OCR

RECOGNISING ACHIEVEMENT

14-19 CHANGES
A LEVEL

Additional Support Materials

AS Level Accounting H011:

Unit F011

OCR examination questions and mark scheme extracts

This booklet contains the following additional support materials:

- **OCR examination questions**
- **Mark scheme extracts**

AS/A Level Accounting

Contents

Introduction

Background

A new structure of assessment for A Level has been introduced, for first teaching from September 2008. Some of the changes include:

- The introduction of stretch and challenge (including the new A* grade at A2) – to ensure that every young person has the opportunity to reach their full potential
- The reduction or removal of coursework components for many qualifications – to lessen the volume of marking for teachers
- A reduction in the number of units for many qualifications – to lessen the amount of assessment for learners
- Amendments to the content of specifications – to ensure that content is up-to-date and relevant.

OCR has produced an overview document, which summarises the changes to Accounting. This can be found at **www.ocr.org.uk**, along with the new specification.

In order to help you plan effectively for the implementation of the new specification OCR has produced a Scheme of Work and Sample Lesson Plans for the AS Level Accounting H011 Unit F011. The Support Materials are contained within the booklet *Support Materials AS Level Accounting H011: Unit F011.*

http://www.ocr.org.uk/qualifications/asa_levelgceforfirstteachingin2008/accounting/documents.html#Support_materials

These Support Materials are designed for guidance only and play a secondary role to the Specification.

This booklet contains additional Support Materials designed to accompany and complement the Unit F011 Scheme of Work. It contains the OCR examination questions referenced within the Scheme of Work Unit together with relevant mark scheme extracts.

The Specification is the document on which assessment is based and specifies what content and skills need to be covered in delivering the course. At all times, therefore, this Support Material booklet should be read in conjunction with the Specification. If clarification on a particular point is sought then that clarification should be found in the Specification itself.

Final Accounts: Sole Trader

Final Accounts: Sole Trader

2500 June 2004 Question 3

3 **(a)** Distinguish between 'purchases' and 'cost of sales'. [8]

(b) Why is the distinction important when calculating the gross profit of a business? [2]

Total marks [10]

Final Accounts: Sole Trader

2500 June 2004 Question 3 Mark scheme

3 **(a)** Purchases refer to purchases of goods during a period.
In normal course of business
For resale
Will not necessarily be sold during period
Cost of sales is the cost of goods actually sold.
Opening stock
Closing stock
Purchases
Purchase returns
Carriage inwards
Drawings of goods

(8 x 1 mark) **[8]**

(b) Sales less cost of sales
Not
Sales less purchases

(2 x 1 mark) **[2]**

Total marks [10]

Introduction to Accounting Principles: The Cash Book

Introduction to Accounting Principles: The Cash Book

2500 June 2005 Question 3

3 **(a)** Differentiate between cash discount and trade discount. **[6]**

(b) Explain why a business might use a three column cash book rather than a two column cash book. **[2]**

(c) Outline the full accounting entries for cash discount for:

(i) purchases; **[4]**

(ii) sales. **[4]**

Total marks [16]

Introduction to Accounting Principles: The Cash Book

2500 June 2005 Question 3 Mark scheme

3 (a) Cash discount
Allowed by business for early payment.
Frequently 30 days credit given, incentive to pay earlier.
Payment not usually cash, but bank.
Shown in the ledger accounts.

Trade discount
Allowed by business to other businesses.
A reduced price compared to public price.
Not shown in ledger accounts, where net price is shown.
Deduction from list price and may be shown in journal.

Each section 2 x 3 marks
(1 for point and up to 2 for development) **[6]**

(b) To record discount allowed and discount received.

(2 x 1 mark) **[2]**

(c) **(i)** Debit suppliers account.
Discount received column of cash book/credit cash book.
Total at end of period.
Credit discount received account in general ledger.
Adds to gross profit.

(ii) Credit customers account
Discount allowed column of cash book/debit cash book.
Total at end of period.
Debit discount allowed account in general ledger.
Expense in Profit and Loss.

Each section 4 x 1 mark **[8]**

Total marks [16]

Classification of Expenditure

Classification of Expenditure

F001 June 2007 Choco Question 3

3 An extract from Choco Machines' Balance Sheet as at 28 February 2006 showed the following:

	£
Machinery at cost	460 000
Depreciation to date	150 000
	310 000

During the year ended 28 February 2007, the following transactions took place.

On 1 March 2006 Choco Machines **purchased** machinery at a cost of £80 000.
On 1 September 2006 Choco Machines **sold** machinery for £24 000. This machinery was originally purchased on 1 March 2004 at a cost price of £60 000.

All transactions are by cheque.

Depreciation is calculated on a straight line basis. For purposes of calculating depreciation, the business assumes that machinery will have a four year life. It will then be disposed of at an estimated residual value of 10% of its original cost. The rate is charged for each proportion of the year machinery is owned. All other items of machinery have been purchased within the previous three years.

REQUIRED

(a) The following ledger accounts for the year ended 28 February 2007. Include, where appropriate, the balance carried down to the next financial year.

(i) Machinery [4]

(ii) Provision for Depreciation of Machinery [6]

(iii) Machinery Disposals [4]

(b) The Balance Sheet extract as at 28 February 2007 for Machinery. [2]

(c)* Discuss the problems involved in accounting for depreciation. [8]

(d) Advise Choco Machines on why the correct treatment of capital and revenue expenditure is important. [6]

Classification of Expenditure

F001 June 2007 Choco Question 3 Mark scheme

3

(a)

Machinery

Balance b/d	460,000	**(1)**	Disposals	60,000	**(1)**
Bank	80,000	**(1)**	Balance c/d	480,000	**(1)**
	540,000			540,000	

[4]

Provision for Depreciation

Disposals	33,750	**(1)**	Balance b/d	150,000	**(1)**
Balance c/d **(1)**	231,000	**(1)**	Profit and Loss	114,750	**(2)**
	264,750			264,750	

[6]

Disposal of Machinery

Machinery	60,000	**(1)**	Provision for dep'n	33,750	
			Bank	24,000	**(1)**
			Profit and Loss **(1)**	2,250	**(1)**
	60,000			60,000	

[4]

(b)
Balance Sheet Extract

Machinery	480,000		
Provision for depreciation	231,000		
Net Book value	249,000	**(2)(1 of)**	**[2]**

(c)*
Estimating the life of the asset.
Deciding which method to use straight line or reducing balance method.
Deciding what percentage rate to apply.
Estimating the residual value of the asset.
Deciding what assets should be depreciated and what should be written off in Profit and Loss account as an expense. Materiality concept.

*Candidates are expected to cover at least **two** problems in accounting for depreciation with appropriate evaluation.*
Maximum 2 marks for analysis plus max 4 marks for evaluation. **[6]**

QWC **[2]**

Classification of Expenditure

F001 June 2007 Choco Question 3 Mark scheme continued

(d)

Capital expenditure is shown on the balance sheet and revenue expenditure is shown on the profit and loss account. If expenditure is not classified correctly, the result is that the final accounts will be inaccurate and misleading.

If capital expenditure is treated as revenue expenditure then the profit in the profit and loss account will be understated. The value of assets in the balance sheet will also be understated.

If revenue expenditure is treated as capital expenditure then the expenses in the profit and loss account will be understated and the profit will be overstated. The value of assets in the balance sheet will be overstated.

Candidates are expected to distinguish the differences and identify the effects on the profit and loss account and balance sheet. **[3 + 3)**

[6]

Total marks [30]

Classification of Expenditure

2500 June 2003 Elaine Wong Question 3

3 Elaine Wong has recently set up in business incurring both capital and revenue expenditure.

REQUIRED

(a) Explain, giving **one** example of each, the difference between capital and revenue expenditure.
[6]

(b) Advise Elaine Wong on why the distinction between capital and revenue expenditure is important when preparing final accounts. [8]

Total marks [14]

Classification of Expenditure

2500 June 2003 Elaine Wong Question 3 Mark scheme

3 (a) Capital expenditure is expenditure on assets expected to last longer than one year. Example – buildings, machinery, equipment.

Revenue expenditure is expenditure on running the business on a day to day basis. Example – wages, rent, insurance.

(2 x 3 marks)
(Each type – 1 for point plus 1 for development, plus 1 for example) [6]

(b) Capital expenditure is entered in the Balance Sheet with depreciation only in Profit and Loss Account.

Capital expenditure is charged over accounting periods and is an application of the matching/accruals process.

If capital expenditure is entered in full in the Profit and Loss Account then profit would be understated.

Revenue expenditure should be entered in full in the Profit and Loss Account.

If revenue expenditure is entered in the Balance Sheet then profit would be overstated.

(4 x 2 marks)
(1 for point plus 1 for development) [8]

Total marks [14]

Changing Asset Values

Changing Asset Values

F011 Specimen Walnut Question 2

2 The following details relate to the fixed assets of Walnut Traders for the year ended 31 January 2007.

(i) Fixed Assets at cost as at 1 February 2006 were:

	£
Machinery	255,000
Office Equipment	110,000

(ii) Provision for depreciation as at 1 February 2006:

	£
Machinery	95,000
Office Equipment	38,000

(iii) On 31 May 2006 machinery which originally cost £90,000 and with a written down value of £24,000 at the date of sale, was sold at a loss of £8,000. The disposal receipt was paid into the Bank Account. No purchases of machinery took place during the year ended 31 January 2007. All machinery held at 31 January 2007 had been purchased since 1999.

(iv) On 1 August 2006 office equipment costing £36,000, paid by cheque, was purchased. No disposals of office equipment took place during the year ended 31 January 2007. All office equipment held at 31 January 2007 had been purchased since 1999.

(v) Depreciation policy:

Machinery	10% per annum on cost straight line
Office Equipment	10% per annum on cost straight line

Depreciation is applied from the date an asset is bought until it is sold.

F011 Specimen Walnut Question 2 continued

REQUIRED

(a) The following ledger accounts for the year ended 31 January 2007, showing the balance carried down to the next financial year. Dates are not required.

- **(i)** Machinery **[3]**
- **(ii)** Provision for Depreciation of Machinery **[5]**
- **(iii)** Disposal of Machinery **[5]**
- **(iv)** Office Equipment **[3]**
- **(v)** Provision for Depreciation of Office Equipment **[4]**

(b)* Evaluate Walnut Traders policy of using only the straight line method of depreciation. **[8]**

(c) 'Provision for depreciation is made to provide for the replacement of a fixed asset.' Discuss this statement. **[6]**

Total Marks [34]

Paper Total [80]

Changing Asset Values

F011 Specimen Walnut Question 2 Mark scheme

Question Number	Answer	Max Mark
2(a)		

Machinery

Bal b/d	255,000	**[1]**	Disposal	90,000	**[1]**	
			Bal c/d	165,000	**[1]**	
	255,000			255,000		
						[3]

Provision for depreciation Machinery

Disposal	66,000	**[1]**	Bal b/d	95,000	**[1]**	
Bal c/d **[1]**	48,500		Profit and Loss	19,500	**[2] (1of)**	
	114,500			114,500		
(16,500 + 3,000 = 19,500)						**[5]**

Disposal of Machinery

Machinery	90,000	**[1]**	Depn Machinery	66,000	**[1]**	
			Bank	16,000	**[1]**	
			Profit & Loss **[1]**	8,000	**[1]**	
	90,000			90,000		
						[5]

Office Equipment

Bal b/d	110,000	**[1]**	Bal c/d	146,000	**[1]**	
Bank	36,000	**[1]**				
	146,000			46,000		
						[3]

Provision for depreciation Office Equipment

	50,800	**[1]**	Bal b/d	38,000	**[1]**	
		[1]	Profit and Loss	12,800	**[1]**	
	50,800			50,800		
(11,000 + 1,800 = 12,800)						**[4]**

F011 Specimen Walnut Question 2 Mark scheme continued

Question Number	Answer	Max Mark
2(b)*	Straight line is easy to calculate and therefore less chance of any error. It provides an equal amount of depreciation each year to be charged to the profit and loss account. It is useful for assets that reduce in value evenly throughout their life. An appropriate method for Office Equipment. Straight line may not be appropriate for Machinery as it does not lose value evenly throughout its life. Reducing balance may be a more appropriate method for Machinery, as it should be used for assets that have a heavier fall in value in the earlier years and less in later years, low repairs and maintenance in the early years which will increase in later years. *2 x 3 marks* *1 for point plus up to 2 for development* NB Up to an additional two marks can be awarded for the candidate's quality of written communication (narrative responses)	**[8]**
2(c)	Depreciation does not provide funds for replacement of an asset, there is no movement of cash. It is a book-keeping entry, debit profit and loss, credit provision for depreciation. Depreciation is an application of the accruals concept, it is matched with the benefit a fixed asset provides over a period. It spreads the cost over the useful life of the asset. *2 x 3 marks* *1 for point plus up to 2 for development*	**[6]**
	Total Marks	**[34]**
	Paper Total	**[80]**

Changing Asset Values

F001 June 2007 Choco Question 3

3 An extract from Choco Machines' Balance Sheet as at 28 February 2006 showed the following:

	£
Machinery at cost	460 000
Depreciation to date	150 000
	310 000

During the year ended 28 February 2007, the following transactions took place.

On 1 March 2006 Choco Machines **purchased** machinery at a cost of £80 000.
On 1 September 2006 Choco Machines **sold** machinery for £24 000. This machinery was originally purchased on 1 March 2004 at a cost price of £60 000.

All transactions are by cheque.

Depreciation is calculated on a straight line basis. For purposes of calculating depreciation, the business assumes that machinery will have a four year life. It will then be disposed of at an estimated residual value of 10% of its original cost. The rate is charged for each proportion of the year machinery is owned. All other items of machinery have been purchased within the previous three years.

REQUIRED

(a) The following ledger accounts for the year ended 28 February 2007. Include, where appropriate, the balance carried down to the next financial year.

(i) Machinery [4]

(ii) Provision for Depreciation of Machinery [6]

(iii) Machinery Disposals [4]

(b) The Balance Sheet extract as at 28 February 2007 for Machinery. [2]

(c)* Discuss the problems involved in accounting for depreciation. [8]

(d) Advise Choco Machines on why the correct treatment of capital and revenue expenditure is important. [6]

Changing Asset Values

F001 June 2007 Choco Question 3 Mark scheme

3

(a)

Machinery

Balance b/d	460,000	**(1)**	Disposals	60,000	**(1)**
Bank	80,000	**(1)**	Balance c/d	480,000	**(1)**
	540,000			540,000	

[4]

Provision for Depreciation

Disposals	33,750	**(1)**	Balance b/d	150,000	**(1)**
Balance c/d **(1)**	231,000	**(1)**	Profit and Loss	114,750	**(2)**
	264,750			264,750	

[6]

Disposal of Machinery

Machinery	60,000	**(1)**	Provision for dep'n	33,750	
			Bank	24,000	**(1)**
			Profit and Loss **(1)**	2,250	**(1)**
	60,000			60,000	

[4]

(b)
Balance Sheet Extract

Machinery	480,000	
Provision for depreciation	231,000	
Net Book value	249,000	**(2)(1 of)** **[2]**

(c)*
Estimating the life of the asset.
Deciding which method to use straight line or reducing balance method.
Deciding what percentage rate to apply.
Estimating the residual value of the asset.
Deciding what assets should be depreciated and what should be written off in Profit and Loss account as an expense. Materiality concept.

Candidates are expected to cover at least ***two*** *problems in accounting for depreciation with appropriate evaluation.* **[6]**
Maximum 2 marks for analysis plus max 4 marks for evaluation. QWC **[2]**

F001 June 2007 Choco Question 3 Mark scheme continued

(d)
Capital expenditure is shown on the balance sheet and revenue expenditure is shown on the profit and loss account. If expenditure is not classified correctly, the result is that the final accounts will be inaccurate and misleading.

If capital expenditure is treated as revenue expenditure then the profit in the profit and loss account will be understated. The value of assets in the balance sheet will also be understated.

If revenue expenditure is treated as capital expenditure then the expenses in the profit and loss account will be understated and the profit will be overstated. The value of assets in the balance sheet will be overstated.

Candidates are expected to distinguish the differences and identify the effects on the profit and loss account and balance sheet. [3 + 3)

[6]

Total marks [30]

Changing Asset Values

2500 June 2007 Ken Reed Question 2

2 Ken Reed started in business on 1 January 2004 and the following information is available for the purchase of machinery.

1 January 2004	Purchased machine 1, costing £15 000
1 September 2004	Purchased machine 2, costing £18 000
1 April 2006	Purchased machine 3, costing £12 000

Machinery is depreciated at the rate of 10% per annum using the reducing balance method, with rates being applied for each part of a year. Machine 2 was found to be unsuitable and sold on 30 September 2005 for £15000. The other two machines were still in use on 31 December 2006. All transactions were by cheque.

REQUIRED

(a) The following ledger accounts for **each** of the years ended 31 December 2004, 31 December 2005 and 31 December 2006.

