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Examiners' Report

June 2017

IAL Accounting WAC11 01

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Introduction

Centres are to be congratulated with their preparation of candidates for this examination series. Candidates' responses were generally thorough and accurate. All questions were accessible to candidates who generally did perform well in all of the questions set, although candidates' ability in costing was limited and will be highlighted later.

Many of the weaknesses identified in previous examinations have been addressed by centres and were not evident in this examination. The responses to the evaluation sections of the questions were very much improved. Candidates generally completed more detailed development of points raised and with a greater degree of analysis than had been previously seen. Conclusions were then drawn and these generally contained a rationale for that conclusion.

To assist all centres with evaluation we have on Question 1 given an example of a typical Level 1, Level 2, Level 3 and Level 4 response.

There continues to be a weakness in costing, even at a low level. Elements of costing remains a key element of this paper as a foundation for Unit 2. This paper contained costing elements in two questions and many candidates demonstrated a general weakness in understanding and application. This is one area that centres could try to address for future examinations.

Question 1

The question was very well answered by the vast majority of candidates. Both parts in (a) were very accurate with few errors. Common minor errors were the miscalculation of depreciation on loose tools or interest on the bank loan in the income statement or recording the bank loan, repayable in the next 12 months, as a long term liability in the financial position statement.

Part (b) required candidates to cost the hourly rate. Most candidates prepared correct or substantially correct answers. A minority of candidates still found difficulty with preparing a labour costing and their skill set in doing this was very limited.

In part (c) a large number of candidates did not explain how a group bonus scheme worked, but instead concentrated on describing the benefits of a group bonus scheme. Therefore only answering one side of the argument to part (d). A detailed knowledge of specific bonus schemes such as Halsey will not be examined but the general basis for and working of a group bonus scheme will be examined.

The evaluation of the scenario set was excellent by the majority of candidates who identified and developed a number of positive and negative considerations. The evaluation was generally completed with a concluding decision, often with a rationale.

Common errors:

- Miscalculation of depreciation on loose tools and bank loan interest in the income statement.
- Recording the bank loan as a long term liability in the financial position statement.
- The explanation of how a group bonus scheme works.

SECTION A

Answer BOTH questions in this section.

Source material for Question 1 is on pages 2 and 3 of the source booklet.

1 (a) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2017.

(17)

Profit or Loss Statement of Profit and Other Comprehensive Income for 31 March, 2017		
	£	£
Revenue		525,000
<u>(-) Cost of Goods Sold :-</u>		
Opening Inventory	17,500	
(+) Purchases (88,100 + 2,500)	90,600	
(-) Closing Inventory	(20,800)	
		(87,300)
Gross Profit		437,700
<u>(-) Expenses :-</u>		
Management salaries (75,000 - 18,000)	57,000	
Rent of premises (32,000 - 4,000)	28,000	
Marketing expenses (65,000 + 1,900)	66,900	
Loan interest (8% x 60,000)	4,800	
Depreciation on motor vehicles (20% x 180,000)	36,000	
Depreciation on office equipment (15% x 40,000)	6,000	

	(20,000 - 18,000)	12,000	
Depreciation on loose tools	(36,000 - 18,000)	20,000	
	(2,100 - 900)	1,200	
Provision for doubtful debts	(37 x 90,000)	2,100	
Plumbing technicians' wages		139,200	
Motor vehicle expenses		45,000	
Electricity and gas		5,700	(401,800)
			(410,700)
Net Profit			<u>27,000</u>
Net Profit			<u>35,900</u>

<u>Statement of Financial Position at 31 March 2017</u>			
	<u>Cost</u> ₹	<u>Depreciation</u> ₹	<u>Net Book Value</u> ₹
<u>Assets:-</u>			
<u>Non-current Assets:-</u>			
Motor vehicles	180,000	(108,000)	72,000
Office equipment	40,000	(31,000)	9,000
Loose tools	38,000	(20,000)	18,000
			<u>99,000</u>
<u>Current Assets:-</u>			
closing inventory		20,800	
Rent of premises prepaid		4,000	
Bank and cash		3,100	
Trade receivables	70,000		
(-) Provision for doubtful debt	(2,100)		
		<u>67,900</u>	
			<u>95,800</u>
Total Assets			<u><u>194,800</u></u>
<u>Equity and Liabilities:-</u>			
Capital		65,000	
(+) Net Profit		35,900	
(-) Drawings		(18,000)	
			<u>82,900</u>

(+) Bank loan		60,000
<u>(+) Current Liabilities:-</u>		
Trade payables (45,700+2,500)	48,200	
Marketing expenses owing	1,900	
Loan interest owing	<u>1,800</u>	
		<u>51,900</u>
Total Equity and Liabilities		<u>194,800</u>

(b) Calculate the:

- (i) total cost (including overheads and profit) of employing **one** plumbing technician for the next financial year

(7)

Statement of calculation of Total cost

	£	£
Wages	10,000	
(+) Employment tax (20% x 10,000 10,000)	2,000	
	12,000	
Motor vehicle expenses	4,000	
Depreciation on loose tools ($\frac{£18,000}{12}$)	1,500	
Depreciation on motor vehicle ($\frac{£36,000}{12}$)	3,000	
		20,500
(+) Mark-up (35%)		7,175
Total cost		<u>27,675</u>

(ii) hourly rate that Amsha should charge customers in the next financial year for plumbing technician services.

