounts of Safiya after the preparation of the trading, profit and loss account for the year

Safiya
Trial Balance as at 31 March 2013

	Debit	**Credit**
	£	**£**
Accruals		875
Bank	8560	
Bank loan – payable 2015		16 000
Capital		64 500
Closing stock	6 000	
Creditors		15 680
Debtors	4 980	
Drawings	21 000	
Fixtures and fittings (cost)	40 000	
Motor vehicles (cost)	55 000	
Net profit		14 366
Prepayments	1 430	
Provision for depreciation – fixtures and fittings		5 000
Provision for depreciation – motor vehicles		19 800
Provision for doubtful debts		749
	136 970	**136 970**

(a) Prepare the capital account of Safiya for the year ended 31 March 2013. Balance the account on that date and bring the balance down to 1 April 2013.

(4)

Capital Account

Date	**Narration**	**£**	**Date**	**Narration**	**£**

(b) Prepare the balance sheet as at 31 March 2013.

(12)

Safiya
Balance Sheet
As at 31 March 2013

(c) Using the figures calculated in (b), and stating the formula used, calculate each of the following ratios to two decimal places.

Current ratio

(2)

Formula	Calculation

Quick ratio (acid test)

(2)

Formula	Calculation

Safiya provides the following information for the previous financial year.

	Current ratio	Quick ratio (acid test)
Year ended 31 March 2012	2.5:1	1.4:1

(d) Evaluate the liquidity of the business over the two years and discuss the implications of this for the business's creditors.

(5)

(Total for Question 14 = 25 marks)

Question Number	Answer	Mark
13(c)	Saul Manufacturing Account Year ended 31 December 2012	(11)

	£	£	
Opening stock raw materials	24 000		(1 for both)
Purchases of raw materials	234 000		(1cf)
	258 000		
Carriage on raw materials	6 000		(1cf)
	264 000		
Closing stock raw materials	34 000		
Cost of raw materials consumed		230 000	(1of)
Direct factory labour		110 000	(1cf)
Royalties		60 000	(1cf)
Prime cost		400 000	(1cf)
Indirect factory expenses		185 000	(1cf)
		585 000	
Opening work in progress		9 760	(1 for both)
Closing work in progress		(10 380)	
Production cost (1)		584 380	(1of)

Question Number	Answer	Mark
14 (a)	Capital account	(4)

Date	**Narration**	**£**	**Date**	**Narration**	**£**
Mar 31	Drawings	21 000 **(1cf)**	Apr 1	Balance b/d	64 500 **(1cf)**
Mar 31	Balance c/d	57 866	Mar 31	Net profit	14 366 **(1cf)**
		78 866			**78 866**
			Apr 1	Balance b/d	57 866 **(1cf)**

Question Number	Answer	Mark
14 (b)	**Safiya** **Balance Sheet** **As at 31 March 2013**	**(12)**

	£	£	£	
Fixed Assets	**Cost**	**Total Dep**	**N.B.V.**	
Fixtures and fittings	40 000	5 000	35 000	**(1 cf)**
Motor vehicles	55 000	19 800	35 200	**(1 cf)**
	95 000	24 800	70 200	
Current Assets				
Stock		6 000		**(1 cf)**
Debtors	4 980			
Provision for doubtful debts	749			
		4 231		**2 (cf)**
Prepayments		1 430		**(1 cf)**
Bank		8 560		**(1 cf)**
		20 221		
Current Liabilities				
Accruals	875			**(1 cf)**
Creditors	15 680			**(1 cf)**
		16 555		
Working capital			3 666	**(1 of)**
			73 866	
Long term Liabilities				
Bank loan			16 000	**(1 cf)**
			57 866	
Financed by				
Capital – Opening balance		64500		
Net Profit		14366		
		78 866		
Drawings		21 000		
			57 866	**(1 cf)**