- **(i)** Machinery. [5]
- **(ii)** Provision for Depreciation of Machinery. [9]

(b) The Disposal of Machinery Account for the year ended 31 December 2005. [5]

(c) Discuss the choice of depreciation method used by the business. [6]

Total marks [25]

Changing Asset Values

2500 June 2007 Ken Reed Question 2 Mark scheme

2 (a) (i)

Machinery

2004			
Bank	15,000	Bal c/d	33,000 **(1)**
Bank	18,000		
	33,000		33,000
2005			
Bal b/d	33,000	Disposal	18,000 **(1)**
		Bal c/d	15,000 **(1)**
	33,000		33,000
2006			
Bal b/d	15,000	Bal c/d	27,000 **(1)**
Bank	12,000 **(1)**		
	27,000		27,000

[5]

(ii)

Provision for Depreciation of Machinery

2004			
Bal c/d	2,100	Profit & Loss **(1)**	2,100 **(2)**
2005			
Disposal **(1)**	1,905 **(1)**	Bal b/d	2,100
Bal c/d	2,850	Profit & Loss	2,655 **(2)**
	4,755		4,755
2006			
Bal c/d	4,965	Bal b/d	2,850
		Profit & Loss	2,115 **(2)**
	4,965		4,965

[9]

2500 June 2007 Ken Reed Question 2 Mark scheme continued

(b)

Disposal of Machinery

Machinery	18,000 **(1)**	Depreciation	1,905 **(1)**
		Bank	15,000 **(1)**
		Profit & Loss **(1)**	1,095 **(1)**
	18,000		18,000

[5]

(c)
Reducing balance suited to fixed assets that have heavier fall in value in earlier years. Repair/maintenance costs increase over life and offset by reducing depreciation charge. Straight line could also be considered, where depreciation is in equal amounts each year. If machinery reduces in value at a greater rate in earlier years, then reducing balance method appropriate.

(3 x 2 marks)
(1 for point plus 1 for development) **[6]**

Total marks [25]

Changing Asset Values

F001 January 2007 Kenneth Bull Question 2

2 An extract from Kenneth Bull Ltd's Balance Sheet as at 31 December 2005 showed the following:

	Cost	Depreciation To Date	Net Book Value
	£	£	£
Motor vehicles	560 000	250 000	310 000
Office equipment	140 000	45 000	95 000

During the financial year ended 31 December 2006 the following transactions took place.
All transactions were by cheque.

Motor Vehicles

DISPOSALS

Motor Vehicle Reference	Purchase Date	Disposal Date	Original Cost	Sale Proceeds
			£	£
MV6	1 January 2003	30 September 2006	19 200	2 800

PURCHASES

Motor Vehicle Reference	Purchase Date	Cost
		£
MV15	1 July 2006	26 400

Motor vehicles are depreciated at 25% per annum using the straight line method, the rate being charged for each proportion of the year the motor vehicles are owned. No allowance is made for any residual value. All motor vehicles held by the company at 31 December 2006 had been purchased within the previous four years.

F001 January 2007 Kenneth Bull Question 2 continued

Office Equipment

DISPOSALS

Office Equipment Reference	Purchase Date	Disposal Date	Original Cost £	Sale Proceeds £
OE16	1 July 2000	31 March 2006	12000	3200

Office equipment is depreciated at 10% per annum using the straight line method, the rate being charged for each proportion of the year the office equipment is owned. No allowance is made for any residual value. One item of office equipment which originally cost £5000 was purchased on 1 January 1995. All other office equipment had been purchased within the previous seven years. No items of office equipment have been purchased during the year ended 31 December 2006.

REQUIRED

(a) The following ledger accounts for the year ended 31 December 2006, where appropriate showing the balance carried down to the next financial year. Dates are not required.

- **(i)** Motor Vehicles [4]
- **(ii)** Provision for Depreciation of Motor Vehicles [5]
- **(iii)** Disposal of Motor Vehicles [4]
- **(iv)** Office Equipment [2]
- **(v)** Provision for Depreciation of Office Equipment [4]
- **(vi)** Disposal of Office Equipment [4]

(b) Evaluate Kenneth Bull Ltd's policy of using only the straight line method of depreciation. [6]

(c) 'Depreciation is to provide funds for the replacement of a fixed asset.'

Discuss this statement. [6]

Total marks [35]

F001 January 2007 Kenneth Bull Question 2 Mark scheme

2 (a)

Motor Vehicles

(i)	Bal b/d	560,000	**(1)**	Disposal	19,200	**(1)**	
	Bank	26,400	**(1)**	Bal c/d	567,200	**(1)**	
		586,400			586,400		**[4]**

Provision for depreciation Motor Vehicles

(ii)	Disposal	18,000	**(1)**	Bal b/d	250,000	**(1)**	
	Bal c/d **(1)**	374,100		Profit and Loss	142,100	**(2)(1of)**	
		392,100			392,100		
	(3,600 + 135,200 + 3,300 = 142,100)						**[5]**

Disposal of Motor Vehicle

(iii)	Motor vehicles	19,200	**(1)**	Depn Motor vehicles	18,000	**(1)**	
	Profit and Loss	1,600	**(1)**	Bank	2,800	**(1)**	
		20,800	**of**		20,800		**[4]**

Office Equipment

(iv)	Bal b/d	140,000		Disposal	12,000	**(1)**	
				Bal c/d	128,000	**(1)**	
		140,000			140,000		**[2]**

Provision for depreciation Office Equipment

(v)	Disposal	6,900	**(1)**	Bal b/d	45,000		
	Bal c/d	50,700		Profit and Loss	12,600	**(2)(1of)**	
		57,600			57,600		
	(300 + 12,300 = 12,600)						**[4]**

Disposal of Office Equipment

(vi)	Office equipment	12,000	**(1)**	Depn Office equipment	6,900	**(1)**	
				Bank	3,200	**(1)**	
				Profit and Loss	1,900	**(1) of**	
		12,000			12,000		**[4]**

F001 January 2007 Kenneth Bull Question 2 Mark scheme cont

b) Straight line is an appropriate method for Office Equipment, as it should be used for assets that are used evenly and earn revenue evenly throughout their life.
It is easy to calculate and less chance of error.
Reducing balance is an appropriate method for Motor Vehicles, as it should be used for assets that have a heavier fall in value in the earlier years and less in later years and low repairs and maintenance in the early years which will both increase in later years.
Candidates are expected to explain both straight line and reducing balance methods of depreciation with appropriate evaluation for each. **[(1+2)x2] [6]**

(c) Depreciation does not provide funds for replacement of an asset, there is no movement of cash.
It is a book-keeping entry, debit profit and loss, credit provision for depreciation.
Depreciation is an application of the accruals concept, it is matched with the benefit a fixed asset provides over a period. It spreads the cost over the useful life of the asset.
Candidates are expected to identify that the statement is incorrect, explain the process of depreciation and justify their reasons why it does not provide funds for replacement.

[3x3] [6]

Total marks [35]

2500 January 2007 Watkins Question 3

3 The following Balance Sheet extract has been taken from the accounts of Watkins Ltd as at 31 December 2005.

Fixed Assets

	Cost To	Depreciation Date	Net Book Value
	£	£	£
Office equipment	163,400	89,100	74,300

During the year ended 31 December 2006 the following transactions took place for office equipment.

Disposals

Disposal Date	Purchase Date	Original Cost	Disposal Proceeds
		£	£
30 April 2006	1 January 2003	20,000	3,800
30 June 2006	1 January 2002	28,000	4,920

Additions

Date	Cost
	£
1 October 2006	30,000

Depreciation for office equipment is charged by the straight line method based on a five year life and estimated residual value of 10% of original cost. Depreciation is applied from the date office equipment is bought until it is sold. All transactions were by cheque.

REQUIRED

(a) The following ledger accounts for the year ended 31 December 2006. Dates are not required.

(i) Office equipment **[5]**

(ii) Disposal of office equipment **[9]**

(b) Discuss Watkins Ltd's policy of using the straight line method of depreciation for office equipment. **[6]**

Total marks [20]

2500 January 2007 Watkins Question 3 Mark scheme

3 (a) (i)

Office equipment

Bal b/d	163,400	**(1)**	Disposal	20,000	**(1)**
Bank	30,000		Disposal	28,000	**(1)**
	193,400			193,400	

[5]

(ii)

Disposal of office equipment

Office equipment	20,000	**(1)**	Depreciation	12,000	**(2)**
Office equipment	28,000	**(1)**	Depreciation	22,680	**(2)**
			Bank	3,800	**(1)**
			Bank	4,920	**(1)**
			Profit & Loss	4,600	**(1)**
	48,000			48,000	

[9]

(b) Straight line is easy to calculate and chance of error reduced.
Will give an equal charge each full year and useful for fixed assets that reduce in value by equal amounts.
Reducing balance could also be considered, where depreciation would be higher in earlier years.
If office equipment reduces in value by equal amounts each year, then straight line method appropriate.

(3 x 2 marks or 2 x 3 marks)
(1 for points plus up to 2 for development) **[6]**

Total marks [20]

Changing Asset Values

2500 June 2006 Betax Question 3

3 Betax Limited has recently purchased new machinery with the following pricing details.

	£
Cost per price list	60 000
Less 10% trade discount	6 000
	54 000
Delivery costs	1 000
Installation costs	2 000

The machinery maintenance costs are estimated to be £5 000 per annum. The business plans to keep the machinery for five years and then dispose of it for an estimated residual value of £4 000.

REQUIRED

(a) Calculate the cost figure which should be used as the basis for depreciation. **[2]**

(b) Calculate the annual depreciation charge using the straight line method. **[2]**

(c) Prepare the Disposal of Machinery Account if the machinery is sold for £12 000 at the end of four years. **[6]**

(d) 'Provision for depreciation is made to provide for the replacement of a fixed asset'. Discuss this statement. **[8]**

Total marks [18]

Changing Asset Values

2500 June 2006 Betax Question 3 Mark scheme

3 **(a)**

54,000 + 1,000 + 2,000 = 57,000 **(2)** **[2]**

(b)

$\dfrac{57{,}000 - 4{,}000\ \mathbf{(1)}}{5\ \mathbf{(1)}} = 10{,}600$ **[2]**

(c)

Disposal of Machinery

Machinery **(1)**	57 000	Depreciation **(1)**	42,400	
		Bank **(1)**	12,000	**(1)**
		Profit and Loss **(1)**	2,600	**(1)**
	57,000		57,000	

[6]

(d)

Provision made to ensure spreading of cost in Profit and Loss Account
Provision made to ensure correct Balance Sheet valuation
Depreciation reduces profit and could argue saving cash for replacement
Book-keeping entry only
Application of accruals (matching concept)
Does not provide for replacement

(4 x 2 marks)
(1 for point plus 1 for development) **[8]**

Total marks [18]

Changing Asset Values

2500 June 2004 Windsor Question 2

2 The following details relate to the fixed assets of Windsor Traders for the year ended 30 April 2004.

(I) Fixed Assets at cost as at 1 May 2003 were:

	£
Machinery	255 000
Office equipment	110 000

(II) Provision for depreciation as at 1 May 2003:

	£
Machinery	95 000
Office equipment	38 000

(III) On 31 August 2003 machinery which originally cost £90 000 and with a written down value of £24 000 at the date of sale, was sold at a loss of £8 000. The disposal receipt was paid into the Bank Account. No purchases of machinery took place during the year ended 30 April 2004. All machinery held at 30 April 2004 had been purchased since 1996.

(IV) On 1 November 2003 office equipment costing £36 000, paid by cheque, was purchased. No disposals of office equipment took place during the year ended 30 April 2004. All office equipment held at 30 April 2004 had been purchased since 1996.

(V) Depreciation policy:

Machinery	10% per annum on cost straight line
Office equipment	10% per annum on cost straight line

Depreciation is applied from the date an asset is bought until it is sold.

REQUIRED

(a) The following ledger accounts for the year ended 30 April 2004. Show the balance carried down in each case. Dates are not required.

(I) Machinery [4]

(II) Office Equipment [4]

(III) Provision for Depreciation of Machinery [9]

(IV) Provision for Depreciation of Office Equipment [7]

(V) Disposal of Machinery [6]

(b) Evaluate Windsor Traders' policy of only using the straight line method of depreciation. [6]

Total marks [36]

2500 June 2004 Windsor Question 2 Mark scheme

2 (a) (i)

Machinery

Bal b/d	255,000	**(1)**	Disposal	90,000	**(1)**
			Bal c/d **(1)**	165,000	**(1)**
	255,000			255,000	

[4]

(ii)

Office Equipment

Bal b/d	110,000	**(1)**	Bal c/d	146,000	**(1)**
Bank **(1)**	36,000	**(1)**			
	146,000			146,000	

[4]

(iii)

Depreciation Machinery

Disposal **(1)**	66,000	**(1)**	Bal b/d	95,000	**(1)**
Bal c/d	48,500	**(1 of)**	Profit and Loss **(1)**	*19,500	**(4)(1of)**
	114,500			114,500	
			*16,500**(2)**+3,000 **(2)**		

[9]

(iv)

Depreciation Office Equipment

Bal c/d	50,800	**(1 of)**	Bal b/d	38,000	**(1)**
			Profit and Loss **(1)**	*12,800	**(4)(1of)**
	50,800			50,800	
			*11,000**(2)**+1,800**(2)**		

[7]

2500 June 2004 Windsor Question 2 Mark scheme continued

2

(v)

Disposal of Machinery

Machinery	90,000	**(1)**	Depn machinery	66,000	**(1)**
			Bank **(1)**	16,000	**(2)**
			Profit and Loss	8,000	**(1)**
	90,000			90,000	

[6]

(b) Application of relevant concept.

Straight line is easy to calculate and less chance of errors.

Will give an equal charge each year and useful for assets that reduce in value by equal amounts. May be appropriate for office equipment.

Reducing balance appropriate for assets that have a heavier fall in earlier years and appropriate for machinery.

As assets get older maintenance costs increase and reducing balance method with reducing depreciation will ensure a more even charge.
(3 x 2 marks)
(1 for point plus 1 for development)

[6]

Total marks [36]

Changing Asset Values

2500 June 2003 K Bailey Question 2

2 K. Bailey started business on 1 January 2000. He purchased three machines on that date at the following prices:

Machine A	£20 000
Machine B	£30 000
Machine C	£40 000

Machinery is depreciated at the rate of 10% per annum on cost, with rates being applied for each part of the year. Machine B was sold for £16 000 on 30 June 2002. The other machines were still in use on 31 December 2002. No other machinery purchases took place up to 31 December 2002. All transactions were by cheque.

REQUIRED

(a) Prepare the following accounts for each of the years ended 31 December 2000, 31 December 2001 and 31 December 2002:

(I) Machinery Account; [5]

(II) Provision for Depreciation of Machinery Account. [10]

(b) The Balance Sheet extract as at 31 December 2002 for machinery. [3]

(c) Advise K. Bailey on **three** factors he needs to consider when creating a provision for depreciation. [9]

Total marks [27]

Changing Asset Values

2500 June 2003 K Bailey Question 2 Mark scheme

2 (a) (i)

Machinery

Bank	90,000		Bal c/d	90,000	**(1)**
Bal b/d	90,000		Bal c/d **(1)**	90,000	
Bal b/d	90,000		Disposals **(1)**	30,000	**(1)**
			Bal c/d	60,000	**(1)**
	90,000			90,000	

[5]

(ii)

Provision for Depreciation Machinery

Bal c/d	9,000		Profit & Loss **(1)**	9,000	**(2)**
Bal c/d	18,000		Bal b/d	9,000	
			Profit & Loss	9,000	**(1)**
	18,000			18,000	
Disposals **(1)**	7,500	**(2)**	Bal b/d	18,000	
Bal c/d	18,000	**(1 of)**	Profit & Loss (6,000+1,500)	7,500	**(2)**
	25,500			25,500	

[10]

(b) Balance Sheet extract

Machinery	60,000	**(1 of)**
Depreciation	18,000	**(1 of)**
	42,000	**(1)**

[3]

2500 June 2003 K Bailey Question 2 Mark scheme continued

(c) Cost
Purchase price plus delivery and installation costs
Import duties

Life
Estimated based on experience
Dependent on use

Residual Value
Difficulty in calculating
May be so small that regarded as zero

Method
Different methods available
Straight line and reducing balance

Identification and application of concept

(3 x 3 marks)
(1 for point plus up to 2 for development) **[9]**

Total marks [27]

Changing Asset Values

2500 June 2002 Falcon Question 2

2 An extract from Falcon Limited's Balance Sheet as at 31 December 2000 showed the following:

	£
Motor vehicles at cost	371 000
less total depreciation to date	130 000
	241 000

During the financial year ended 31 December 2001 the following transactions took place regarding motor vehicles.

DISPOSALS

Vehicle Reference	Purchase Date	Disposal Date	Original Cost £	Sale Proceeds £
MV9	1 January 1997	30 June 2001	9 200	500

PURCHASES

Vehicle Reference	Purchase Date	Cost £
MV17	1 April 2001	15 000

Depreciation is charged at 20% per annum using the straight line method, with the rate being applied for each part of the year. No allowance is made for any residual value. All motor vehicles held by the company at 31 December 2001 had been purchased within the previous five years. All transactions are by cheque.