(2)

$$\text{Hourly rate} = \frac{\text{₹ } 27,675}{(45 \times 50 \times 80\%) \text{ h}}$$
$$= \text{₹ } 15.4/\text{h}$$

Amsha remunerates his plumbing technicians on a day work basis. He is considering changing the method of remuneration to a group bonus scheme.

(c) Explain how a group bonus scheme would operate.

(4)

A group bonus scheme is a payment method where the workers are initially paid their regular wages and on top of them that, ~~a team is~~ a team of workers are given a bonus, which is a group bonus, that needs to be shared equally among the members of the team.

A group bonus scheme might be beneficial for Amsha as getting higher payment might encourage the workers to increase output.

(d) Evaluate, from Amsha's perspective, the use of a group bonus scheme for remunerating the plumbing technicians.

(12)

A group bonus scheme for remunerating the plumbing technicians would bring about certain benefits for Amsha.

A group bonus scheme would encourage teamwork of the workers, since the members of the team would receive this payment.

This would encourage and motivate each worker to increase the output being produced as well as improve their efficiency at work.

Furthermore, working in groups

would mean the work load and pressure would now be much lower upon individual workers since they can share the

work load among each other. Lastly,

as efficiency of the workers increase, the cost per unit for Amsha would decrease. As a result, Amsha would benefit from high profit levels.

However, in a group bonus scheme payment

method all the workers would be paid the

same amount regardless of how much effort they put. Lastly, after a while this payment

method might become empty and no longer encourage workers. Overall, the benefits are more than drawbacks and thus, it could be used for remuneration.

(Total for Question 1 = 55 marks)



In part (a)(i) the answer was correct and the full 17 marks were awarded.

In part (a)(ii) the answer was substantially correct. The only error was the recording of the bank loan as a non-current liability when this should have been included as a current liability. 12 marks were awarded.

In part (b)(i) the candidate's answer was substantially correct with the exception of the loose tools depreciation. Therefore 6 marks were awarded on the own figure rule. In part (b)(ii) the candidate's own figure total cost was divided by the correct calculation of 1 800 hours, therefore 2 marks were awarded.

In part (c) the candidate's response, like so many others, did not really address the question of how a group bonus scheme works. There was no discussion of a standard/target time, time saved or a proportion of the saving being available for the group. The examiners awarded 1 mark for the candidate's comment about sharing the bonus.

In part (d) the analysis by the candidate was extensive in identifying a range of positive points about teamwork, motivation, share of workload and effect on cost per unit which were developed. The counter argument where the issue of all workers receiving the same payment, but not necessarily inputting the same workload, was considered.

The consideration of a range of points, positive and negative, with good analysis and development alone would place the response into Level 3. This response gave a conclusion that the benefits outweighed the drawbacks and therefore this made it a Level 4 answer to which the examiners awarded 11 marks.

An overall mark of 49 marks was awarded for the question.

(d) Evaluate, from Amsha's perspective, the use of a group bonus scheme for remunerating the plumbing technicians.

(12)

- Group bonus scheme is very helpful for those companies which have some financial issues. They have many benefits like,
- (1) Boosts team spirit which helps them ⁱⁿ return give you a much bigger output. It also helps them to create the better environment to work in and makes sure there is harmony among colleagues.
 - (2) Stops you from wasting time, this is because people who are working in the group will divide all the work among themselves depending on the conveniences. But also have some drawbacks like
i) Same share : ~~for~~ The sad part about having group ^{bonus} ~~bonus~~ schemes is that ~~eg~~ everyone gets the same share.
 - ii) They are not very direct in approach which can be affect the business.



ResultsPlus Examiner Comments

This was an example of a basic Level 3 response.

The candidate highlighted the positives of team spirit and stops time wasting. Against this was set the negative of the issue that all employees get the same bonus irrespective of how hard they work. This placed the response at Level 3. The arguments could have had slightly more analysis therefore the response was placed at the bottom of Level 3 and awarded 7 marks.

(d) Evaluate, from Amsha's perspective, the use of a group bonus scheme for remunerating the plumbing technicians.

(12)

Ans: Amsha can use a group bonus scheme for remunerating the plumbing technicians as it has some advantages. One is that as employees are paid from the profit made so they might work harder to achieve more profit to get higher payment. ~~Bonus~~ This will increase the both labour and business productivity. Group Bonus Scheme will increase the motivational level of the workforce.

However, changing the remuneration may cause problem as not every worker might agree with it or be happy with this change.