Question Number	Answer	Mark
14 (c)	Current ratio Formula: Current assets/Current liabilities **(1)** — Calculation: 20 221/16 555 = **1.22:1 (1 of)**	**(2)**
	Quick ratio (acid test) Formula: Current assets - stock/Current liabilities **(1)** — Calculation: (20 221 – 6000)/16 555 = **0.86:1 (1 of)**	**(2)**

Question Number	Answer	Mark
14 (d)	Award (1) mark for a general statement regarding the change in liquidity over the two years; a further (2) marks for a discussion on the meaning of each individual ratio; (1) mark for the implication for their creditors and a final (1) mark for a conclusion. **Sample answer** The liquidity of the business has worsened over the two years (1) which is evidenced by the reduction in both ratios. The current ratio indicates that they are just able to cover their short term debts (1) whereas their quick ratio indicates that they are below the ideal ratio of 1:1. (1) The implication of this for a creditor is that the business may experience some difficulty in meeting its short term debts (1). The business needs to consider whether it needs to take steps to invest more cash into the business in order to meet its short term obligations (1)	**(5)**

13 The following balances were extracted from the ledgers of Omar Bashir on 30 April 2011.

Account	**Balance £**
Bad debts	3 200
Equipment (cost)	15 000
Insurance	4 322
Motor expenses	27 690
Motor vehicles (cost)	50 000
Opening stock	45 000
Premises (cost)	250 000
Provision for depreciation – equipment	5 000
Provision for depreciation – motor vehicles	30 000
Purchases	324 897
Returns inwards	6 500
Returns outwards	4 897
Rates	9 500
Sales	506 500
Sundry expenses	42 156

The following additional information at 30 April 2011 should be taken into account:

1. Stock was valued at £55 000.
2. Provide for depreciation by the reducing balance method on equipment (10%) and motor vehicles (25%).
3. A motor van purchased during the year for £20 000 has been included in the motor expenses account.
4. It is Omar's policy to provide a full year's depreciation on all assets held at the year's end.
5. Allow for business rates due but unpaid, £500, and for insurance paid in advance, £322.
6. Omar took stock to the value of £5 000 during the year for his own personal use.

(a) Prepare the trading and profit and loss account for the year ended 30 April 2011.

(20)

Omar Bashir
Trading and profit and loss account
For year ended 30 April 2011

(b) Making appropriate reference to the accounting concepts that you have used, explain your treatment of:

(i) Additional information 5 on page 16.

(2)

(ii) Additional information 6 on page 16.

(3)

(Total for Question 13 = 25 marks)

Question Number	Answer	Mark
13(a)	**Omar Bashir** **Trading and profit and loss account** **For year ended 30 April 2011**	(20)

	£	£	£
Sales		506 500(1)	
Returns inwards		6 500(1)	
			500 000
Cost of Sales			
Opening stock		45 000(1)	
Purchases (324 897* – 5 000*)	319 897 (2)		
Returns outwards	4 897(1)		
		315 000	
		360 000	
Closing stock		55 000(1)	
Cost of goods sold			**305 000**
Gross Profit			**195000 (1)**
Expenses			
Bad debts		3 200(1)	
Insurance (4 322* – 322*)		4 000(2)	
Motor expenses		7 690(1)	
Rates (9 500* + 500*)		10 000(2)	
Sundry expenses		42 156(1)	
Provision for depreciation - equipment		1 000(2cf)	
motor vehicles		10 000 (2cf)	
			78 046
Net Profit			**116 954**

			(1)

Question Number	Answer	Mark
13(b)(i)	**Sample answer** With additional information 5 I have used the accruals (matching) concept **(1)**, which states that only transactions relating to the year under consideration should be included in the final accounts **(1)**.	(2)

Question Number	Answer	Mark
13(b)(ii)	**Sample answer** With additional information 6 I have used the business entity concept **(1)**, which states that only transactions involving the business should be included in the business books **(1)**. The goods for own use are drawings and as such, they need to be ignored in the calculation of cost of sales . Only the purchases used in the business are recorded **(1)**.	(3)

Question	Answer	Mark