2500 June 2002 Falcon Question 2 continued

REQUIRED

(a) Prepare the following accounts for the year ended 31 December 2001:

(i) Motor Vehicles

(ii) Provision for Depreciation of Motor Vehicles

(iii) Motor Vehicles Disposal.

[23]

(b) The Balance Sheet extract for Motor Vehicles as at 31 December 2001. [3]

(c) 'Depreciation is a movement of cash from the business.' Explain why this statement is a misunderstanding of the depreciation process. [8]

Total marks [34]

2500 June 2002 Falcon Question 2 Mark scheme

2 (a) (i)

Motor vehicles

Bal b/d	371,000	**(1)**	Disposals **(1)**	9,200	**(1)**
Bank	15,000	**(1)**	Bal c/d **(1)**	376,800	**(1)**
	386,000			386,000	

(ii)

Provision for depreciation of Motor Vehicles

Disposals	8,280	**(2)**	Bal b/d **(1)**	130,000	**(1)**
Bal c/d **(1)**	197,250		Profit and Loss **(1)**	75,530	**(3)(1 of)**
	205,530			205,530	

(iii)

Motor Vehicle Disposals

Motor Vehicles **(1)**	9,200	**(1)**	Depreciation MV **(1)**	8,280	**(1)**
			Bank **(1)**	500	**(1)**
			Profit and Loss **(1)**	420	**(1)**
	9,200			9,200	

[23]

(b) Motor vehicles at cost 376,800 **(1 of)**
Less total depreciation to date 197,250 **(1 of)**
179,550 (1) **[3]**

(c) Depreciation is a book keeping entry, debit profit and loss, credit provision for depreciation. It is not a movement of cash from the business.
Application of matching / accruals concept. Depreciation is matched with the benefit which the asset provides over each accounting period.
The cash outflow is made only on purchase – capital expenditure.
The provision for depreciation annually is intended to spread the cost over the useful life of the asset – in order to comply with accruals concept.
1 for each point plus up to 3 for development)
(2 x 4 marks)

[Total : 34]

Changing Asset Values

2500 June 2001 Violet Question 3

3 Violet Limited started in business on 1 January 1998. It purchased two machines on that date at the following prices:

Machine 1	£20,000
Machine 2	£30,000

Machinery is depreciated at the rate of 20% per annum by the reducing balance method, with rates being applied for each part of the year. Machine 2 was sold on 31 July 2000 at a loss of £960 on its written down value at that date. Machine 1 was still in use at the end of 2000.

REQUIRED

(a) Prepare the following accounts for each of the years· 1998, 1999 and 2000:

(i) Machinery Account

(ii) Provision for Depreciation of Machinery Account. [19]

(b) Prepare the Machinery Disposals Account for the year ended 31 December 2000. [6]

(c) Evaluate the choice of the reducing balance method of depreciation for machinery. [3]

(d) Briefly explain the purpose of providing for depreciation in the accounts. [6]

Total marks [34]

Changing Asset Values

2500 June 2001 Violet Question 3 Mark scheme

3 (a) (i)

Machinery

Bank	50,000	Bal c/d	50,000 (1)
Bal b/d (1)	50,000	Bal c/d	50,000
Bal b/d (1)	50,000	Disposals (1)	30,000 (1)
		Bal c/d	20,000 (1)
	50,000		50,000

(ii)

Provision for Depreciation Machinery

Bal c/d	10,000	P & L (1)	10,000 (2)
Bal c/d	18,000	Bal b/d	10,000 (1)
		P & L (1)	8,000 (1)
	18,000		18,000
Disposals (1)	13,040 (2)	Bal b/d	18,000 (1)
Bal c/d	9,760 (1)	P & L	4,800 (2)
	22,800		22,800

[19]

(b)

Disposals

Machinery	30,000 (1)	Depreciation	13,040 (1)
		Bank	16,000 (2)
		P & L (1)	960 (1)
	30,000		30,000

[6]

2500 June 2001 Violet Question 3 Mark scheme continued

(b) **Disposals**

Machinery	30,000 (1)	Depreciation	13,040 (1)
		Bank	16,000 (2)
		P & L (1)	960 (1)
	30,000		30,000

[6]

(c) Reducing balance suited to assets that have heavier fall in earlier years.
Repair/maintenance increase over life.
Appropriate for machinery.
(1 mark for identification of point)
(3 x 1 mark) **[3]**

(d) Costs should be spread evenly over life. Each year should carry fair share of expenses. We make charge in Profit and Loss.
Assets must be correctly valued in Balance Sheet.
Cost less total depreciation to date gives written down value.
(1 mark for recognition plus maximum 2 for development)
(2 x 3 marks) **[6]**

[Total: 34]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

F001 June 2007 Matti Spicer Question 1

2 Matti Spicer prepared the following aged debtors schedule for his business on 31 March 2007.

Debtor	Amount due	1 month	2 months	3 months	4–6 months	Over 6 months
	£	£	£	£	£	£
S. Rosemary	300	200	100			
U. Tyme	2 500	1 900	500	100		
H. Ginger	6 350	1 350	5 000			
V. Turmeric	90				90	
C. Basil	1 450	1 450				
D. Bay	3 200	1 200	1 000	1 000		
T. Saffron	60					60
O. Mint	2 200		1 000	600	400	200
	16 150	6 100	7 600	1 700	490	260

The provision for doubtful debts as at 1 April 2006 was £920.

Matti Spicer's policy for dealing with outstanding debtors is to:

(i) write off as bad debts all amounts outstanding for more than 6 months;
(ii) write off as bad debts all amounts under £100 outstanding for 4 to 6 months;
(iii) make specific provisions for all other debts outstanding for 4 to 6 months;
(iv) make a general provision of 2½% on all other debts outstanding.

REQUIRED

(a) **(i)** The Bad Debts Account for the year ended 31 March 2007, showing the transfer to the final accounts. [5]

(ii) The Provision for Doubtful Debts Account for the year ended 31 March 2007, showing the balance carried down. [5]

(b) The Balance Sheet extract for Debtors as at 31 March 2007. [2]

(c) Identify **two** ways in which Matti Spicer could reduce bad debts. [2]

(d) Explain **two** reasons why it is important to monitor and control debtors. [4]

(e) Discuss the application of the prudence concept when creating a provision for doubtful debts and the effect this may have on the final accounts. [6]

Total marks [24]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

F001 June 2007 Matti Spicer Question 1 Mark scheme

2

(a)

Bad Debts

T Saffron		60	**(1)**	Profit and Loss	**(1)**	350	**(1)**
O Mint		200	**(1)**				
V Turmeric		90	**(1)**				
		350				350	

[5]

Provision for Doubtful Debts

Profit and Loss	**(1)**	135	**(1)**	Bal b/d		920	**(1)**
Bal c/d	**(1)**	785	**(1)**				
		920				920	

[5]

(b)

Balance Sheet (Extracts)

Current Assets

Debtors	15,800		
Provision for Doubtful Debts	785		
	15,015	**(2)(1 of)**	**[2]**

(c)

Obtain credit references before allowing customers credit.
Set credit limits.
Monitor all debts, sending reminders for overdue debts.
Stop orders that exceed credit limit.
Continuously update sales ledger.
Produce aged debtors schedule.

[2 x 1] **[2]**

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

F001 June 2007 Matti Spicer Question 1 Mark scheme continued

(d)
Monitor sales to customers ensuring that they do not exceed their credit limits.
Ensure that they do not have overdue debts.
Monitor customer payments, to make sure they pay what they owe when payment is due.
Improve cash flow.

Candidates are expected to explain the importance of monitoring and controlling debtors and justify their reasons. **[4]**
[(1 + 1) x 2]
(e)
When a business makes a provision for doubtful debts, it is acting in accordance with the prudence concept. It is recognising that profits might not be as high as would otherwise be stated, as when goods are sold on credit it is inevitable that some debtors will not pay.

The profit and loss account should provide for the loss in revenue and should make an adjustment in the expenses therefore not overstating the profit.

Amounts expected to be received from debtors should not be overstated in the balance sheet. The asset of debtor should be reduced by the provision for doubtful debts, therefore not overstating assets.

Candidates are expected to explain the prudence concept in relation to doubtful debts and discuss the effects of its application on the profit and loss account and balance sheet.
[3 x 2] **[6]**

Total marks [24]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 June 2007 Richards Question 3

3 Richards Ltd maintains a provision for doubtful debts account. On 1 April 2006, the account had a balance of £3 400.

On 1 August 2006 Moore Ltd, a debtor who owed £400, ceased trading. The debt was written off in full as a bad debt.

On 13 November 2006 Murphy Ltd, a debtor who owed £600, ceased trading. Richards Ltd received £0.25 in the pound in final settlement of the debt. The remainder of the debt was written off in full as a bad debt.

Other bad debts written off during the year amounted to £300.

On 31 March 2007 Richards Ltd had debtors totalling £120 000. It decided to adjust its provision for doubtful debts to 3% of debtors.

REQUIRED

(a) **(i)** What is the difference between a bad debt and a provision for doubtful debts? [2]

(ii) How would a bad debt and a provision for doubtful debts be treated in the final accounts? [4]

(b) Prepare the following ledger accounts for the year ended 31 March 2007.

(i) Provision for Doubtful Debts [4]

(ii) Bad Debts [4]

(iii) Murphy Ltd [3]

Total marks [17]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 June 2007 Richards Question 3 Mark scheme

3 (a) (i) A bad debt arises when it is certain that a debtor will not pay.
A provision for doubtful debts arises when it is considered that a debtor might not pay.

(2 x 1 mark) **[2]**

(ii) Bad debt entered as an expense **(1)** in the Profit and Loss Account **(1)**.
Provision for doubtful debts is entered in the Profit and Loss Account (change only) **(1)**.
The balance is deducted from debtors in the Balance Sheet **(1)**.

(4 x 1 mark)

[4]

(b) (i)

Provision for Doubtful Debts

Bal c/d	3,600 **(1)**	Bal b/d	3,400 **(1)**
		Profit & Loss **(1)**	200 **(1)**
	3,600		3,600

[4]

(ii)

Bad Debts

Moore	400 **(1)**	Profit & Loss	1,150 **(1)**
Murphy	450 **(1)**		
Various	300 **(1)**		
	1,150		1,150

[4]

(iii)

Murphy

Bal b/d	600 **(1)**	Bank	150 **(1)**
		Bad debts	450 **(1)**
	600		600

[3]

Total marks [17]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2006 Niatex Question 2

2 Niatax Limited has prepared the following aged debtors schedule as at 31 December 2005.

Age of debt	*Debtors*
	£
up to 30 days	16 800
31 to 60 days	12 600
61 to 90 days	7 100
over 90 days	1 300

Niatax Limited maintains a provision for doubtful debts account. On 1 January 2005, the account had a balance of £800. The bad debts for the year ended 31 December 2004 amounted to £1 420.

Gillingham Limited, a debtor of £700, has recently been declared bankrupt. This amount had been included in the aged debtors schedule above as being outstanding for 61 to 90 days. It is to be written off in full immediately from the aged debtors schedule.

On 2 October 2005, Bay Limited, a debtor, ceased trading and Niatax Limited received payment of £0.25 in the pound in final settlement of the debt of £600. The remainder of the debt was written off in full at that date.

Other bad debts written off during the year totalled £350.

The policy applied by Niatax Limited for the provision for doubtful debts is on a sliding scale basis as follows.

Age of debt	%
Up to 30 days	1
31 to 60 days	2
61 to 90 days	3
over 90 days	10

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2006 Niatex Question 2 continued

REQUIRED

(a) Calculate the amount Niatax Limited should provide as a provision for doubtful debts as at 31 December 2005. **[5]**

(b) Prepare the following ledger accounts for the year ended 31 December 2005, showing the closing entry to the final accounts at the end of the year.

(i) Provision for doubtful debts. **[3]**

(ii) Bad debts. **[4]**

(iii) Bay Limited. **[3]**

(c) Prepare the Balance Sheet extract as at 31 December 2005 for debtors (net). [2]

(d) Rather than using its existing policy, Niatax Limited is considering applying a single percentage to all debts as the basis for calculating its provision for doubtful debts. If a change is made, it would use the average of 4% from its current rates. Evaluate:

- the existing policy
- the alternative policy

using figures to support your comments. **[8]**

Total marks [25]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2006 Niatex Question 2 Mark scheme

2 (a)

16,800 x 1%	168	**(1)**
12,600 x 2%	252	**(1)**
7,100-700=6,400 x 3%	192	**(2)**
1,300 x10%	130	**(1)**
	742	

[5]

(b) (i)

Provision for doubtful debts

Profit and Loss	58	**(1of)**	Bal b/d	800	**(1)**
Bal c/d	742	**(1of)**			
	800			800	

[3]

(ii)

Bad debts

Gillingham	700	**(1)**	Profit and Loss	1,500	**(1)**
Bay	450	**(1)**			
Others	350	**(1)**			
	1,500			1,500	

[4]

(iii)

Bay Limited

Bal b/d	600	**(1)**	Bank	150	**(1)**
			Bad debts	450	**(1)**
	600			600	

[3]

(c)

Balance Sheet extract

Debtors	37,100	**(1)**
Less pdd	742	**(1of)**
	36,358	

[2]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2006 Niatex Question 2 Mark scheme continued

(d)

Current provision £742 is 2% of debtors. Actual bad debts £1,500. Suggests provision is insufficient.

Similar pattern in previous year. Provision £800 and bad debts £1,420.

Provision has decreased from previous year, whereas bad debts have increased.

Single rate of 4% would give a provision of £1,484 which is close to actual bad debts.

Sliding scale likely to reflect that the older the debt, the greater the chance of it turning out bad. Existing sliding scale not sufficient.

(2 x 4 marks)
(1 for point plus up to 3 for development) **[8]**

Total marks [25]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2005 Chilver Question 3

3 The following extract was taken from the Trial Balance of Chilver Traders as at 31 December 2004.

	Dr	Cr
	£	£
Debtors	38,000	
Provision for doubtful debts		2,600

Mike Dee, a debtor, included in the debtors balance above, has recently been declared bankrupt and will not be paying his account of £600. This amount is to be treated as a bad debt.

The provision for doubtful debts is then to be adjusted to provide for a speci_c debt of £400 owed by Katie Flynn, plus a general provision of 5% on the remaining debtors.

REQUIRED

(a) Journal entries to record the following. (Narratives are not required.)

(i) The debt owed by Mike Dee being treated as a bad debt. **[4]**

(ii) The adjus tment to the new provis ion for doubtful debts. **[5]**

(b) Prepare the Balance Sheet extract for Debtors **and** the Provision for doubtful debts as at 31 December 2004. [3]

(c) Explain how the creation of a provision for doubtful debts is an application of the prudence concept. **[6]**

Total marks [18]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2005 Chilver Question 3 Mark scheme

3 (a) (i)

Bad debts **(1)**	600 **(1)**	
Mike Dee **(1)**		600 **(1)**

[4]

(ii)

Provision for doubtful debts **(1)**	350 **(2)**	
Profit & Loss **(1)**		350 **(1)**

[5]

(b)

Debtors	37,400	**(1)**
less provision for doubtful debts	2,250	**(1)**
	35,150	**(1of)**

[3]

(c) Expense in Profit and Loss Account reduces profit.
Deduct from debtors in Balance Sheet, ensures Balance Sheet not over stated.

(2 x 3 marks)
(1 for point plus up to 2 for development) **[6]**

Total marks [18]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2004 Ken Pool Question 3

3 Ken Pool prepared the following aged debtors schedule for his business on 31 December 2003.

Debtor	Amount due £	1 month £	2 months £	3 months £	4–6 months £	Over 6 months £
L Steven	40				40	
B Call	1 780	940	840			
R Lidd	5 600	1 900	3 700			
H Bosely	700					700
I Billson	1 100	100	180	820		
J Smith	30				30	
M Scruby	1 560		920		640	
A Jones	1 500			600		900
	12 310	2 940	5 640	1 420	710	1 600

The provision for doubtful debts as at 1 January 2003 was £750.

Ken Pool's policy for selling goods on credit and for dealing with outstanding debtors is:

(i) Only obtain credit references for new customers who wish to place initial orders over £1 000 in value.

(ii) Generally allow 1 month's credit.

(iii) Demand repayment by letter for amounts outstanding after 3 months.

(iv) Stop supplies to customers with amounts outstanding for between 4–6 months.

(v) Begin legal action to recover all debts outstanding for over 6 months, providing it is economic to do so.

His policy on bad and doubtful debts is:

(i) Write off, as bad debts, all amounts under £50 outstanding for 4–6 months.

(ii) Make specific provisions for all other debts outstanding for between 4–6 months.

(iii) Write off, as bad debts, all amounts outstanding for over 6 months.

(iv) Make a general provision of 4% on all other debts outstanding.