Despite the limitation, changing the remuneration method may be beneficial to Amsha.



ResultsPlus
Examiner Comments

This response considered two positive aspects of employees working harder and greater productivity. The only negative aspect that the candidate considered was that employees might not agree with it, which the examiners did not accept as it lacked any analysis of why that might be the case. Therefore both arguments were positive and with no accepted counter argument the examiners awarded this a Level 2 response and awarded 5 marks.

(d) Evaluate, from Amsha's perspective, the use of a group bonus scheme for remunerating the plumbing technicians.

(12)

The advantages of group bonus scheme is group member will encourage each another, remind each another, take the ~~respos~~ responsibility each another, increase the work ~~per~~ performance, ~~As~~ ~~the~~ increase improve the image of the company, able to encourage the employee more hardworking. This may increase the cost of company. When ~~there~~ are not high profit margin, the company may suffer difficulties. This maybe become the risk of the company. Company may need increase the stronger cash flow. The company have to be careful when ~~to~~ making a new decision.



ResultsPlus
Examiner Comments

This candidate provided a limited response and has a positive aspect about employees encouraging each other and taking responsibility. The response progressed to consider profit and cash flow which were not directly related to the response required. Therefore the examiners placed this in Level 1 but at the top of that level and awarded 3 marks.

Question 2

The question was generally answered well by candidates.

Part (a) was generally accurate with a balance for the accumulated fund derived. There were no common errors in the preparation.

In part (b) some candidates' answers showed real insight but in general answers were limited and showed little differentiation. This section was often not completed by candidates.

Part (c) required candidates to demonstrate their double entry skills and responses were improved from those seen in previous examinations. In general the accounts were accurate for double entry and correctly labelled. Balances were calculated and brought down.

The refreshment trading account was generally accurate, labelled and with a profit calculated. The income and expenditure account was generally accurate although the profit on the sale of equipment and the bad debts were sometimes omitted.

The statement of financial position in part (d) often contained a number of errors, the cost of the gym equipment was often recorded as \$8 500, the subscriptions as £230 and the cash £80.

The evaluation of the scenario was good. Candidates presented a number of positive reasons why the Club should purchase the premises usually based upon control and removal of rent liability. These arguments were counter balanced by additional costs and the significant loan that would be required to purchase and the subsequent repayment. These arguments were concluded by the candidate and a reasoned decision made.

Common errors:

- Understanding the differences between a trial balance and a statement of financial position.
- Entries in the statement of financial position.

Source material for Question 2 is on pages 4 and 5 of the source booklet.

- 2 (a) Using only the list of balances provided in the Source Booklet, prepare the Trial Balance at 30 April 2017 and show the value of the accumulated fund.

(10)

Ariana Gym Club

Trial Balance as at 30 April 2017

	DR	CR
Accumulated fund		2050
Members' subscriptions		5300
Income from rental of equipment		1050
Refreshment sales		2400
Refreshment purchases	960	
Non-current assets (cost):		
Gym equipment	8500	
Office fixtures	3000	
Provisions for depreciation:		
Gym equipment		2500
Office fixtures		800
Rent of premises	2000	
Heating and lighting	1100	
Trade Payable - refreshments	570	570
Sundry expenses	1600	
Cash	80	
Bank overdraft		4000
Gym equipment maintenance	950	
Inventory of Refreshments 1 May 2016	480	
	18670	18670

(b) Explain **two** differences between a **trial balance** and a **statement of financial position**.

(4)

- 1 A trial balance is a list of all balances of accounts in the ledger, including expenses and incomes, whereas a Statement of Financial Position compares the assets of a business with its capital and liabilities - it does not include expenses or income.
- 2 The statement of financial position is based on the accounting equation (Assets = Capital + Liabilities) ~~rather~~ and evaluates the financial position of a business whereas a trial balance checks the arithmetical accuracy of the ledger.

(c) Prepare for the year ended 30 April 2017 the:

(i) Subscriptions Account

(5)

Subscription A/C			
2016-17	£	2016-17	/
Apr 30 Income & Expenditure (-)	5180	Apr 30 Receipts & Payments	5300
Apr 30 balance c/d (prepaid)	350	Apr 30 Subscription written off	140
		Apr 30 balance c/d (due)	90
	<u>5530</u>		<u>5530</u>
2017-18		2017-18	
May 1 balance b/d (due)	90	May 1 balance b/d (prepaid)	350

(ii) Gym Equipment Account

(4)

Gym Equipment Acc			
2016-17		2016-17	
May 1 balance b/d	8500	Mar 25 Disposal	1500
Mar 30 Receipt & Payment	<u>4600</u>	Apr 30 balance c/d	<u>11600</u>
	<u>13100</u>		<u>13100</u>
2017-18			
May 1 balance b/d	11600		

(iii) Gym Equipment - Provision for Depreciation Account

(4)