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2004 Ken Pool Question 3 continued

REQUIRED

(a) Calculate the amount Ken Pool should:

(i) allow for bad debts as at 31 December 2003; [4]

(ii) provide as a provision for doubtful debts as at 31 December 2003. [4]

(b) The Balance Sheet extract for debtors as at 31 December 2003. [2]

(c) Evaluate the policies used by Ken Pool for selling goods on credit and for dealing with outstanding debtors. [8]

Total marks [18]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2004 Ken Pool Question 3 Mark scheme

3 (a) (i)

700	**(1)**		
900	**(1)**		
40	**(1)**		
30	**(1)**		
1,670			**[4]**

(ii)

Debtors	12,310		
Bad Debts	1,670		
	10,640	**(1 of)**	
Specific	640	**(1)**	
	10,000		
General	x 4%	**(1)**	
	400		

New provision 640 + 400 = 1,040 **(1)** **[4]**

(b) Balance Sheet extract

Debtors	10,640	**(1)**	
Less provision DD	1,040	**(1 of)**	
	9,600		**[2]**

(c) Credit reference checks could be carried out for all customers.
Pattern of orders exceeding £1,000.
Allowing continued credit to customers with payments outstanding for 3 months.
Bad debts are on orders less than £1,000.
Could stop supplies earlier than 4 months.
Concern as current policies are contributing to an increase in provision.
Regular use of statements/letters.

(4 x 2 marks)
(1 for point plus 1 for development) **[8]**

Total marks [18]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2003 B John Question 2

2 B. John started in business on 1 January 2000. At the end of the first year in business it was decided to set up a provision for doubtful debts calculated at 5% of debtors.

Debtors as at 31 December 2000 amounted to £13 300.
Debtors as at 31 December 2001 amounted to £12 000.
Debtors as at 31 December 2002 amounted to £14 100.

The provision for doubtful debts was maintained at 5% of debtors throughout the period 1 January 2001 to 31 December 2001.

For the year ended 31 December 2002 it was decided to make a specific provision of £400 for one debtor and a 3% provision on the remaining debtors.

REQUIRED

(a) **(i)** The Provision for Doubtful Debts Account for the years ended 31 December 2001 and 31 December 2002. [12]

(ii) The Balance Sheet extracts for Debtors less Provision for Doubtful Debts as at 31 December 2000, 31 December 2001 and 31 December 2002. [6]

(b) Explain how a provision for doubtful debts differs from bad debts. [3]

(c) Advise the business on **two** factors it should consider when creating a provision for doubtful debts. [6]

Total marks [27]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2003 B John Question 2 Mark scheme

2 (a) (i)

Provision for Doubtful Debts

Profit and Loss	65	**(2)**	Bal b/d	665	**(2)**
Bal c/d	600	**(2)**			
	665			665	
Bal c/d	811	**(2)(1of)**	Bal b/d **(1)**	600	**(1)**
			Profit and Loss **(1)**	211	**(1)**
	811			811	

[12]

(ii)

Year	**Debtors**	**PDD**	**Net**
2000	13,300	665	12,635 **(2)(1of)**
2001	12,000	600	11,400 **(2)(1of)**
2002	14,100	811	13,289 **(2)(1of)**

[6]

(b) Bad debts have actually occurred **(1).**
Provisions are an estimate **(1)** of future bad debts. **(1)** **[3]**

(c) Past experience **(1)**
Relate to previous debtors **(1)** and the subsequent bad debts value **(1).**

Specific knowledge **(1)**
A customer consistently paying late **(1)** and known to be in financial difficulties **(1).**

Economy **(1)**
In times of recession **(1)** greater possibility of bankruptcies **(1).**

(2 x 3 marks)
(1 for point plus up to 2 for development) **[6]**

Total marks [27]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2002 B Bird Question 1

1 B. Bird, a sole trader, prepared the following aged debtors schedule at 31 December 2001.

Debtor	Amount Due	Outstanding 1 month	1–2 months	2–3 months	4–6 months	Over 6 months
	£	£	£	£	£	£
S. Kibble	2 400		1 200	1 200		
A. Brock	700	400		300		
M. Sarich	3 100	2 800	300			
P. Evans	900	300		150		450
R. Collins	50	50				
J. Davies	155		155			
C. Arnold	80		80			
N. Evans	1 970	500	520	950		
P. Jones	1 400		400	200	800	
G. Hurley	850				250	600
I. Cole	595	595				
K. Bartle	330					330
	12 530	4 645	2 655	2 800	1 050	1 380

B. Bird's policy for dealing with outstanding debtors is to:

(i) write off, as bad debts, all amounts outstanding for more than six months;

(ii) make specific provisions on all debts outstanding for between four and six months;

(iii) make a general provision for doubtful debts of 3% on all other debts outstanding.

The provision for doubtful debts at 1 January 2001 was £1150.

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2002 B Bird Question 1 continued

REQUIRED

(a) **(i)** The Bad Debts Account for the year 2001, showing the transfer to the final accounts as at 31 December 2001.

(ii) The Provision for Doubtful Debts Account for the year 2001, showing the balance carried down as at 31 December 2001.

[8]

(b) The Balance Sheet extract for Debtors as at 31 December 2001. [2]

(c) **Before** making the adjustments for bad debts and provision for doubtful debts, B. Bird has calculated the following for the year ended 31 December 2001:

Gross Profit	£43 800
Expenses	£9 400

Calculate the net profit for the year ended 31 December 2001, taking into account the adjustments required. [5]

(d) Advise B. Bird on **three** measures she could take to help prevent bad debts. [6]

(e) Outline the application of **two** accounting concepts that must be followed when setting a provision for doubtful debts. [8]

Total marks [29]

Ledger Entries and Adjustments: Bad Debts and the Provision for Doubtful Debts

2500 January 2002 B Bird Question 1 Mark scheme

1 (a) (i) Bad Debts

P Evans	450		Profit and Loss **(1)**	1,380	**(1)**
G Hurley	600				
K Bartle	330	**(1)**			
	1,380			1,380	

(ii) Provision for Doubtful Debts

Bal c/d **(1)**	1,353	**(1)**	Bal b/d	1,150	**(1)**
			Profit and Loss **(1)**	203	**(1)**
	1,353			1,353	

[8]

(b)

Debtors	11,150	**(1)**
Provision for doubtful debts	1,353	**(1 of)**
	9,797	

[2]

(c)

Gross Profit			43,800	**(1)**
Expenses	9,400	**(1)**		
Bad Debts	1,380	**(1 of)**		
Inc in Prov Doubtful Debts	203	**(1 of)**		
			10,983	
Net Profit			32,817	**(1)**

[5]

(d) Check finance history of suppliers
Obtain trade references
Stop supplies if debts overdue
Insist on cash payment
Allow discount for prompt payment
(1 mark for point plus 1 for development)
(3 x 2 marks) **[6]**

(e) Prudence, reduction in profit, understating debts
Consistency, basis of calculation should be same each year
Accruals, credit sales for period could be doubtful debts matched as a provision
(1 for concept plus up to 3 for development)
(2 x 4 marks) **[8]**

[Total : 29]

Ledger Entries and Adjustments: Accruals and Prepayments

Ledger Entries and Adjustments: Accruals and Prepayments

F001 January 2007 Singh Question 3

3 The following information is available for Singh Ltd.

	1 January 2006	31 December 2006
	£	£
Commission received	1 040 owing	2 050 owing
Electricity	900 owing	600 owing
Rent	2 400 prepaid	3 000 prepaid

During the year ended 31 December 2006, the following transactions took place. All transactions were carried out through the bank account.

	£
Commission received	3 940
Electricity paid	7 600
Rent paid	29 200

REQUIRED

(a) The following ledger accounts for the year ended 31 December 2006, including in each case the transfer to the Profit and Loss Account. Dates are not required.

(i) Commission Received [4]

(ii) Electricity [4]

(iii) Rent [4]

(b)* Discuss the reasons for accounting for accruals and prepayments in the final accounts. [8]

Total marks [20]

Ledger Entries and Adjustments: Accruals and Prepayments

F001 January 2007 Singh Question 3 Mark scheme

3 (a)

Commission Received

Bal b/d	1,040	**(1)**	Bank	3,940	**(1)**	
Profit and Loss	4,950	**(1)**	Bal c/d	2,050	**(1)**	
	5,990			5,990		**[4]**

Electricity

Bank	7,600	**(1)**	Bal b/d	900	**(1)**	
Bal c/d	600	**(1)**	Profit and Loss	7,300	**(1)**	
	8,200			8,200		**[4]**

Rent

Bal b/d	2,400	**(1)**	Profit and Loss	28,600	**(1)**	
Bank	29,200	**(1)**	Bal c/d	3,000	**(1)**	
	31,600			31,600		**[4]**

(b)*
To ensure that income and expenditure is matched to the period in which it is incurred/earned, rather than the period in which it was paid.

Accruals of income and expenditure are added to the amount paid, whereas prepayments of income and expenditure are deducted from the amount paid.
The adjusted figures are used in the profit and loss account.

Prepaid expenditure and accrued income are shown in the current assets in the balance sheet.
Accrued expenditure and prepaid income are shown in the current liabilities in the balance sheet.

Ensures that the correct net profit is calculated for the period, and the balance sheet values are correct.

Candidates are expected to explain their application in both the profit and loss account and balance sheet, justifying their answers in relation to appropriate accounting concepts, and the correct calculation of profits.

Max 2 marks for analysis plus max 4 marks for evaluation. **[6]**

QWC **[2]**

Total marks [20]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 January 2007 Beese Question 2

2 On 1 January 2006, Beese Traders had the following entries in its ledger accounts.

Insurance	£500	owing
Commission receivable	£400	owing to Beese Traders
Provision for doubtful debts	£1,400	

The following information is available for the financial year ended 31 December 2006.

(i) Insurance was paid as follows:

26 February 2006	£1,900
15 October 2006	£2,400

The payment on 15 October 2006 related to the period 1 October 2006 to 31 March 2007.

(ii) Commission receivable was as follows:

10 January 2006	£300
18 January 2006	£100
13 November 2006	£2,800

On 31 December 2006, £500 was owing in commission to Beese Traders.

(iii) The trade debtors balance at 31 December 2006 was £38 700. The provision for doubtful debts is to be provided as £500 for a specific debt, plus 2% on the remainder of debtors.

REQUIRED

(a) Prepare the following ledger accounts, including in each case the transfer to the Profit and Loss Account, for the year ended 31 December 2006, and the balance carried down to the next financial year. Dates are not required.

(i) Insurance. **[5]**

(ii) Commission receivable. **[6]**

(iii) Provision for doubtful debts. **[5]**

(b) Explain how maintaining a provision for doubtful debts is an application of the prudence concept. **[6]**

Total marks [22]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 January 2007 Beese Question 2 Mark scheme

2 (a) (i)

Insurance

Bank	1,900	**(1)**	Bal bd	500	**(1)**
Bank	2,400	**(1)**	Profit & Loss	2,600	**(1)**
			Bal c/d	1,200	**(1)**
	4,300			4,300	

[5]

(ii)

Commission receivable

Bal b/d	400	**(1)**	Bank	300	**(1)**
Profit & Loss	3,300	**(1)**	Bank	100	**(1)**
			Bank	2,800	**(1)**
			Bal c/d	500	**(1)**
	3,700			3,700	

[6]

(iii)

Provision for doubtful debts

Profit & Loss (1)	136	**(2)**	Bal b/d	1,400	**(1)**
Bal c/d	1,264	**(1)**			
	1,400			1,400	

[5]

(b) Provision for doubtful debts increases expenses.
Increased expenses means less profit.
Reduction of current assets in Balance Sheet.

(3 x 2 marks or 2 x 3 marks)
(1 for point plus up to 2 for development) **[6]**

Total marks [22]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 June 2006 Wong Question 2

2 The following balances have been taken from the books of Wong Limited.

	1 April 2005	31 March 2006
	£	£
Insurance	700 prepaid	850 prepaid
Wages	4,300 owing	4,700 owing
Commission receivable	600 owing	920 owing

The following transactions relate to the year ended 31 March 2006. All the transactions were through the bank account.

	£
Insurance paid	5,300
Insurance refund	400
Wages	78,700
Commission receivable	6,200

REQUIRED

(a) Prepare the following ledger accounts. Include in each case the transfer to the Profit and Loss Account for the year ended 31 March 2006, and the balance carried down to the next financial year.

(i) Insurance **[5]**

(ii) Wages **[4]**

(iii) Commission receivable **[5]**

(b) Prepare the Balance Sheet extracts as at 31 March 2006 for Insurance, Wages and Commission receivable. **[5]**

(c) **(i)** State the underlying concept involved in preparing the accounts listed in part **(a)**. **[1]**

(ii) Explain why this concept is important. **[3]**

Total marks [23]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 June 2006 Wong Question 2 Mark scheme

2(a)(i)

Insurance

Balance b/d	700 **(1)**	Bank	400 **(1)**
Bank	5,300 **(1)**	Profit and Loss	4,750 **(1 of)**
		Balance c/d	850 **(1)**
	6,000		6,000

[5]

2(a)(ii)

Wages

Bank	78,700 **(1)**	Bal b/d	4,300 **(1)**
Bal c/d	4,700 **(1)**	Profit and Loss	79,100 **(1 of)**
	83,400		83,400

[4]

2(a)(iii)

Commission receivable

Bal b/d	600	Bank **(1)**	6,200 **(2)**
Profit and Loss **(1)**	6,520 **(1 of)**	Bal c/d	920
	7,120		7,120

[5]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 June 2006 Wong Question 2 Mark scheme continued

2(b)

Balance Sheet extract
Current Assets **(1)**

Insurance prepaid	850 **(1)**
Commission receivable	920**(1)**

Current Liabilities **(1)**

Wages owing	4,700 **(1)**

[5]

2(c)(i)

Accruals (matching) concept **(1)**

[1]

2(c)(ii)

Revenues and costs are accrued as they are earned or incurred, regardless of whether paid or received. Ensures correct amount entered for the period.

(3 x 1 mark) **[3]**

Total marks [23]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 January 2005 Nick Greenwood Question 2

2 On 1 January 2004, Nick Greenwood, a trader, had the following entries in his ledger.

Commission received	£800 owing
Stationery	£300 owing
Rates	£500 prepaid

The following information related to the financial year ended 31 December 2004. All transactions were by cheque.

(I) Commission received was as follows.

14 January	£800
16 November	£3 000

On 31 December 2004 £700 was still owing in commission to Nick Greenwood for the 2004 financial year.

(II) Stationery was paid as follows.

19 January	£700
13 November	£4 100

On 1 January 2004 there was no stock of stationery, while at 31 December 2004 stock of stationery was £100. There were no outstanding invoices for stationery at 31 December 2004.

(III) Rates were paid as follows.

9 April	£2 500
24 November	£2 700

A refund for rates of £900 was received on 15 December 2004. At 31 December 2004 rates were prepaid by £200.

REQUIRED

(a) Prepare the following ledger accounts, including in each case the transfer to the Profit and Loss Account, for the year ended 31 December 2004 and the balance carried down to the next financial year.

(I) Commission received [5]

(II) Stationery [5]

(III) Rates [6]

(b) Explain the reasons for accounting for accruals and prepayments. [6]

Total marks [22]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 January 2005 Nick Greenwood Question 2 Mark scheme

2 (a)
(i)

Commission received

Bal b/d	800	**(1)**	Bank	800	**(1)**
Profit & Loss (1)	3 700	**(1)**	Bank	3 000	
			Bal c/d	700	**(1)**
	4 500			4 500	

[5]

(ii)

Stationery

Bank	700	**(1)**	Bal b/d	300	**(1)**
Bank	4 100		Profit & Loss **(1)**	4 400	**(1)**
			Bal c/d	100	**(1)**
	4 800			4 800	

[5]

(iii)

Rates

Bal b/d	500	**(1)**	Bank	900	**(1)**
Bank	2 500	**(1)**	Profit & Loss **(1)**	4 600	**(1)**
Bank	2 700		Bal c/d	200	**(1)**
	5 700			5 700	

[6]

(b)
Receipts and payments during a period might not match the income and expenditure for the period and an adjustment is necessary.

Accruals and prepayments are adjusted to ensure revenues and costs are recognised, as they are earned/incurred.

Ensures correct net profit is calculated for the period and balance sheet valuation correct.

(2 x 3 marks)
(1 for point plus up to 2 for development) **[6]**

Total marks [22]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 January 2004 Baglan Question 2

2 The following information is available for Baglan Traders for the year ended 31 December 2003. All receipts and payments are by cheque.

(i) At 1 January 2003 insurance of £300 was paid in advance. During 2003 payments for insurance were made as follows:

£1 700 on 26 February 2003
£1 400 on 13 November 2003

The payment on 13 November 2003 included a prepayment of £400 for the year commencing 1 January 2004.

(ii) At 1 January 2003 sales commission receivable of £500 was owed to the business. During 2003 the following sales commission amounts were received.

£860 on 13 January 2003 (this included the £500 outstanding on 1 January 2003)
£1 900 on 24 March 2003
£2 100 on 16 October 2003

At 31 December 2003 sales commission of £640 was owed to the business.

(iii) Rent is paid quarterly in advance with due dates being 1 February, 1 May, 1 August and 1 November each year. As at 1 January 2003 rent was prepaid by £1000. A 5% price increase in rent was effective from 1 September 2003 and this increase was included in the quarterly payment made on 1 August 2003. The business always pays the exact amount due for rent on the quarterly dates specified. All months are treated as being of equal length.

REQUIRED

(a) The following ledger accounts for the year ended 31 December 2003. Include in each case the transfer to the Profit and Loss Account for the year, and the balance carried down to the next financial year. Dates are not required.

(i) Insurance [5]

(ii) Sales Commission Receivable [6]

(iii) Rent [9]

(b) **(i)** The Profit and Loss Account extract for the year ended 31 December 2003, showing insurance, sales commission receivable and rent. [3]

(ii) The Balance Sheet extract as at 31 December 2003, showing insurance, sales commission receivable and rent. [3]

(c) Discuss **two** benefits to Baglan Traders of using a double entry book keeping system. [4]

Total marks [30]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 January 2004 Baglan Question 2 Mark scheme

2 (a) (i)

Insurance

Bal b/d	300	**(1)**	Profit and Loss	3,000	**(1 of)**
Bank	1,700	**(1)**	Bal c/d	400	**(1)**
Bank	1,400	**(1)**			
	3,400			3,400	

[5]

(ii)

Sales Commission Receivable

Bal b/d	500	**(1)**	Bank	860	**(1)**
Profit and Loss	5,000	**(1 of)**	Bank	1,900	**(1)**
			Bank	2,100	**(1)**
			Bal c/d	640	**(1)**
	5,500			5,500	

[6]

(iii)

Rent

Bal b/d	1,000	**(1)**	Profit and Loss	12,200	**(1 of)**
Bank	3,000	**(1)**	Bal c/d	1,050	**(1)**
Bank	3,000	**(1)**			
Bank	3,100	**(2/1)**			
Bank	3,150	**(2/1)**			
	13,250			13,250	

[9]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 January 2004 Baglan Question 2 Mark scheme continued

(b) (i)

Profit and Loss Account extract

Insurance	3,000	**(1 of)**	Sales comm rec	5,000	**(1 of)**
Rent	12,200	**(1 of)**			

[3]

(ii)

Balance Sheet extract
Current Assets

Insurance prepaid	400	**(1)**
Sales comm owing	640	**(1)**
Rent prepaid	1,050	**(1 of)**

[3]

(c) Application of the dual aspect concept.
Reduces the risk of error.
Basis for preparing final accounts.
Records are kept for each account, providing useful information.
Accounts may be used as evidence to support a business loan.

(2 x 2 marks)
(1 for point plus 1 for development) **[4]**

Total marks [30]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 June 2002 L Wing Question

2 The following are some of the balances in the books of L. Wing Limited at the beginning and end of the accounting year.

	1 January 2001	*31 December 2001*
	£	£
Insurance prepaid	900	750
Wages owing	38 700	41 200
Rent Received prepaid	300	700
Provision for Doubtful Debts	4 800	5 300

The following information relates to 2001:

	£
Insurance paid	7 400
Wages paid	488 000
Rent received	5 100
Bad debts written off	4 200

All receipts and payments were carried out through the bank account.

REQUIRED

(a) The following ledger accounts for the year ended 31 December 2001. Include in each case the transfer to the Profit and Loss Account for the year and, where appropriate, the balance carried down to the next accounting year:

(i) Insurance [5]

(ii) Wages [4]

(iii) Rent Received [5]

(iv) Provision for Doubtful Debts [3]

(v) Bad Debts. [2]

(b) **(i)** Prepare the Profit and Loss Account extract for the year ended 31 December 2001 showing Insurance, Wages, Rent Received, Provision for Doubtful Debts and Bad Debts.

(ii) Prepare the Balance Sheet extract as at 31 December 2001 showing Insurance, Wages and Rent Received.

[8]

(c) Explain the treatment of accruals and prepayments in the final accounts. [4]

Total marks [31]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 June 2002 L Wing Question Mark scheme

2 (a) (i)

Insurance

Bal b/d	900 **(1)**	P & L **(1)**	7,550 **(1 of)**
Bank	7,400 **(1)**	Bal c/d	750 **(1)**
	8,300		8,300

[5]

(ii)

Wages

Bank	488,000 **(1)**	Bal b/d	38,700 **(1)**
Bal c/d	41,200 **(1)**	P & L	490,500 **(1 of)**
	529,200		529,200

[4]

(iii)

Rent Received

P & L **(1)**	4,700 **(1 of)**	Bal b/d	300 **(1)**
Bal c/d	700 **(1)**	Bank	5,100 **(1)**
	5,400		5,400

[5]

(iv)

Provisions for Doubtful Debts

Bal c/d	5,300 **(1)**	Bal b/d	4,800 **(1)**
		P & L	500 **(1)**
	5,300		5,300

[3]

(v)

Bad Debts

Debtors	4,200 **(1)**	P & L	4,200 **(1)**

[2]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 June 2002 L Wing Question Mark scheme continued

(b)

Profit and Loss

Insurance	7,550 **(1 of)**	Rent Rec'd	4,700 **(1 of)**
Wages	490,500 **(1 of)**		
Inc Prov DD	500 **(1 of)**		
Bad Debts	4,200 (1)		

Balance Sheet Extract

Current Assets

Insurance prepaid 750 **(1)**

Current Liabilities

Wages owing 41,200 **(1)**

Rent received pre-paid 700 **(1)** **[8]**

(c)

- Accruals added as expense in Profit and Loss, Current Liability in Balance Sheet.
- Prepayments deducted from expenses in Profit and Loss, Current Asset in Balance Sheet.

(2 x 2 marks)

(1 for point plus 1 for development) **[4]**

Total [31]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 January 2001 Jade Question 2

2 At 1 January 2000 Jade Limited had the following entries in its ledger accounts:

Insurance: £400 prepaid

Rent Received: £600 owing

Provision for Doubtful Debts: £1,300 credit balance

The following information is for the year to 31 December 2000. All receipts and payments are through the bank account.

(i) Insurance paid is as follows:

26 February	£3,200
13 November	£1,800

The payment on 13 November relates to the period 1 October 2000 to 31 March 2001.

(ii) Rent received for part of premises sub-let is as follows:

14 January	£1,400
16 November	£1,500

At 31 December 2000, £300 was owing to the business.

(iii) The trade debtors balance at 31 December 2000 is £56,000 and provision for doubtful debts is to be provided at £400 for a specific debt, plus 2% on the remainder of debtors.

Ledger Entries and Adjustments: Accruals and Prepayments

2500 January 2001 Jade Question 2 continued

REQUIRED

(a) Prepare the following ledger accounts for the year ended 31 December 2000, showing the closing balance and the transfer to the final accounts as appropriate. (Dates are not required.)

(i) Insurance Account

(ii) Rent Received Account

(iii) Provision for Doubtful Debts Account.

[19]

(b) Explain how maintaining a provision for doubtful debts account is an application of the prudence concept. [6]

Total marks [25]

Ledger Entries and Adjustments: Accruals and Prepayments

2500 January 2001 Jade Question 1 Mark scheme

2 (a) (i) **Insurance**

Bal b/d (1)	400 (1)	P & L (1)	4,500 (1)
Bank	3,200 (1)	Bal c/d	900 (1)
Bank	1,800 (1)		
	5,400		5,400

(ii) **Rent Received**

Bal b/d (1)	600 (1)	Bank	1,400 (1)
P & L (1)	2,600 (1)	Bank	1,500 (1)
		Bal c/d	300 (1)
	3,200		3,200

(iii) **Provision for Doubtful Debts**

Bal c/d	1,512 (1)	Bal b/d (1)	1,300 (1)
		P & L (1)	212 (1)
	1,512		1,512

[19]

(b) Provision for doubtful debts increases expenses
Increased expenses means less profit
Reduction of current assets in Balance Sheet
(1 mark for recognition plus 1 for development)
(3 x 2 marks) **[6]**

[Total: 25]

Final Accounts: Sole Trader

Final Accounts: Sole Trader

F011 Specimen Scarlett Question 1

1* Scarlett, a trader, prepared the following Trial Balance from her accounts on 31 December 2006.

	Dr	Cr
	£	£
Capital		60,000
10% Loan		30,000
Loan interest	2,750	
Drawings	7,000	
Purchases	173,000	
Purchase returns		4,000
Sales		356,000
Sales returns	8,000	
Discounts allowed	900	
Discounts received		1,000
Carriage outwards	1,500	
Commission received		2,500
Provision for doubtful debts		250
Motor expenses	10,000	
Salaries	31,500	
General expenses	28,350	
Insurance	7,000	
Debtors and creditors	15,150	13,300
Bank	8,900	
Stock	20,500	
Premises	105,000	
Provision for depreciation of premises		10,500
Office equipment	25,000	
Provision for depreciation of office equipment		9,000
Motor vehicles	80,000	
Provision for depreciation of motor vehicles		38,000
	524,550	524,550

F011 Specimen Scarlett Question 1 continued

The following information is also available.

(i) The closing stock as at 31 December 2006 was valued at £16,500.

(ii) A debt of £150 was considered irrecoverable. The full amount is to be treated as a bad debt in the accounts for the year ended 31 December 2006.

(iii) The provision for doubtful debts is to be adjusted to 2% of the remaining debtors.

(iv) At 31 December 2006 salaries owing amounted to £600, whilst general expenses prepaid amounted to £450.

(v) Included in the general expenses is an item of office equipment purchased during the year for £3,000. This item has not yet been included in the office equipment account.

F011 Specimen Scarlett Question 1 continued

(vi) **One month's loan interest is still due.**

(vii) **One half of the 10% loan is repayable during the year ended 31 December 2007, and the balance after that date.**

(viii) **During the year Scarlett had withdrawn goods for her personal use costing £6,000. This had not yet been recorded in the accounts.**

(ix) **Commission receivable of £250 was owing to Scarlett at 31 December 2006.**

(x) **Depreciation is to be provided as follows:**

Premises	**2% per annum on cost using the straight line method. There were no additions or disposals during the year.**
Motor vehicles	**25% by the reducing balance method. There were no additions or disposals during the year.**
Office equipment	**10% per annum on cost using the straight line method. A full year's depreciation is provided on all office equipment held on 31 December 2006, regardless of the date of purchase.**

REQUIRED

The Trading and Profit and Loss Account for the year ended 31 December 2006 and the Balance Sheet as at 31 December 2006.

Total Marks [46]

Final Accounts: Sole Trader

F011 Specimen Scarlett Question 1 Markscheme

Question Number	Answer					Max Mark
1*	<u>Scarlett</u>					
	<u>Trading and Profit and Loss Account for the year ended 31 December 2006</u>					
	Sales			356,000		
	Sales returns			8,000		
				348,000	**[1]**	
	Opening stock	20,500				
	Purchases	173,000				
		193,500	**[1]**			
	Drawings	6,000	**[1]**			
	Purchase returns	4,000	**[1]**			
		183,500				
	Closing stock	16,500	**[1]**			
	Cost of sales			167,000	**[1]**	
	Gross Profit			181,000		
	Discounts received			1,000	**[1]**	
	Commission received			2,750	**[2]**	
				184,750		
	Discounts allowed	900	**[1]**			
	Carriage outwards	1,500	**[1]**			
	Motor expenses	10,000	**[1]**			
	Salaries (31,500 + 600)	32,100	**[2]**			
	General expenses (28,350 - 450 - 3,000)	24,900	**[3]**			
	Insurance	7,000	**[1]**			
	Loan interest (2,750 + 250)	3,000	**[2]**			
	Bad debts	150	**[1]**			
	Provision for doubtful debts	50	**[2]**			
	Depreciation premises	2,100	**[1]**			
	Depreciation motor vehicles	10,500	**[1]**			
	Depreciation office equipment	2,800	**[2]**			
				95,000		
	Net Profit			89,750		

F011 Specimen Scarlett Question 1 Markscheme continued

Question Number	Answer	Max Mark
1* cont'd	Balance Sheet as at 31 December 2006	

Fixed Assets					
Premises				92,400	
Motor vehicles				31,500	
Office equipment				16,200	
				140,100	[2][1of]
Current Assets					
Stock			16,500 [1]		
Debtors (15,000 – 300)			14,700 [2]		
General expenses prepaid			450 [1]		
Commission receivable owing			250 [1]		
Bank			8,900 [1]		
			40,800		
Current Liabilities					
Creditors	13,300	[1]			
Loan interest accrued	250	[1]			
Salaries accrued	600	[1]			
10% Loan	15,000	[1]			
			29,150		
Working capital				11,650	
				151,750	
Long Term Liabilities					
10% Loan				15,000	[1]
				136,750	
Financed by:					
Capital				60,000	[1]
Net Profit				89,750	[1of]
				149,750	
Drawings (7,000 + 6,000)				13,000	[2]
				136,750	

NB Up to an additional two marks can be awarded for the candidate's quality of written communication (numerical responses)

Total Marks [46]

Final Accounts: Sole Trader

F001 June 2007 Akshar Jaberi Question 1

1* On 30 April 2007 the following balances were taken from the books of Akshar Jaberi, a sole trader.

	Dr	Cr
	£	£
Purchases	557 000	
Sales		952 000
Sales returns and Purchase returns	8 200	9 600
Carriage inwards	2 250	
Carriage outwards	3 250	
Discounts allowed	4 800	
Discounts received		2 750
Stock	36 700	
Debtors and Creditors	80 150	47 200
Capital		805 300
Premises	900 000	
Motor vehicles	160 000	
Provision for depreciation of motor vehicles		40 000
Office equipment	76 000	
Provision for depreciation of office equipment		30 500
6% Loan		100 000
Loan interest	5 500	
Cash	2 300	
Bank	12 900	
Bad debts	500	
Salaries	62 000	
Insurance	10 500	
Motor expenses	18 200	
General expenses	32 100	
Rent received		10 000
Drawings	25 000	
	1 997 350	1 997 350

F001 June 2007 Akshar Jaberi Question 1 continued

The following information is also available.

(i) The closing stock as at 30 April 2007 was valued at £43 650.

(ii) A debt of £650 was considered irrecoverable. The full amount is to be treated as a bad debt in the accounts for the year ended 30 April 2007.

(iii) A provision for doubtful debts is to be created at 2% on the remainder of the debtors.

(iv) Rent receivable is £12 000 per annum, to date only 10 months rent has been received.

(v) One month's loan interest is still due.

(vi) The loan commenced on 1 May 2002 and is repayable in full during 2010.

(vii) At 30 April 2007 salaries owing amounted to £1 200, while insurance was prepaid by £1 860.

(viii) Akshar Jaberi received an invoice for £600 on 15 April 2007 for repairs to a motor vehicle. To date the invoice has not been paid.

(ix) Akshar Jaberi had taken goods from the business costing £7 000 for his own use. This has not been recorded in the accounts.

(x) Depreciation is to be provided as follows:

Motor vehicles	25% by the reducing balance method. There were no additions or disposals during the year.
Equipment	10% by the straight line method. There were no additions or disposals during the year.

Premises are not depreciated.

REQUIRED

The Trading and Profit and Loss Account for the year ended 30 April 2007, **and** the Balance Sheet as at 30 April 2007.

Total marks [46]

Final Accounts: Sole Trader

F001 June 2007 Akshar Jaberi Question 1 Mark scheme

1*

Akshar Jaberi
Trading and Profit and Loss Account for the year ended 30 April 2007

Sales			952,000	
Sales returns			8,200	
			943,800	**(1)**
Opening stock	36,700	**(1)**		
Purchases	557,000	**(1)**		
	593,700			
Carriage inwards	2,250	**(1)**		
	595,950			
Drawings	7,000	**(1)**		
	588,900			
Purchase returns	9,600	**(1)**		
	579,350			
Closing stock	43,650	**(1)**		
Cost of sales			535,700	
Gross profit			408,100	
Discounts received			2,750	**(1)**
Rent receivable			12,000	**(2)**
			422,850	
Carriage outwards	3,250	**(1)**		
Discounts allowed	4,800	**(1)**		
Loan interest	6,000	**(2)**		
Bad debts	1,150	**(2)**		
Salaries	63,200	**(2)**		
Insurance	8,640	**(2)**		
Motor expenses	18,800	**(2)**		
General expenses	32,100	**(1)**		
Provision for doubtful debts	1,590	**(2)**		
Depreciation motor vehicles	30,000	**(1)**		
Depreciation office equipment	7,600	**(1)**		
			177,130	
Net profit			245,720	

F001 June 2007 Akshar Jaberi Question 1 Mark scheme continued

Balance Sheet as at 30 April 2007						
Fixed Assets						
Premises					900,000	
Motor vehicles					90,000	
Office equipment					37,900	
					1,027,900	(2)(1 of)
Current Assets						
Stock			43,650	(1)		
Debtors			77,910	(2)		
Insurance			1,860	(1)		
Rent receivable owing			2,000	(1)		
Bank			12,900	(1)		
Cash			2,300			
			140,620			
Current Liabilities						
Creditors	47,200	(1)				
Loan interest	500	(1)				
Salaries	1,200	(1)				
Motor expenses	600	(1)				
			49,500			
Working capital					91,120	
					1,119,020	
Long Term Liabilities (1)						
6% Loan					100,000	(1)
					1,019,020	
Financed by						
Capital					805,300	(1)
Net profit					245,720	(1 of)
					1,051,020	
Drawings					32,000	(1)
					1,019,020	

	[44]
QWC	[2]
Total marks	[46]

Final Accounts: Sole Trader

2500 January 2007 Andy Bowden Question 1

1 On 31 March 2007 the following information was available from the books of Andy Bowden, a sole trader.

	Dr £	Cr £
Purchases and Sales	226 000	479 000
Purchase returns		600
Stock	29 200	
Capital		104 000
Bank		2 000
Salaries	85 000	
Discounts	1 400	3 000
Bank interest charges	600	
Insurance	8 800	
General expenses	126 000	
12% Loan		60 000
Loan interest	6 000	
Premises	160 000	
Provision for depreciation of premises		9 600
Shop fittings	56 000	
Provision for depreciation of shop fittings		33 600
Rent received		4 200
Carriage inwards	1 400	
Debtors and Creditors	14 900	19 300
	715 300	715 300

The following information is also available.