Gym Equipment - Provision for depreciation Acc			
2016-17		2016-17	
Mar 25 Disposal	900	May 1 balance b/d	2500
Apr 30 balance c/d	<u>3600</u>	Apr 30 Income & Expenditure	<u>2000</u>
	<u>4500</u>		<u>4500</u>
2017-18			
May 1 balance b/d	3600		

(iv) Refreshment Trading Account *Arizona Gym Club*
Refreshment Trading Account for the year ended 30 April 2017

Revenue		2400
Less Cost of Sales:		
Op. Inventory	480	
Ordinary Goods Purchased (960 + 60)	<u>1020</u>	
	1500	
Less Clsd. Inventory	<u>(570)</u>	<u>(930)</u>
Profit from the sale of refreshments		<u>1470</u>

(v) Income and Expenditure Account.

(7)

Arizona Gym Club

Income and Expenditure Account for the year ended 30 April 2017

	£	£
<u>Income:</u>		
Subscriptions	5180	
Income from rental of equipment	1050	
Profit on disposal of gym equipment (100+800-1500)	200	
Profit from sale of refreshments	<u>1470</u>	7500 7900
<u>Less expenditure:</u>		
Rent of premises	2000	
Heating and lighting	1100	
Sundry Expenses	1600	
Gym equipment maintenance	950	
Subscription written off	140	
Depn of gym equipment	2000	
Depn of Public fixtures (3000 · 10%)	<u>300</u>	<u>(8090)</u>
Deficit		<u><u>(190)</u></u>

(d) Prepare an extract of the Statement of Financial Position at 30 April 2017 **showing the assets** of the Aviana Gym Club.

(6)

Aviana Gym Club

Statement of Financial Position (Extract) on at 30 April 2017

	Cost £	Aggr. dep'n £	Net £
<u>Non-Current Assets</u>			
Gym equipment	11600	(3600)	8000
Office fixtures	<u>3000</u>	<u>(1100)</u>	<u>1900</u>
	<u>14600</u>	<u>4700</u>	<u>9900</u>
<u>Current Assets</u>			
Inventory		570	
Subscriptions in Arrear		90	
Cash (80 + 800)		<u>880</u>	<u>1540</u>
Total Assets			<u><u>11440</u></u>

The Management Committee of the Aviana Gym Club is proposing to purchase its own gym premises rather than renting premises.

(e) Evaluate the proposal of the Management Committee.

(12)

On the one hand, the Aviana Gym Club should accept the proposal and buy its gym premises rather than rent them. If the club buys the premises, it will have total control over them and it can alter them without the need to seek for the landlord's permission. Moreover, if the club owns the gym premises, it can rent any unused rooms to earn an additional ~~to~~ income for the income and expenditure account. In addition to this, the club will no longer have to pay for rent^{of £2000}, which will reduce the debit that is currently being made by the club. Lastly, the club will be safe against any future increases in the rent they have to pay for the premises.

However, the purchase of gym premises will involve a huge investment for the club. Having in mind that the club has a bank overdraft of $(-4000 - 4600)$ £8600, it will need to borrow which is risky. Added to this, even though the club will no longer have to pay for rent it will incur additional costs, like depreciation of premises and maintenance costs.

In conclusion, it is better that the club does not accept the proposal of buying its own premises as it has a bank overdraft and a poor cash in hand (£880). The purchase of premises will make the club's financial position even worse.



ResultsPlus Examiner Comments

This was an example of an excellent answer from a candidate. In part (a) the entries in the trial balance were correct and the accumulated fund was correctly labelled. 10 marks were awarded.

In part (b) the candidate highlighted two differences and was awarded the full 4 marks. Any reasonable difference suggested by a candidate was accepted by the examiners.

The ledger accounts in part (c) were correct and correctly labelled with the exception of the Gym Equipment Account where the narrative bank was required. 22 out of the 23 marks available were awarded for this part of the question.

In part (d) the answer was correct and the full 6 marks were available.

In part (e) the evaluation was thorough and well balanced. The positives of control of the premises without requiring permissions and the removal of the need to pay rent and future increases were developed. These were counterbalanced by the need for a very large investment and loan coupled with the ongoing costs of depreciation and maintenance which would now fall upon the club. There was a conclusion recommending not to purchase with some reasoning for that decision. This answer was a Level 4 answer and was awarded 11 marks.

A total of 53 marks were awarded for the answer.

Question 3

Candidates generally prepared good responses to the question.

In part (a) answers were very limited. Few candidates were aware of the accounting terms and generally could not suggest any differences.

Part (b) was generally well prepared with most candidates correctly preparing the first journal. The calculation of the trade discount adjustment in the second journal varied but the narratives were generally correct. The adjustments were carried forward correctly to part (c) where the corrected balance was calculated.

In part (d) the account was generally accurately prepared but often the balances were not brought down.