(i) The closing stock as at 31 March 2007 was valued at £26 000.

(ii) General expenses include a prepayment of £400.

(iii) A debt of £700 was considered irrecoverable. The full amount is to be treated as a bad debt in the accounts for the year ended 31 March 2007.

(iv) A provision for doubtful debts is to be created as £500 for a specific debt, plus 3% on the remainder of debtors.

(v) The insurance included £300 covering a private insurance for Andy Bowden.

(vi) Andy Bowden rents out accommodation above the shop premises. The amount shown in the Trial Balance includes a prepayment of £500 for the financial year commencing 1 April 2007.

(vii) The loan was taken out in November 2004 and is repayable in full during the financial year ended 31 March 2009.

(viii) All the shop fittings had been purchased for £56 000 on 1 April 2003, and depreciation has been charged using the straight line basis. The provision for the depreciation of shop fittings for the year ended 31 March 2007 is to be charged using the same method and rate.

(ix) Premises are depreciated by 2% per annum on cost using the straight line method.

2500 January 2007 Andy Bowden Question 1 continued

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 March 2007. [23]

(b) The Balance Sheet as at 31 March 2007. [15]

Total marks [38]

Final Accounts: Sole Trader

2500 January 2007 Andy Bowden Question 1 Mark scheme

1 (a)

Andy Bowden
Trading and Profit and Loss Account for the year ended 31 March 2007

Sales		479,000 **(1)**
Opening stock	29,200	
Purchases	226,000	
	255,200	
Carriage inwards	1,400 **(1)**	
	256,600	
Purchase returns	600 **(1)**	
	256,000	
Closing stock	26,000	
Cost of sales **(1)**		230,000 **(1)**
Gross profit		249,000
Discount received		3,000 **(1)**
Rent received		3,700 **(2)**
		255,700
Salaries	85,000 **(1)**	
Discount allowed	1,400 **(1)**	
Bank interest	600 **(1)**	
Insurance	8,500 **(2)**	
General expenses	125,600 **(2)**	
Loan interest	7,200 **(2)**	
Depreciation premises	3,200 **(1)**	
Depreciation shop fittings	11,200 **(1)**	
Bad debts	700 **(1)**	
Provision for doubtful debts	911 **(2)**	244,311 **(1)**
Net profit		11,389

[23]

2500 January 2007 Andy Bowden Question 1 Mark scheme cont

1 (b)

Balance Sheet as at 31 March 2007		
Fixed Assets		
Premises		147,200 **(1of)**
Shop fittings		11,200 **(1of)**
		158,400
Current Assets		
Stock	26,000 **(1)**	
Debtors	13,289 **(1)**	
General expenses prepaid	400 **(1)**	
	39,689 **(1)**	
Current Liabilities		
Creditors	19,300	
Bank	2,000 **(1)**	
Loan interest	1,200 **(1)**	
Rent receivable	500 **(1)**	
	23,000 **(1)**	
Working Capital		16,689
		175,089
Long Term Liabilities **(1)**		
Loan		60,000 **(1)**
		115,089
Financed by		
Capital		104,000 **(1)**
Net profit		11,389
		115,389
Drawings		300 **(1)**
		115,089

[15]

Total marks [38]

Final Accounts: Sole Trader

F001 January 2007 Laurence Lamb Question 1

1* Laurence Lamb, a trader, prepared the following Trial Balance from his accounts on 31 December 2006.

	Dr £	Cr £
Purchases and Sales	346000	712000
Purchase returns		8000
Sales returns	16000	
Discounts	2000	1500
Capital		132000
Drawings	14000	
General expenses	48700	
Insurance	14000	
Salaries	63000	
Electricity	8000	
10% Loan		50000
Loan interest	4500	
Carriage outwards	2800	
Commission received		3500
Provision for doubtful debts		3000
Motor expenses	20000	
Premises	210000	
Provision for depreciation of premises		21000
Motor vehicles	160000	
Provision for depreciation of motor vehicles		76000
Office equipment	50000	
Provision for depreciation of office equipment		18000
Debtors	19500	
Creditors		12300
Bank	17800	
Stock	41000	
	1037300	1037300

F001 January 2007 Laurence Lamb Question 1 continued

The following information is also available.

(i) The closing stock as at 31 December 2006 was valued at £33000.

(ii) Included in the general expenses is an item of office equipment purchased during the year for £6000. This item has not yet been included in the office equipment account.

(iii) One fifth of the motor expenses relate to the running of a motor vehicle privately owned by Laurence Lamb's wife. No adjustment has yet been made.

(iv) At 31 December 2006, loan interest owing amounted to £500, electricity owing was £1200, whilst insurance was prepaid by £1500.

(v) During the year Laurence Lamb had withdrawn for his personal use £1000 per month. This had been included in the salaries. No adjustment has yet been made.

(vi) Commission receivable of £300 was owing to Laurence Lamb at 31 December 2006.

(vii) The provision for doubtful debts is to be provided as £2000 for a specific debt, plus 2% of the remainder of debtors.

(viii) One quarter of the 10% loan is repayable during the year ended 31 December 2007, and the balance after that date.

(ix) Depreciation is to be provided as follows:

Premises	2% per annum on cost using the straight line method. There were no additions or disposals during the year.
Motor vehicles	25% by the reducing balance method. There were no additions or disposals during the year.
Office equipment	10% per annum on cost using the straight line method. A full year's depreciation is provided on all office equipment held on 31 December 2006, regardless of the date of purchase.

REQUIRED

The Trading and Profit and Loss Account for the year ended 31 December 2006 **and** the Balance Sheet as at 31 December 2006.

Total marks [45]

Final Accounts: Sole Trader

F001 January 2007 Laurence Lamb Question 1 Mark scheme

1*

Laurence Lamb
Trading and Profit and Loss Account for the year ended 31 December 2006

Sales			712,000	
Sales returns			16,000	
			696,000	**(1)**
Opening stock	41,000			
Purchases	346,000	**(1)**		
	387,000			
Purchase returns	8,000	**(1)**		
	379,000			
Closing stock	33,000	**(1)**		
Cost of sales			346 000	
Gross Profit			350,000	
Discounts received			1,500	**(1)**
Commission received (3,500 + 300)			3,800	**(2)**
Provision for doubtful debts			650	**(2)**
			355,950	
Discounts allowed	2,000	**(1)**		
General expenses (48,700 – 6,000)	42,700	**(2)**		
Insurance (14,000 – 1,500)	12,500	**(2)**		
Salaries (63,000 – 12,000)	51,000	**(2)**		
Electricity (8,000 + 1,200)	9,200	**(2)**		
Loan interest (4,500 + 500)	5,000	**(2)**		
Carriage outwards	2,800	**(1)**		
Motor expenses (20,000 x 4/5)	16,000	**(2)**		
Depreciation premises	4,200	**(1)**		
Depreciation motor vehicles	21,000	**(1)**		
Depreciation office equipment	5,600	**(2)**		
			172,000	
Net Profit			183,950	

F001 January 2007 Laurence Lamb Question 1 Mark scheme cont

Balance Sheet as at 31 December 2006

Fixed Assets						
Premises					184,800	
Motor vehicles					63,000	
Office equipment					32,400	
					280,200	**(2)(1of)**
Current Assets						
Stock			33,000	**(1)**		
Debtors (19,500 – 2,350)			17,150	**(2)**		
Insurance			1,500	**(1)**		
Commission receivable			300	**(1)**		
Bank			17,800	**(1)**		
			69,750			
Current Liabilities						
Creditors	12,300					
10% loan interest	500	**(1)**				
Electricity	1,200	**(1)**				
10% Loan	12,500	**(1)**				
			26,500			
Working capital					43,250	
					323,450	
Long Term Liabilities						
10% Loan					37,500	**(1)**
					285,950	
Financed by:						
Capital					132,000	**(1)**
Net Profit					183,950	**(1of)**
					315,950	
Drawings (14,000 + 12,000 + 4,000)					30,000	**(2)**
					285,950	

	[43]
QWC	**[2]**
Total marks	**[45]**

Final Accounts: Sole Trader

2500 January 2007 Martin Griffiths Question 1

1 Martin Griffiths, a trader, prepared the following Trial Balance from his accounts on 31 December 2006.

	Dr	Cr
	£	£
Sales		680 000
Purchases	285 000	
Sales returns	10 000	
Discount		2 000
Capital		243 562
Drawings	6 500	
Carriage outwards	2 800	
General expenses	138 012	
Salaries	132 000	
10% Loan		45 000
Loan interest	3 750	
Commission receivable		4 100
Provision for doubtful debts		1 000
Premises	360 000	
Provision for depreciation of premises		28 800
Machinery	45 000	
Provision for depreciation of machinery		16 500
Debtors	69 600	
Creditors		82 700
Bank	12 000	
Stock	39 000	
	1 103 662	1 103 662

The following information is also available.

(i) The closing stock as at 31 December 2006 was valued at £41 000.

(ii) The balance shown for salaries covers the 11 months to 30 November 2006. Salaries for December 2006 are due and unpaid. There have been no salary increases over the previous 12 months and an equal amount is paid each month.

(iii) During the year Martin Griffiths had withdrawn for his personal use goods costing £3 000. This had not been recorded in the accounts.

(iv) The provision for doubtful debts is to be adjusted to 2% of debtors.

(v) At 31 December 2006, two months' interest is due on the loan. One half of the loan is repayable during the year ending 31 December 2007, and the balance after that date.

(vi) Commission receivable of £200 was owed to the business on 31 December 2006.

(vii) Depreciation is to be provided on all machinery at 20% per annum by the reducing balance method. Machinery costing £7 500 was purchased on 1 August 2006, and this is included in the balance shown for machinery. Depreciation is calculated for each proportion of a year for which machinery is held. There were no disposals of machinery during the year.

(viii) Premises are depreciated by equal instalments on cost over a 50 year period.

2500 January 2007 Martin Griffiths Question 1 continued

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2006. [21]

(b) The Balance Sheet as at 31 December 2006. [17]

Total marks [38]

Final Accounts: Sole Trader

2500 January 2007 Martin Griffiths Question 1 Mark scheme

1 (a)

Martin Griffiths

Trading and Profit and Loss Account for the year ended 31 December 2006

Sales			680,000	
Sales returns			10,000	
			670,000	**(2)**
Opening stock	39,000			
Purchases	285,000			
	324,000			
Drawings	3,000	**(1)**		
	321,000			
Closing stock	41,000			
Cost of sales **(1)**			280,000	**(1)**
Gross Profit			390,000	
Discount received			2,000	**(1)**
Commission receivable			4,300	**(2)**
			396,300	
Carriage outwards	2,800	**(1)**		
General expenses	138,012	**(1)**		
Salaries	144,000	**(2)**		
Provision for doubtful debts	392	**(2)**		
Loan interest	4,500	**(2)**		
Depreciation premises	7,200	**(2)**		
Depreciation machinery	4,825	**(3)**		
			301,729	
Net Profit			94,571	
				[21]

2500 January 2007 Martin Griffiths Question 1 Mark scheme cont

1 (b)

Balance Sheet as at 31 December 2006				
Fixed Assets				
Premises			324,000	**(2) (1 of)**
Machinery			23,675	**(2) (1 of)**
			347,675	
Current Assets				
Stock	41,000			
Debtors	68,208	**(2)**		
Commission receivable	200	**(1)**		
Bank	12,000	**(1)**		
	121,408			
Current Liabilities				
Creditors	82,700	**(1)**		
Salaries owing	12,000	**(1)**		
Loan interest	750	**(1)**		
Loan	22,500	**(1)**		
	117,950			
Working Capital **(1)**			3,458	
			351,133	
Long Term Liabilities **(1)**				
Loan			22,500	**(1)**
			328,633	
Financed by				
Capital			243,562	
Net Profit			94,571	
			338,133	
Drawings			9,500	**(2)**
			328,633	

[17]

Total marks [38]

Final Accounts: Sole Trader

2500 June 2006 Glenn White Question 1

1 On 31 March 2006 the following information was available from the books of Glenn White, a sole trader.

	Dr	Cr
	£	£
Creditors		14 600
Debtors	9 600	
Bank		700
Stock	12 000	
Sales		378 000
Purchases	174 000	
Carriage inwards	3 000	
Purchase returns		4 000
Rent and rates	28 400	
Salaries	93 500	
Discount allowed	1 800	
General expenses	62 200	
Bad debts	300	
Provision for doubtful debts		1 500
8% loan		30 000
Loan interest	2 000	
Equipment	40 000	
Provision for depreciation of equipment		12 000
Motor vehicles	30 000	
Provision for depreciation of motor vehicles		6 000
Capital		17 600
Drawings	7 600	
	464 400	464 400

The following information is also available.

(i) The closing stock as at 31 March 2006 was valued at £15 000.

(ii) At 31 March 2006, general expenses prepaid amounted to £700.

(iii) Martin Griffiths, a debtor included in the debtors balance above, has recently been declared bankrupt. His debt of £600 is to be written off as a bad debt in the accounts for the year ended 31 March 2006.

(iv) A cheque of £500 received from a debtor has not yet been entered in the accounts.

(v) The provision for doubtful debts is to be decreased by £300.

(vi) At 31 March 2006, two month's interest is due on the loan. The loan is repayable in full during the year ended 31 March 2007.

(vii) Glenn White acts as an agent for Stormy Limited and is owed commission of £3 700 for the year ended 31 March 2006.

(viii) A new motor vehicle was purchased for £18 000 on 1 August 2005. This was the only fixed asset purchased during the year ended 31 March 2006. The full amount is included in the balance shown for motor vehicles.

2500 June 2006 Glenn White Question 1 continued

(ix) Depreciation is to be provided as follows:

Equipment	10% per annum on cost using the straight line method. No residual value is allowed for.
Motor vehicles	25% per annum by the reducing balance method. Depreciation is calculated for each proportion of a year for which motor vehicles are held.

There were no fixed asset disposals during the year ended 31 March 2006.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 March 2006. [22]

(b) The Balance Sheet as at 31 March 2006. [17]

Total marks [39]

2500 June 2006 Glenn White Question 1 Mark scheme

1(a)

Glenn White

Trading and Profit and Loss Account for the year ended 31 March 2006

Sales		378,000 **(1)**
Opening stock	12,000 **(1)**	
Purchases	174,000 **(1)**	
	186,000	
Carriage inwards	3,000 **(1)**	
	189,000	
Purchase returns	4,000 **(1)**	
	185,000	
Closing stock	15,000 **(1)**	
Cost of sales		170,000
Gross profit		208,000
Provision for doubtful debts		300 **(1)**
Commission receivable		3,700 **(1)**
		212,000
Rent and rates	28,400 **(1)**	
Salaries	93,500 **(1)**	
Discount allowed	1,800 **(1)**	
General expenses (62,200 – 700)	61,500 **(2)**	
Bad debts (300 + 600)	900 **(2)**	
Loan interest (2,000 + 400)	2,400 **(2)**	
Depreciation equipment	4,000 **(2)**	
Depreciation motor vehicles (3,000 + 1,500)	4,500 **(3)**	
		197,000
Net profit		15,000

2500 June 2006 Glenn White Question 1 Mark scheme continued

1(b)

Balance Sheet as at 31 March 2006 **(1)**		
Fixed Assets		
Equipment (40,000 – 16,000)		24,000 **(1 of)**
Motor vehicles (30,000 – 10,500)		19,500 **(1 of)**
		43,500
Current Assets		
Stock	15,000 **(1)**	
Debtors (9,600 – 1,100 – 1,200)	7,300 **(3)**	
General expenses prepaid	700 **(1)**	
Commission receivable	3,700 **(1)**	
	26,700	
Current Liabilities		
Creditors	14,600 **(1)**	
Loan interest owing	400 **(1)**	
Loan	30,000 **(1)**	
Bank (700 – 500)	200 **(2)**	
	45,200	
Working capital		(18,500)
		25,000
Financed By		
Capital		17,600 **(1)**
Net profit		15,000 **(1 of)**
		32,600
Drawings		7,600 **(1)**
		25,000

[17]

Total marks [39]

Final Accounts: Sole Trader

2500 January 2006 Laurence Keston Question 1

1 Laurence Keston, a trader, prepared the following Trial Balance from his accounts on 31 December 2005.

	Dr	Cr
	£	£
Sales		620 000
Purchases	270 000	
Sales returns	10 000	
Discount received		1 900
Capital		231 000
Drawings	3 400	
Rates	12 000	
Salaries	130 000	
10% loan		60 000
Loan interest	6 000	
Rent received		5 300
Loss on sale of delivery vehicle	900	
Carriage outwards	3 700	
General expenses	67 846	
Insurance	7 000	
Provision for doubtful debts		2 000
Buildings	290 000	
Machinery	50 000	
Provision for depreciation of machinery		18 250
Delivery vehicles	30 000	
Provision for depreciation of delivery vehicles		11 000
Debtors	57 500	
Creditors		64 600
Bank	27 704	
Stock	48 000	
	1 014 050	1 014 050

2500 January 2006 Laurence Keston Question 1 continued

The following information is also available.