The evaluation of candidates was good with commonly deterring fraud, identifying errors and preparing totals being counterbalanced by the cost and skill requirement for preparation. A minority of candidates had prepared good analysis but did not reach a decision as to whether control accounts should be prepared. Therefore, limiting themselves to a Level 2 answer.

Common errors:

- Understanding of accounting terms trade receivables ledger and sales day book.
- Bringing down balances in the trade receivables control account.

SECTION B

Answer THREE questions from this section.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

If you answer Question 3 put a cross in the box ☒ .

Source material for Question 3 is on pages 6 and 7 of the source booklet.

- 3 (a) Explain how the Trade Receivables Ledger differs from the Sales Day Book. (4)**

Trade receivable ledger contains balances of individual trade receivable who purchased goods on credit. While a sale day book shows the total sales, both on credit and cash, for the year including the list price less trade discounts.

- (b) Prepare the journal entries to correct the two errors. Narratives are not required. (6)**

	<u>Dr</u>	<u>Cr</u>
Ret Sales Return Mille Streets	70	70
$(225 \times \frac{100}{75} \times \frac{90}{100})$ = 270 Mille Streets Sales	45	45

(Workings: ~~20~~ 270 - 225)

(c) Calculate the **corrected** closing balance on the account of Mille Street Stores at 30 April 2017.

(4)

Mille stores

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;">Balance</td> <td style="width: 50%; padding: 5px; text-align: right;">1000</td> </tr> <tr> <td style="padding: 5px;">Sales</td> <td style="padding: 5px; text-align: right;">245</td> </tr> <tr> <td style="padding: 5px;">Corrected balance</td> <td></td> </tr> </table>	Balance	1000	Sales	245	Corrected balance		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;">Sales Return</td> <td style="width: 50%; padding: 5px; text-align: right;">70</td> </tr> <tr> <td style="padding: 5px;">Balance</td> <td style="padding: 5px; text-align: right;">700</td> </tr> </table>	Sales Return	70	Balance	700
Balance	1000										
Sales	245										
Corrected balance											
Sales Return	70										
Balance	700										

$$\begin{aligned}
 \text{Corrected closing balance} &= 700 + 45 - 70 \\
 &= \underline{\underline{\pounds 675}}
 \end{aligned}$$

$ \begin{array}{r} \text{Dr} \\ + 45 \\ - 70 \end{array} $		$ \begin{array}{r} \text{Cr} \\ 700 \\ + 45 \\ 70 \end{array} $
--	--	--

(d) Prepare the Trade Receivables Ledger Control Account for the month of April 2017.

(10)

Trade Receivables Ledger Control A/c

Total receivable			
1000 + 150 2017 1 Apr. Bal b/d 3450 (7830 + 45) 7875 Credit sales 7830 Refund 210 Interest charged 95 Bal c/d 150 <u>11780</u>	2017 1 Apr. Bal b/d 50 Discount allowed 520 (70 + 450) Sales return 540 Bank 6695 Interest on Bal c/d 150 7955 11808 <u>11780</u>		

(e) Evaluate the usefulness of preparing control accounts.

(6)

Points in favour —

- i) ~~Check~~ Prevents fraudulent activities as control account and ledger are prepared by two different employees
- ii) Provides a total trade payables and total trade receivable thus, assisting in preparation of financial statements

Points against —

- i) Takes time and cost implications are high if high by hiring an accountant to make control accounts.



ResultsPlus

Examiner Comments

In part (a) the candidate highlighted that the trade receivables ledger was individual accounts and that the sales day book was totalled and posted. 2 marks only were awarded.

In part (b) the journal entries were correct and the discount adjustment value correctly calculated. The full 6 marks were awarded.

In part (c) the corrected balance has been correctly calculated so 4 marks were awarded.

Part (d) was correct within the account but the two balances had not been brought down to the next period. Therefore 2 marks were lost and a total of 8 marks were awarded.

The evaluation was good with positive points of reduction in fraud and preparation of totals being counterbalanced by the need for additional skills to prepare any associated cost. There was no conclusion as to whether control accounts should or should not be used and therefore the answer was at Level 2 and was awarded 4 marks.

A total of 24 marks were awarded for the answer.

Question 4

Candidates generally prepared good answers to the question. Although the answers to part (a) were generally limited to the ability to meet short-term debts, there was generally no further development.

Part (b) was accurately calculated and the income statement for part (c) was also accurately prepared. The statement of financial position was often inaccurate but closing balances were established. The balances were carried forward to part (d) where the ratios were generally accurately prepared on the own figure rule.

The evaluation was generally good, based upon the candidates calculated figures. A minority of candidates based their evaluation on the opening liquidity balances not the closing liquidity balances, although the date at which candidates were required to assess the liquidity was clearly stated in the question.

Common errors:

- In the financial position statement trade receivables were often shown as £123 000 cheque receipts and trade payables as £80 000 cheque payments.

If you answer Question 4 put a cross in the box .

Source material for Question 4 is on page 8 of the source booklet.

4 (a) Explain the importance of **liquidity** to a business.

(4)

The liquidity of a business indicates the ability of the business to pay off short term debts. Hence, it is for the creditors to look into ^{whether to supply goods or not} and investors (purchasers of business) to know its reputation of a business with its suppliers.

(b) Calculate for Easi Spend, at 1 May 2016, the:

(i) current ratio

(2)

$$\begin{aligned} \text{(i) Current assets} &= \frac{40,000 + 25,000 + 5,000}{15,000} = \frac{70,000}{15,000} \\ &= \underline{\underline{4.67:1}} \end{aligned}$$

(ii) liquid (acid test) ratio.

(2)

$$\begin{aligned} \text{(ii) } & \frac{25,000 + 5,000}{15,000} = \frac{30,000}{15,000} = \underline{\underline{2:1}} \end{aligned}$$

(c) Complete below the summarised financial statements for the year ended 30 April 2017.

(10)

Easi Spend

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2017

	Workings	£	£
Revenue	$135000 - 25000 + 123000$		233,000 135,000
Opening inventory		40,000	
Purchases	$72,000 - 15,000 + 80,000$	137,000	
		177,000	
Closing inventory	$32,500 = \frac{40,000 + 11}{2}$ $(32,500 \times 2) - 40,000 =$	(25,000)	
Cost of sales			(152,000)
Gross profit			81,000
Expenses		33,000	
Depreciation		4,500	
			(37,500)
Profit for the year			43,500

Statement of Financial Position at 30 April 2017

	Workings	£	£
Assets			
Non-current assets	$(30,000 - 4,500)$		25,500
Inventory	$32,500 \times 2 - 40,000$ $65,000 - 40,000$		25,000
Trade receivables	$135,000$ $25,000 + 72,000 =$ 80,000 - 123,000		37,000 17,000
Bank	$5,000 + 123,000 -$ $-80,000 - 33,000$		15,000
			102,500 82,500
Capital and liabilities			
Capital	$102,500$ 82,500 - 7,000		95,500
Trade payables	$15,000 + 72,000$ $-80,000$	£	7,000
			82,500 102,500

(d) Calculate, for the year ended 30 April 2017, the:

(i) inventory turnover

(2)

$$(i) \frac{152,000}{32,500} = 4.67 \text{ times}$$

(ii) trade receivables collection period

(2)

$$(ii) \frac{25,000 + 135,000 + 37,000}{233,000} \times 365 = 57.96 \text{ days}$$
$$= 58 \text{ days}$$

(iii) trade payables payment period.

(2)

$$(iii) \frac{7,000}{137,000} \times 365 = 18.65 \text{ days}$$
$$= 18.7 \text{ days}$$
$$= 19 \text{ days}$$

(e) Evaluate the liquidity position of Easi Spend at 30 April 2017.

(6)

In favour of liquidity position

- * Trade payables payment period is less than month, hence the ~~debtors~~ ^{creditors} are paid on time
- * the liquidity ratios current asset ratio and liquid test ratio both have massively increased from 1. May 2016 (4.67:1 \rightarrow 11:1) and from (2:1 \rightarrow 7.43:1) since trade payables ~~hence the liq~~ have and bank has increased in the year

Against

- * ~~Trade receivables~~ ^{Debtors} are paying in a long time, since collection period ~~was~~ almost 2 months and also
- * ~~Moreover~~ the trade receivables have increased from £25,000 to 37,000
- * There are ~~a~~ ^{too much} major idle funds since both ratios are over benchmark level

Conclusion: ~~See~~ Seeing the ratios of liquidity and creditors ^{level}, the liquidity of the business seems good but too much idle funds.

Current asset ratio in 30 April = $\frac{77,000}{7} = 11:1$

Current liquid test ratio = $\frac{52,000}{7} = 7.43:1$



In part (a) the candidate was awarded 3 marks for identifying ability to pay short-term debts and issues around continuity of supply.

Part (b) was correct with ratios quoted as :1. All 4 marks were awarded.

Part (c) was substantially correct with only the revenue and the purchases incorrect. 8 marks were awarded.

In part (d) the inventory turnover ratio was correct and was awarded 2 marks on the own figure rule for the cost of sales. The remaining two ratios had used incorrect credit sales and credit purchases and as these were given figures, only 1 mark was awarded for each ratio.

The evaluations was informed with favourable and negative points stated. Although not required, this candidate did calculate the liquidity ratios at the end of the period and highlighted the movement during the period, this was a very positive point. The candidate then prepared a reasoned conclusion. The answer was considered to be Level 3 and was awarded the full 6 marks.

A total of 25 marks was awarded for the question.

Question 5

Candidates did not always perform as well in costing questions on this paper as they did with financial questions. This question was answered well by the majority of candidates but a minority of candidates struggled with parts (c) and (d).

In part (a)(i) candidates could define fixed cost. In part (a)(ii) candidates often described semi-variable costs believing that the cost had a variable element. Candidates should be describing a 'stepped' cost.