(i) The closing stock as at 31 December 2005 was valued at £56 400.

(ii) At 31 December 2005, insurance owing amounted to £400.

(iii) During the year Laurence Keston had withdrawn, for his personal use, goods costing £1 600. This had not been recorded in the accounts.

(iv) Rent receivable of £800 was owing to the business at 31 December 2005.

(v) The loan is repayable in full during 2009.

(vi) The provision for doubtful debts is to be provided as £700 for a specific debt, plus 3% on the remainder of debtors.

(vii) During the year the business purchased a building for £150 000 and this has been included in the balance of £290 000 shown for buildings in the Trial Balance. In addition to this amount, legal costs of £2 000 incurred in the purchase of the building have been debited to general expenses.

(viii) Depreciation is to be provided on all machinery at 25% per annum on cost. Machinery costing £12 000 was purchased on 1 August 2005 and this is included in the balance shown for machinery. Depreciation is calculated for each proportion of the year for which machinery is held. There were no disposals of machinery during the year.

(ix) Delivery vehicles are to be depreciated by £6 000 for the year.

(x) Buildings are not depreciated.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2005. [24]

(b) The Balance Sheet as at 31 December 2005. [15]

Total marks [39]

Final Accounts: Sole Trader

2500 January 2006 Laurence Keston Question 1 Mark scheme

1 (a)

Laurence Keston

Trading and Profit and Loss Account for the year ended 31 December 2005

Sales		620,000**(1)**
Sales returns		10,000
		610,000**(1)**
Opening stock	48,000**(1)**	
Purchases	270,000**(1)**	
	318,000	
Drawings	1,600**(1)**	
	316,400	
Closing stock	56,400**(1)**	
Cost of sales **(1)**		260,000
Gross profit		350,000
Discount received		1,900**(1)**
Rent received (5,300+800)		6,100**(2)**
		358,000
Rates	12,000**(1)**	
Salaries	130,000**(1)**	
Loan interest	6,000**(1)**	
Loss on sale delivery vehicle	900**(1)**	
Carriage outwards	3,700**(1)**	
General expenses (67,846-2,000)	65,846**(2)**	
Insurance (7,000+400)	7,400**(2)**	
Provision for doubtful debts (2,404-2,000)	404**(2)**	
Depreciation machinery (9,500+1,250)	10,750**(2)**	
Depreciation delivery vehicles	6,000**(1)**	
		243,000
Net profit		115,000

[24]

2500 January 2006 Laurence Keston Question 1 Mark scheme cont

(b)

Balance Sheet as at 31 December 2005

Fixed Assets		
Buildings (290,000+2,000)		292,000**(2)**
Machinery (50,000-29,000)		21,000
Delivery vehicles (30,000-17,000)		13,000**(1)**
		326,000
Current Assets		
Stock	56,400	
Debtors (57,500-2,404)	55,096**(2)**	
Rent receivable	800**(1)**	
Bank	27,704**(1)**	
	140,000	
Current Liabilities		
Creditors	64,600**(1)**	
Insurance owing	400**(1)**	
	65,000	
Working capital		75,000
		401,000
Long Term Liabilities**(1)**		
Loan		60,000**(1)**
		341,000
Financed By		
Capital		231,000**(1)**
Net profit		115,000**(1 of)**
		346,000
Drawings (3,400+1,600)		5,000**(2)**
		341,000

[15]

Total marks [39]

Final Accounts: Sole Trader

2500 June 2005 Dave Newman Question 1

1 Dave Newman, a trader, prepared the following Trial Balance from his accounts on 31 March 2005.

	Dr £	Cr £
Capital		110 000
Drawings	1 800	
Stock	11 200	
Bank		8 200
Discounts	1 500	1 900
Purchases and Sales	137 600	247 450
Debtors and Creditors	24 700	26 200
General expenses	37 400	
Salaries	68 300	
Premises	80 000	
Provision for depreciation of premises		5 600
Equipment	29 000	
Provision for depreciation of equipment		9 200
Sales returns	2 500	
Provision for doubtful debts		550
Carriage outwards	600	
Carriage inwards	800	
Repairs and extension to premises	13 700	
	409 100	409 100

The following information is also available.

(i) The closing stock as at 31 March 2005 was valued at £16 300.

(ii) As at 31 March 2005, salaries owing amounted to £3 400, while general expenses were prepaid by £550.

(iii) A debt of £1 400 was considered irrecoverable. The full amount is to be treated as a bad debt in the accounts for the year ended 31 March 2005.

(iv) The provision for doubtful debts is to be adjusted to 2% of debtors.

(v) Of the repairs and extension to premises, £700 related to repairs and the remainder to an extension.

(vi) Depreciation is to be provided as follows:

Equipment 10% by the reducing balance method. There were no additions or disposals during the year.

Premises 2% by the straight line method. This rate applies to the cost value at the year end, regardless of the date of any additions during the year.

(vii) Bank charges of £600 are outstanding.

2500 June 2005 Dave Newman Question 1 continued

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 March 2005. [23]

(b) The Balance Sheet as at 31 March 2005. [17]

Total marks [40]

Final Accounts: Sole Trader

2500 June 2005 Dave Newman Question 1 Mark scheme

1 (a)

Dave Newman
Trading and Profit and Loss Account for the year ended 31 March 2005 **(1)**

Sales			247,450	**(1)**
Sales returns			2,500	**(1)**
			244,950	
Opening stock	11,200	**(1)**		
Purchases	137,600	**(1)**		
	148,800			
Carriage inwards	800	**(1)**		
	149,600			
Closing stock	16,300	**(1)**		
Cost of sales			133,300	
Gross profit			111,650	
Discount received			1,900	**(1)**
Provision for doubtful debts			84	**(2)**
			113,634	
Discount allowed	1,500	**(1)**		
General expenses (37,400 - 550)	36,850	**(2)**		
Salaries (68,300 + 3,400)	71,700	**(2)**		
Depreciation premises	1,860	**(2)**		
Depreciation equipment	1,980	**(1)**		
Carriage outwards	600	**(1)**		
Repairs	700	**(2)**		
Bad debts	1,400	**(1)**		
Bank charges	600	**(1)**		
			117,190	
Net loss			(3,556)	

[23]

2500 June 2005 Dave Newman Question 1 Mark scheme continued

(b)

Balance Sheet as at 31 March 2005 **(1)**

Fixed Assets				
Premises (93,000 - 7,460)			85,540	**(2)**
Equipment (29,000 - 11,180)			17,820	**(2)**
			103,360	
Current Assets				
Stock	16,300	**(1)**		
Debtors (23,300 – 466)	22,834	**(2)**		
Prepayment general expenses	550	**(1)**		
	39,684			
Current Liabilities				
Creditors	26,200	**(1)**		
Salaries owing	3,400	**(1)**		
Bank charges owing	600	**(1)**		
Bank overdraft	8,200	**(1)**		
	38,400			
Working capital			1,284	**(1of)**
			104,644	
Financed By				
Capital			110,000	**(1)**
Net loss			(3,556)	**(1of)**
			106,444	
Drawings			1,800	**(1)**
			104,644	

[17]

Total marks [40]

Final Accounts: Sole Trader

2500 January 2005 Malcolm McGeary Question 1

1 On 31 December 2004 the following information was available from the books of Malcolm McGeary, a sole trader.

	Dr £	Cr £
Loan		30 000
Loan interest	3 300	
Rent and rates	27 400	
General expenses	82 900	
Salaries	130 500	
Drawings	7 600	
Bad debts	2 700	
Machinery	50 000	
Provision for depreciation of machinery		15 000
Motor vehicles	45 000	
Provision for depreciation of motor vehicles		9 000
Profit on sale of motor vehicle		800
Sales		520 000
Purchases	234 600	
Purchase returns		2 600
Carriage inwards	3 700	
Capital		80 400
Commission received		4 200
Bank	23 000	
Debtors	31 000	
Creditors		17 000
Stock	37 300	
	679 000	679 000

2500 January 2005 Malcolm McGeary Question 1 continued

The following information is also available.

(i) The closing stock as at 31 December 2004 was valued at £33 000.

(ii) Commission received of £500 was owing at 31 December 2004.

(iii) The loan commenced in 2002, with a fixed rate of interest of 11% per annum. One half of the loan is repayable during the year ended 31 December 2005, and the balance after that date.

(iv) Rent for the two month period 1 November 2004 to 31 December 2004 is due and unpaid. The rent is £18 000 per annum.

(v) During the year Malcolm McGeary paid £3 000 for a personal holiday. This has been paid through the business and entered as a general expense.

(vi) A provision for doubtful debts of £2 000 is to be created.

(vii) All the machinery had been purchased for £50 000 on 1 January 2002, and depreciation has been charged using the straight line method. The provision for depreciation of machinery for 2004 is to be charged using the same method and rate.

(viii) Provision for depreciation of motor vehicles is to be made at £5 000 for the full year.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2004. [21]

(b) The Balance Sheet as at 31 December 2004. [19]

Total marks [40]

Final Accounts: Sole Trader

2500 January 2005 Malcolm McGeary Question 1 Mark scheme

1 (a) Malcolm McGeary

Trading and Profit and Loss Account for the year ended 31 December 2004 **(1)**

Sales			520 000	**(1)**
Opening stock	37 300	**(1)**		
Purchases	234 600	**(1)**		
	271 900			
Carriage inwards	3 700	**(1)**		
	275 600			
Purchase returns	2 600	**(1)**		
	273 000			
Closing stock	33 000	**(1)**		
Cost of sales			240 000	
Gross Profit			280 000	
Profit on sale of motor vehicle			800	**(1)**
Commission received (4 200 + 500)			4 700	**(2)**
			285 500	
Loan interest	3 300	**(1)**		
Rent and rates (27 400 + 3 000)	30 400	**(2)**		
General expenses (82 900 – 3 000)	79 900	**(2)**		
Salaries	130 500	**(1)**		
Bad debts	2 700	**(1)**		
Provision for doubtful debts	2 000	**(1)**		
Depreciation machinery	7 500	**(2)**		
Depreciation motor vehicles	5 000	**(1)**		
			261 300	
Net Profit			24 200	

[21]

2500 January 2005 Malcolm McGeary Q1 Mark scheme continued

(b) Balance Sheet as at 31 December 2004 **(1)**

Fixed Assets				
Machinery (50 000 – 22 500)			27 500	**(2)**
Motor Vehicles (45 000 – 14 000)			31 000	**(2)**
			58 500	
Current Assets				
Stock	33 000	**(1)**		
Debtors (31 000 – 2 000)	29 000	**(2)**		
Commission received	500	**(1)**		
Bank	23 000	**(1)**		
	85 500			
Current liabilities				
Creditors	17 000	**(1)**		
Loan	15 000	**(1)**		
Rent owing	3 000	**(1)**		
	35 000			
Working capital			50 500	
			109 000	
Long Term Liabilities				
Loan			15 000	**(2)**
			94 000	
Financed by				
Capital			80 400	**(1)**
Net profit			24 200	**(1 of)**
			104 600	
Drawings (7600 + 3000)			10 600	**(2)**
			94 000	

[19]

Total marks [40]

Final Accounts: Sole Trader

2500 June 2004 Ken Bailey Question 1

1 On 31 March 2004 the following balances were taken from the books of Ken Bailey, a sole trader, **after** the Trading Account had been prepared.

	Dr £	Cr £
Gross profit		117 130
Capital as at 1 April 2003		143 700
Rent received		12 000
10% loan		30 000
Loan interest	2 250	
Drawings	8 100	
General expenses	18 300	
Salaries	49 000	
Electricity	12 200	
Insurance	9 050	
Provision for doubtful debts		2 470
Debtors	63 500	
Creditors		43 700
Bank		3 200
Premises	130 000	
Office equipment	45 000	
Provision for depreciation of office equipment		12 200
Stock as at **31 March 2004**	27 000	
	364 400	364 400

2500 June 2004 Ken Bailey Question 1 continued

The following information is also available.

(i) Rent received of £1 000 had been paid in advance for the period commencing 1 April 2004.

(ii) At 31 March 2004, electricity owing amounted to £300, while insurance had been prepaid by £460.

(iii) The provision for doubtful debts is to be maintained at £2 470.

(iv) At 31 March 2004, three month's interest is due on the loan. One third of the loan is repayable during the year ending 31 March 2005, and the balance after that date.

(v) Included in general expenses is an item of office equipment purchased during the year for £2 000. This item has not yet been included in the office equipment account.

(vi) During the year Ken Bailey purchased additional premises. The legal costs of £2,300 relating to this acquisition have been included in general expenses.

(vii) Depreciation is to be provided as follows:

– office equipment at 10% per annum on cost using the straight line method. A full year's depreciation is provided on all office equipment held at 31 March 2004, regardless of the date of any purchase;

– premises are not depreciated.

REQUIRED

(a) Commencing with the Gross Profit figure given, prepare the Profit and Loss Account for the year ended 31 March 2004. [15]

(b) The Balance Sheet as at 31 March 2004. [19]

Total marks [34]

2500 June 2004 Ken Bailey Question 1 Mark scheme

1 (a)

Ken Bailey
Profit and Loss Account for the year ended 31 March 2004

Gross profit			117,130	
Rent received (12,000-1,000)			11,000	**(2)**
			128,130	
Loan interest (2,250+750)	3,000	**(2)**		
General expenses (18,300-2,000-2,300)	14,000	**(3)**		
Salaries	49,000	**(1)**		
Electricity (12,200+300)	12,500	**(2)**		
Insurance (9,050-460)	8,590	**(2)**		
Depreciation office equip [(45,000+2,000)x10%]	4,700	**(3)**		
			91,790	
Net profit			36,340	

[15]

2500 June 2004 Ken Bailey Question 1 Mark scheme continued

(b)

Balance Sheet as at 31 March 2004 **(1)**

Fixed Assets				
Premises (130,000+2,300)			132,300	**(2)**
Office equip (47,000-16,900)			30,100	**(2)(1 of)**
			162,400	
Current Assets				
Stock	27,000	**(1)**		
Debtors (63,500-2,470)	61,030	**(2)**		
Insurance	460	**(1)**		
	88,490			
Current Liabilities				
Creditors	43,700	**(1)**		
Bank	3,200	**(1)**		
Rent receivable	1,000	**(1)**		
Electricity	300	**(1)**		
Loan interest	750	**(1)**		
Loan	10,000	**(1)**		
	58,950			
Working Capital			29,540	
			191,940	
Long Term Liabilities				
Loan			20,000	**(1)**
			171,940	
Financed by				
Capital			143,700	**(1)**
Net profit			36,340	**(1 of)**
			180,040	
Drawings			8,100	**(1)**
			171,940	

[19]

Total marks [34]

Final Accounts: Sole Trader

2500 January 2004 Pete Talbot Question 1

1 On 31 December 2003 the following balances were available from the books of Pete Talbot, a sole trader.

	£
Sales	474 000
Purchases	271 000
Sales returns	14 000
Purchase returns	8 000
Stock 1 January 2003	36 000
Insurance	3 000
Discount allowed	2 000
Rent and rates	6 700
Salaries	68 200
General expenses	5 100
Electricity	6 400
Carriage outwards	910
Discount received	2 500
Commission received	500
Land and buildings	150 000
Provision for depreciation of buildings	6 000
Machinery	36 000
Provision for depreciation of machinery	14 000
Debtors	83 000
Provision for doubtful debts	4 500

2500 January 2004 Pete Talbot Question 1 continued

The following information is also available.

(i) Stock as at 31 December 2003 was valued at £33 000.