In part (b) candidates could generally identify two concepts and give a brief explanation of why these were relevant. A minority of candidates identified and described depreciation methods.

In part (c)(i) the majority of candidates produced good, accurate answers with the annual cost under each heading calculated. A minority of candidates barely attempted this section. In part (c)(ii) candidates generally calculated the income of £31 250, deducted their own figure running costs and derived their own figure profit. In part (c)(iii) the approach of candidates was generally good with most candidates adding the interest charges to their profit and then dividing by the capital plus non-current liabilities. The use of return on capital employed was far better than in recent examinations.

Common errors:

- Identifying semi-fixed costs as having a variable element.
- Failure to calculate annual running costs.

If you answer Question 5 put a cross in the box .

Source material for Question 5 is on page 9 of the source booklet.

5 (a) Explain the terms:

(i) fixed cost

(2)

Fixed cost are those cost which ~~changes~~ ^{don't} ~~change~~ with the change in output. It has to be paid even at 0 level of production.

(ii) semi-fixed cost.

(2)

Semi-Fixed cost are those which ~~include~~ ^{include} a fixed element plus increase / increases stage to stage.

(b) Explain, with the use of appropriate accounting concepts and conventions, how the furniture and equipment depreciation will be charged to the total cost of the Sunshine Villa for the year.

(4)

Going concern concept says that business should continue for an indefinite period of time so assets value should be spread over its life and a part of the assets will be included in the total cost. Moreover, Actual (matching) concept says that income of one year must match with the expenditure of same year. So depreciation is an expense which should be charged.

(c) Calculate for the Sunshine Villa, for the year ended 30 April 2017, the:

(i) total costs

(10)

Cost	£
Electricity (50x12+20x250)	5600
Wages & gas	2400
TU and internet 75x12	75900
Insurance	800
Management & marketing (1000+1000)	2000
Repair (100x12+10x20)	3200
Villa cleaning	2000
Finance cost	5600
depreciation (3000+150)	<u>4500</u>
	25000

Profit	£
Income (250x125)	31250
Expenses	<u>(2000)</u>
	<u>6250</u>

ROCE = $\frac{\text{Profit for the year before interest}}{\text{capital employed}}$

$$= \frac{6250 + 5600}{200,000} \times 100$$

$$5.925\%$$
~~$$5.93\%$$~~

(ii) profit or loss

(3)

	£
Income (250 × 125)	31250
Expenditure	(25000)
profit for the year	<u>6250</u>

(iii) return on capital employed.

(3)

$$\begin{aligned} \text{ROCE} &= \frac{\text{profit for the year before interest}}{\text{capital employed}} \times 100 \\ &= \frac{6250 + 560}{20,000} \times 100 \\ &= \cancel{5.125\%} \quad 5.925\% \end{aligned}$$

Before purchasing the Sunshine Villa a friend of John advised him of alternative investments for his savings. The friend advised that he could have deposited the money in a bank and obtained interest of 3% per annum.

(d) Evaluate John's decision to purchase the Sunshine Villa.

(6)

~~Investment in the~~ Saving in the bank could lead to $\text{K}1200$ per annum his income. Beside he is making a profit of $\text{K}250$. This shows his income increased by $\text{K}5050$. Moreover, purchasing sunshine would ~~mean~~ mean that he is an enterprenuer now ~~and saving and in bank would mean that he has~~

However, bank provide $\text{K}1200$ each year beside he might face losses in business which may lead to closure of the business.

overall, purchasing sunshine Villa is beneficial as his ~~profit across time~~ profit or income increased by $\text{K}5050$



In part (a) the candidate defined fixed cost and was awarded 2 marks. The definition of semi-fixed cost was vague, examiners did not feel that the candidate's response was precise enough and awarded 0 marks.

In part (b) the candidate identified going concern and accruals as relevant concepts. These were developed and 4 marks were awarded.

In part (c)(i) the candidate correctly calculated all of the individual costs but totalled them incorrectly. 9 marks were awarded for the individual calculations. In (c)(ii) the profit was calculated and correctly labelled. 3 marks were awarded on the own figure rule. In (c)(iii) the candidate's profit was correctly added to the interest and divided by 200 000 to arrive at the percentage return. The candidate's approach was correct and therefore 3 marks were awarded.

In part (d) the answer was not strong but did contain the essence of a financial argument. The candidate identified that a profit would be made and that this was greater than the interest received for a bank deposit, although the candidate did incorrectly calculate this to be £1 200. This was a positive element but they did temper this with the risk factor of a potential loss in the future, this was the other side of the argument. There was a conclusion which raised the response to a Level 3 answer. Therefore the examiners awarded 5 marks for the response.

The candidate was awarded 26 marks in total.

Question 6

Candidates generally prepared informed and accurate answers to this question.

The calculation of the closing inventory was generally accurate. Candidates then continued to prepare the manufacturing accounts in good order appropriately labelling the prime cost, cost of production and transfer to trading. Some candidates included the production management salaries in prime cost and the assembly wages as part of overheads.

Candidates were well informed of how the prepaid wages, depreciation and provision for unrealised profit would be treated in the statement of financial position.

The evaluation of last in first out (L.I.F.O) were generally informed with candidates aware of the implications for the price of issue to production/sale, value of remaining inventory and acceptability of the method to IAS and tax authorities. In the case of a minority of candidates they were not aware that the method was a valuation method and not a rotation method. Some candidates were concerned that older inventory would remain on the shelves and become damaged or obsolete.

Common errors:

- Treatment of wages and salaries in the manufacturing account.
- A minority of candidates believing that inventory valuation was physical inventory rotation.

If you answer Question 6 put a cross in the box .X

Selected

Source material for Question 6 is on pages 10 and 11 of the source booklet.

- 6 (a) Calculate the value of the inventory of raw materials at 31 March 2017 using the First In First Out (FIFO) perpetual inventory valuation method.

(4)

Opening	—	<u>120 × 800</u>
April - June	+	<u>80 × 750</u>
	-	<u>90 × 800</u>
Balance		30 × 800
		<u>80 × 750</u>
July - Sept		<u>70 × 700</u>
	-	30 × 800
	-	<u>30 × 750</u>
Balance		50 × 750
		<u>20 × 700</u>
Oct - Dec		<u>100 × 650</u>
	-	50 × 750
		<u>30 × 700</u>
Balance		40 × 700
		<u>100 × 650</u>
Jan - March		<u>60 × 600</u>
	-	40 × 700
		<u>30 × 650</u>
Balance		70 × 650
		<u>60 × 600</u>
∴ Closing inventory =		<u>81500</u>

(b) Prepare the Manufacturing Account for the year ended 31 March 2017.

(14)

Details	₹	₹
Opening Inventory of Raw Material	96000	
(+) Purchases	210,000	
(-) Closing Raw Material consumed	81500	224500
		35500
<u>Direct Expenses:</u>		
Machinist wages	93000	
Assembly wages	77000	170,000
Prime cost		<u>394500</u>
<u>Indirect:</u>		
Production wages	84000	
Manufacturing rent	16800	
Depreciation	34000	
Insurance	45000	
	21000	<u>200800</u>
		595300
(+) Opening WIP	35000	7700
(-) Closing	(47300)	(7700)
Cost of Production		603000
Factory Profit		<u>37000</u>
		<u>640,000</u>

(c) Explain how the following would be accounted for in the Statement of Financial Position at 31 March 2017:

(i) manufacturing assembly wages prepaid

(2)

~~Treated~~
~~Current as a~~

Treated as current asset.

(ii) depreciation for the year on manufacturing equipment

(2)

Subtracted from non-current assets value, to give the net book value of assets.

(iii) provision for unrealised profit on manufacture.

(2)

~~Provision~~ ~~There~~ Provision of unrealised profit will be deducted from the closing inventory of finished goods.

The business is considering changing its method of valuing raw materials inventory to Last In First Out (LIFO).

(d) Evaluate the use of Last In First Out (LIFO) as a method of valuing the inventory of raw materials.

(6)

LIFO gives the latest prices of components used in production which will help to calculate more accurate selling price. Inventory valued at the prices they are paid for.

LIFO is not accepted by the Inland Revenue for taxation purposes.

~~It may be~~ LIFO is unrealistic

as ~~it is~~ this says ~~the new~~ the newest inventory should be issued to ~~production~~ / production before the older ones. This may cause the stock to be obsolete and over damaged.



ResultsPlus
Examiner Comments

The candidate's response was typical of responses presented to the examiners.

In part (a) the candidate applied their own layout to arriving at the inventory value of £81 500. This was the correct answer and was awarded 4 marks.

In part (b) the layout and labelling of the manufacturing account was correct. The only error was failure to label the final transfer value of £640 000. Therefore the candidate lost this mark. A total of 13 marks were awarded.

In part (c)(i) the candidate identified that the prepayment would be recorded in current assets but did not extend this to inclusion in other receivables. Therefore 1 mark was awarded. In (ii) and (iii) the candidate's response was correct and 2 marks were awarded for each part.

In part (d) the candidate correctly identified that production would be issued with the latest prices and that the method was not accepted by the Revenue. These were points which reflected both sides of the argument. There was no conclusion or recommendation. Therefore the response best fitted Level 2. The candidate then continued with a final paragraph which confused inventory valuation with inventory rotation. Therefore the examiners felt that the response was Level 2 and awarded 3 marks.

The candidate was awarded 25 marks in total.



ResultsPlus
Examiner Tip

Ensure that candidates have grasped the difference between inventory valuation and inventory rotation.

Paper Summary

Overall, candidates performed well and again centres are to be congratulated for their work in preparing candidates. The quality of work being seen from candidates is continually improving. So well done to centres.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

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