(ii) Pete Talbot had taken goods from the business costing £6 000 for his own use. This has not been recorded in the accounts.

(iii) At 31 December 2003 insurance owing amounted to £200, while electricity was prepaid by £350.

(iv) Rent payable for the three month period 1 October 2003 to 31 December 2003 is due and unpaid. The rent is £3 600 per annum with an equal amount applying to each month.

(v) The balance shown for salaries covers the 11 months to 30 November 2003. Salaries for December 2003 are due and unpaid. There have been no salary increases over the previous 12 months and an equal amount is paid each month.

(vi) Provision for doubtful debts is to be provided as £2 000 for a specific debt, plus 4% on the remainder of debtors.

(vii) Depreciation is to be provided on all machinery at 20% per annum by the reducing balance method. Machinery costing £6 000 was purchased on 1 May 2003, and this is included in the balance shown for machinery. Depreciation is calculated for each proportion of the year for which machinery is held. There were no disposals of machinery during the year.

(viii) Buildings are to be depreciated by £1 000 for the year. Land is not depreciated.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2003. [28]

(b) Evaluate the depreciation policies for land and buildings. [4]

Total marks [32]

Final Accounts: Sole Trader

2500 January 2004 Pete Talbot Question 1 Mark scheme

1 **(a)** Pete Talbot
Trading and Profit and Loss Account for the year ended 31 December 2003 **(1)**

Sales			474,000	**(1)**
Sales returns			14,000	**(1)**
			460,000	**(1)**
Opening stock	36,000	**(1)**		
Purchases	271,000	**(1)**		
	307,000			
Purchase returns	8,000	**(1)**		
	299,000			
Drawings	6,000	**(1)**		
	293,000			
Closing stock	33,000	**(1)**		
Cost of sales			260,000	
Gross profit			200,000	
Discount received			2,500	**(1)**
Commission received			500	**(1)**
			203,000	
Insurance (3,000+200)	3,200	**(2)**		
Discount allowed	2,000	**(1)**		
Rent and rates (6,700+900)	7,600	**(2)**		
Salaries (68,200+6,200)	74,400	**(2)**		
General expenses	5,100	**(1)**		
Electricity (6,400-350)	6,050	**(2)**		
Carriage outwards	910	**(1)**		
Depreciation builldings	1,000	**(1)**		
Depreciation machinery (3,200+800)	4,000	**(3)**		
Prov doubtful debts (5,240-4,500)	740	**(2)**		
			105,000	
Net profit			98,000	

[28]

(b) Buildings do deteriorate, over time, therefore depreciation applied.
Land does not wear out, has an infinite life, therefore not depreciated.

(2 x 2 marks)
(1 for point plus 1 for development)

[4]

Total marks [32]

Final Accounts: Sole Trader

2500 June 2003 P Valley Question 1

1 P. Valley is in business trading as an electrical wholesaler. On 31 March 2003 her ledger showed the following balances.

	£
Debtors	48 500
Creditors	27 200
Carriage Inwards	1 800
General Expenses	60 000
Salaries	102 000
Provision for Doubtful Debts	1 200
Commission Received	4 900
Sales Returns	4 100
Sales	492 000
Purchases	230 000
Stock as at 1 April 2002	61 500
Capital	150 000
Drawings (cash)	10 100
Cash at bank	8 800
Premises	120 000
Equipment	27 200
Provision for Depreciation of Equipment	15 100
Motor Vehicles	28 000
Provision for Depreciation of Motor Vehicles	11 600

The following information is also available.

(i) The closing stock as at 31 March 2003 was valued at £58 000.

(ii) At 31 March 2003:
Salaries owing amounted to £2200;
General expenses were prepaid by £2700.

(iii) During the year P. Valley had withdrawn, for her personal use, goods costing £2500. This had not been recorded in the accounts.

(iv) B. Dunne, a debtor included in the debtors balance above, has recently been declared bankrupt and will not be paying his overdue account of £900. This amount is to be written off as a bad debt in the accounts for the year ended 31 March 2003.

(v) The provision for doubtful debts is to be adjusted to 3% of debtors.

2500 June 2003 P Valley Question 1 continued

(vi) Depreciation is to be provided as follows:

Motor Vehicles	20% by the reducing balance method.
Equipment	10% per annum on cost using the straight line method. No residual value is allowed for.

Premises are not depreciated.

No fixed assets were purchased or sold during the year ended 31 March 2003.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 March 2003. [23]

(b) The Balance Sheet as at 31 March 2003. [16]

Total marks [39]

Final Accounts: Sole Trader

2500 June 2003 P Valley Question 1 Mark scheme

1 (a)

P Valley
Trading and Profit and Loss Account for the year ended 31 March 2003 **(1)**

Sales			492,000	**(1)**
Sales Returns			4,100	**(1)**
			487,900	
Opening Stock	61,500	**(1)**		
Purchases	230,000	**(1)**		
	291,500			
Drawings	2,500	**(2)**		
	289,000			
Carriage Inwards	1,800	**(2)**		
	290,800			
Closing Stock	58,000	**(1)**		
Cost of Sales			232,800	
Gross Profit			255,100	
Commission Received			4,900	**(1)**
			260,000	
General Expenses (60,000-2,700)	57,300	**(2)**		
Salaries (102,000+2,200)	104,200	**(2)**		
Provision for Doubtful Debts (1,428-1,200)	228	**(2)**		
Bad Debts	900	**(2)**		
Provision Depreciation Equipment	2,720	**(2)**		
Provision Depreciation Motor Vehicles	3,280	**(2)**		
			168,628	
Net Profit			91,372	

[23]

Final Accounts: Sole Trader

2500 June 2003 P Valley Question 1 Mark scheme continued

Balance Sheet as at 31 March 2003 **(1)**

Fixed Assets				
Premises			120,000	**(1)**
Equipment			9,380	**(1 of)**
Motor Vehicles			13,120	**(1 of)**
			142,500	**(1)**
Current Assets				
Stock	58,000	**(1)**		
Debtors (47,600 – 1,428)	46,172	**(2)**		
Prepaid General Expenses	2,700	**(1)**		
Bank	8,800	**(1)**		
	115,672			
Current Liabilities				
Creditors	27,200	**(1)**		
Accrual Salaries	2,200	**(1)**		
	29,400			
Working Capital			86,272	
			228,772	
Financed by				
Capital			150,000	**(1)**
Net Profit			91,372	**(1 of)**
			241,372	
Drawings (10,100 + 2,500)			12,600	**(2)**
			228,772	

[16]

Total marks [39]

Final Accounts: Sole Trader

2500 January 2003 Rhian Darcy Question 1

1 Rhian Darcy, a grocery shop owner, prepared the following Trial Balance from her accounts on 31 December 2002.

	Dr	Cr
	£	£
Purchases and Sales	265 000	486 000
Purchase Returns		500
Stock	38 100	
Capital		136 090
Bank	9 424	
Premises	180 000	
Shop Fittings	56 000	
Provision for Depreciation of Premises		25 200
Provision for Depreciation of Shop Fittings		23 700
Discounts		3 400
Rent Received		3 100
Debtors and Creditors	6 200	19 300
Salaries	80 700	
Electricity	2 350	
General Expenses	66 400	
12% Loan		20 000
Loan Interest	2 400	
Rates	10 116	
Loss on Sale of Shop Fittings	600	
	717 290	717 290

2500 January 2003 Rhian Darcy Question 1 continued

The following information is also available.

(i) The closing stock at 31 December 2002 was valued at £36 500.

(ii) At 31 December 2002 salaries owing amounted to £700, and an invoice for electricity of £200 for December 2002 had not yet been paid.

(iii) General Expenses include £120 relating to the cost of theatre tickets used by Rhian Darcy and her family.

(iv) During 2002 Rhian Darcy had withdrawn goods costing £2600 for her personal use.

(v) A provision of 2% of debtors is to be created for doubtful debts.

(vi) Rhian Darcy rents out accommodation above the shop premises. The amount shown in the Trial Balance includes a prepayment for 2003 of £300.

(vii) Provision for depreciation is to be provided as follows:

Shop Fittings – £4700
Premises – by equal instalments on cost over a 50 year period

(viii) The loan is repayable during the year ended 31 December 2004.

REQUIRED

(a) Prepare the Trading and Profit and Loss Account for the year ended 31 December 2002. [22]

(b) Prepare the Balance Sheet as at 31 December 2002. [16]

Total marks [38]

Final Accounts: Sole Trader

2500 January 2003 Rhian Darey Question 1 Mark scheme

1 (a) Rhian Darcy

Trading and Profit and Loss Account for the year ended 31 December 2002 **(1)**

Sales			486,000	**(1)**
Opening Stock	38,100	**(1)**		
Purchases	265,000	**(1)**		
	303,100			
Purchase Returns	500	**(1)**		
	302,600			
Drawings	2,600	**(1)**		
	300,000			
Closing Stock	36,500	**(1)**		
Cost of Sales			263,500	
Gross Profit			222,500	
Discount Received			3,400	**(1)**
Rent Received (3,100-300)			2,800	**(2)**
			228,700	
Prov Dep Premises	3,600	**(1)**		
Prov Dep Shop Fittings	4,700	**(1)**		
Salaries (80,700+700)	81,400	**(2)**		
Electricity (2,350+200)	2,550	**(2)**		
General Expenses (66,400-120)	66,280	**(2)**		
Loan Interest	2,400	**(1)**		
Rates	10,116	**(1)**		
Loss on Sale Shop Fittings	600	**(1)**		
Provision Doubtful Debts	124	**(1)**		
			171,770	
Net Profit			56,930	

[22]

2500 January 2003 Rhian Darey Question 1 Mark scheme cont

(b) Balance Sheet as at 31 December 2002 **(1)**

Fixed Assets				
Premises			151,200	
Shop Fittings			27,600	
			178,800	**(1)**
Current Assets				
Stock	36,500	**(1)**		
Debtors (6,200-124)	6,076	**(2)**		
Bank	9,424	**(1)**		
	52,000			
Current Liabilities				
Creditors	19,300	**(1)**		
Salaries owing	700	**(1)**		
Electricity owing	200	**(1)**		
Rent Received prepaid	300	**(1)**		
	20,500			
Working Capital			31,500	
			210,300	
Long Term Liabilities (1)				
Loan			20,000	**(1)**
			190,300	
Financed By				
Capital			136,090	**(1)**
Net Profit			56,930	**(1 of)**
			193,020	
Drawings (2,600+120)			2,720	**(2)**
			190,300	

[16]

Total marks [38]

Final Accounts: Sole Trader

2500 June 2001 B Coates Question 2

2 B. Coates, a sole trader, prepared the following Trial Balance from his accounts on 31 March 2001.

	Dr £	Cr £
Purchases and Sales	124,000	222,700
Stock	9,300	
Capital		114,500
Bank		8,600
Premises	93,000	
Machinery	56,000	
Provision for Depreciation of Machinery		18,700
Commission Received		1,900
Debtors and Creditors	18,400	6,500
Discounts	1,200	1,500
Insurance	10,200	
Repairs	7,400	
Salaries	47,300	
Rates	7,000	
Carriage Inwards	600	
	374,400	374,400

The following information is also available.

(i) The closing stock at 31 March 2001 was valued at £11,200.

(ii) Commission received of £600 was owing at 31 March 2001.

(iii) At 31 March 2001 salaries owing amounted to £2,600, while rates were prepaid by £800.

(iv) Of the repairs £2,200 related to a new attachment for machinery.

(v) The insurance included £300 covering a private insurance premium for B. Coates.

(vi) Depreciation is to be provided on machinery at the rate of 20% by the reducing balance method. A full year's depreciation is applied regardless of date of any purchases. There were no disposals during the period. Premises are not depreciated.

REQUIRED

(a) Prepare the Trading and Profit and Loss Account for the year ended 31 March 2001, and the Balance Sheet as at that date. [36]

(b) Explain to B. Coates the purpose and treatment of accounting for accruals and prepayments. [10]

Total marks [46]

Final Accounts: Sole Trader

2500 June 2001 B Coates Question 2 Mark scheme

2 **(a)** Trading and Profit and Loss Account for the year ended 31 March 2001 **(1)**

Sales			222,700	**(1)**
Opening stock	9,300	**(1)**		
Purchases	124,000	**(1)**		
	133,300			
Carriage Inwards	600	**(1)**		
	133,900			
Closing stock	11,200	**(1)**		
Cost of goods sold			122,700	
Gross Profit			100,000	
Commission Received			2,500	**(2)**
Discount Received			1,500	**(1)**
			104,000	
Discount Allowed	1,200	**(1)**		
Insurance	9,900	**(2)**		
Repairs	5,2000	**(2)**		
Salaries	49,900	**(2)**		
Rates	6,200	**(2)**		
Depreciation	7,900	**(2) (1 of)**		
			80,300	
Net Profit			23,700	

Balance Sheet as at 31 March 2001 **(1)**

Fixed Assets		
Premises	93,000	**(1)**
Machinery	31,600	**(2) (1of)**
	124,600	

2500 June 2001 B Coates Question 2 Mark scheme continued

Current Assets				
Stock	11,200	(1)		
Debtors	18,400	(2)		
Rates prepaid	800	(1)		
Commission Received	600	(1)		
	31,000			
Current Liabilities				
Creditors	6,500	(2)		
Salaries owing	2,600	(1)		
Bank	8,600	(1)		
	17,700			
Working Capital			13,300	
			137,900	
Financed by				
Capital			114,500	(1)
Net Profit			23,700	(1 of)
			138,200	
Drawings			300	(1)
			137,900	

[36]

2 **(b)** Ensures revenue and costs are recognised as they are earned/incurred
Accruals added as expenditure in Profit and Loss
Shown as current liability in Balance Sheet
Prepayments deducted from expense in Profit and Loss.
Shown as a current asset in Balance Sheet.

(1 mark for identification of point plus 1 for development)
(5 x 2 marks) **[10]**

Accounting Concepts: The Recognition and Application of Accounting Concepts

Accounting Concepts: The Recognition and Application of Accounting Concepts

2500 January 2006 Question 3

3 In **each** of the following, identify which accounting concept should be followed and briefly explain why it is applied.

(a) The owner of a business has taken goods from stock for his own personal use. The goods originally cost £500. [4]

(b) A business has good industrial relations and wishes to record this in the accounts at a value of £20 000. [4]

(c) A business has bought two door mats costing £3 each. These are expected to last many years and have been recorded under fixed assets. [4]

(d) Goods to the value of £1 500 were received in the final month of the financial year. The invoice for these goods has not yet been received and no entry made in the accounts at the financial year end. [4]

Total marks [16]

Accounting Concepts: The Recognition and Application of Accounting Concepts

2500 January 2006 Question 3 Mark scheme

3

(a)
Business entity owner
Drawings of purchases
Owner and business must be treated as separate entities **[4]**

(b)
Money measurement
Difficulty in recording industrial relations as a value
Accounting records monetary aspects only **[4]**

(c)
Materiality
Expense in the Profit and Loss Account
Not worthwhile to record as a fixed asset and depreciate each year **[4]**

(d)
Accruals (Matching)
Goods received must be recorded in the financial year
Costs should be recognised when incurred **[4]**

(4 x 4 marks)
(1 for concept plus up to 3 for development) **[16]**

Total marks [16]

Accounting Concepts: The Recognition and Application of Accounting Concepts

2500 January 2003 F Pond Question 3

2 (a) (i)

Provision for Doubtful Debts

Profit and Loss	65	**(2)**	Bal b/d	665	**(2)**
Bal c/d	600	**(2)**			
	665			665	
Bal c/d	811	**(2)(1of)**	Bal b/d **(1)**	600	**(1)**
			Profit and Loss **(1)**	211	**(1)**
	811			811	

[12]

(ii)

Year	**Debtors**	**PDD**	**Net**
2000	13,300	665	12,635 **(2)(1of)**
2001	12,000	600	11,400 **(2)(1of)**
2002	14,100	811	13,289 **(2)(1of)**

[6]

(b) Bad debts have actually occurred **(1).**
Provisions are an estimate **(1)** of future bad debts. **(1)** **[3]**

(c) Past experience **(1)**
Relate to previous debtors **(1)** and the subsequent bad debts value **(1).**

Specific knowledge **(1)**
A customer consistently paying late **(1)** and known to be in financial difficulties **(1).**

Economy **(1)**
In times of recession **(1)** greater possibility of bankruptcies **(1).**

(2 x 3 marks)
(1 for point plus up to 2 for development) **[6]**

Total marks [27]

Accounting Concepts: The Recognition and Application of Accounting Concepts

2500 January 2003 F Pond Question 3 Mark scheme

3 (a) (i) Business entity
Treating business separate from owner
Drawings of purchases

(ii) Materiality
Manner in which transactions are recorded
Small amounts should be charged to Profit and Loss

(iii) Realisation
Profit is not realised at time of order
Realisation of profit when goods are replaced by cash/debtor

(3 x 5 marks)
(1 for concept plus up to 2 x 2 marks for development) **[15]**

Total marks [15]