



Examiners' Report June 2019

IAL Accounting WAC11 01

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Introduction

Centres are to be congratulated on their preparations for the examination. There was evidence of excellent teaching throughout the candidates' work. Candidates' responses to the evaluation parts of all questions continued to improve and have now reached a high standard. Generally, candidates suggest and develop a number of points both for and against, to arrive at a reasoned conclusion.

A general point would be that candidates are again reminded about the use of abbreviations. In the narratives in accounts candidates will not be rewarded with the marks that they would have received, with full narratives. There are still examples of 'balance' being reduced to 'b/d' or 'bb/d'. Work with these narratives will not be awarded marks: the minimum abbreviation accepted is 'bal b/d' or 'b/ce b/d'.

There were some examples where candidates did not show appropriate narratives but used abbreviations and lost up to seven marks on the paper in Question Q02 and Q06. Although balancing is where most abbreviations occur, centres are reminded that other major abbreviations such as 'I/S' for income statement etc will not be accepted as a suitable narrative. Candidates will improve their result by applying this principle.

Although the overall performance of candidates was good, there were still minor weaknesses that should be addressed. These are detailed in the review of individual questions and the summary at the end of this report.

Question 1

Generally, candidates prepared good answers, particularly to the financial statements in parts (a) and (b) of the question.

In the income statement, most candidates adjusted either the opening inventory or closing inventory for the materials required to paint the shop. As the opening and closing inventory would have been physical inventory counts, the correct adjustment should have been from purchases. The commission receivable was often omitted, or there was a failure to adjust for the commission due.

Evaluation was thorough, with most candidates proposing a number of points for and against the closure. These points were developed well, and a reasoned conclusion was reached.

The concept of goodwill was understood by candidates who could explain how this was created, and why generally it would not be recorded in the books. Few candidates identified that it would not affect the profit for the year, or the bank balance, if introduced into the books.

Common errors.

- The materials taken to paint the shop were deducted from the opening inventory or the closing inventory, instead of the purchases.
- Not adjusting for commission receivable due.
- Calculation of the depreciation of the timber yard equipment.
- Reversal of the adjustments to the bank overdraft, resulting in a balance of £11 800
- The inclusion of goodwill into the books would result in Dr Goodwill Account and Cr Capital Account, there would be no impact on the profit for the year, or the bank balance. Few candidates were aware of the non profit/bank impact.

This example of a candidate's work includes many of the positive points but also some of the common errors.

- 1 (a) Prepare the Departmental Statement of Profit or Loss and Other Comprehensive Income showing the profit or loss for the shop and the timber yard for the year ended 30 April 2019. Your answer should be in **columnar format**; a total column is not required.

(22)

	Shop	Timber Yard
Revenue (231,000 + 4000) (149,000 - 4000)	235,000	145,000
Less: Cost of Sales		
Opening Inventory <small>shop - (16,300 - 700)</small>	15,600	9200
Purchases	156,000	124,000
Less: closing inventory	(14,600)	(25,200)
Cost of Sales	(157,000)	(108,000)
Gross profit	78,000	37,000
Add: Other Income		
Commission Receivable (9500 + 3000)	12,500	-
	90,500	37,000
Less: Expenses		
Wages	16,700	11,600
shop repainting (800 + 700)	1500	-
Management Salary	13,200	8800
Rent, Rates, insurance <small>(17000 + 2000 - 1000)</small>	4500	13,500
Delivery lorry running expense	1200	6800
General expenses	7050	4350
Bad debts	1950	250

Discount Allowed	1000	-
Depreciation: Timber yard equipment ^{W1}	-	5600
Depreciation: shop fixtures and ^{W2 timber}	1700	
Delivery lorry	525	2975
Total expenses	(49,325)	(53,875)
Net profit	41,175	(16,875)

W1 = Timber yard dep

$$36000 - 12000 = 24000$$

$$21000 - 9000 = \underline{12000}$$

12000

$$12000 \times 20\% = 2400$$

$$\text{Net} = 16000 \times 20\% = \underline{3200}$$

5600

5600

$$W2 = \cancel{16700} \times \frac{10}{100} = 1700$$

(b) Prepare the Statement of Financial Position at 30 April 2019.

(13)

Non Current Assets	Cost	Dep Acc	Net Book Value
Fixtures and fittings	17 000	10 200	6 800
Equipment - Timber Yard	40 000	26 600	13 400
Delivery lorry	40 000 24 000	17 500	6 500
	<u>81 000</u>	<u>54 300</u>	<u>26 700</u>
Current Assets			
Inventory: ^{shop} FF	14 600		
Timber Yard	25 200		
Trade Receivables	27 500		
Commission Receivable accrued	3 000		
Insurance Prepaid	1 000		71 300
Total Assets			<u>98 000</u>
Equity			
Capital	20 000		
Net profit (41,175 - 16,875)	24,300		
Less: Drawings	(19,100)		
		25,200	
Current liability			
Trade Payables	41 000		
Bank overdraft - (3000)	21 800 (24,800 + 1600)		
Accrued Rent	2 000	80,800	

Equity and liability			106,000
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The owner of Bob's Material is concerned that the timber yard sales have fallen by 20% in the year and is considering closing the timber yard and expanding the shop.

(c) Evaluate whether Bob's Material should close the timber yard.

(12)

The decision made by the Owner of Bob's Material could be correct because ~~the~~ the Timber yard ~~is~~ is currently making a net loss. Thereby, it would be wise for the owner to close down ^{the} Bob's Timber Yard and expand the shop.

Moreover, the assets used in the timber yard could be sold and the cash generated from the disposed assets could be used to improve and expand the shop. This way the owner could try to make more profits from the shop.

Furthermore, ~~the~~ by the closure of the timber yard the owner and employees could all focus on the ~~the~~ expansion of the shop thus being able to expand the shop and making more informed decisions.

However, there ^{re} would be a negative social impact of Bob's material if ^{the timber yard} it ~~it~~ was closed down. This is because the employees working in the timber yard would have to be made redundant, thus increasing ^{cost of redundancy} ~~increasing~~ payments for ~~the~~ the owner.

Furthermore, the timber yard could help provide raw materials for the shop and the cost would be reduced by continuing the timber yard rather than outsourcing production and closing down the timber yard. Although it does not make much ^{profits} ~~sales~~ it would at least generate sales for the shop.

Moreover, rather than closing the timber yard, the owner could try to improve profits of the timber yard in the long term by reducing the expenses generated. This way the total profits of the Bob's material would increase.

In conclusion, the owner could try to improve profits by making corrective decisions and wait for profits to be generated rather than closing down the department.

The owner of Bob's Material is considering including £50 000 of goodwill in his financial statements. The owner believes that this will increase his profits and remove his bank overdraft.

(d) (i) Define the term goodwill.

(2)

Goodwill is an intangible asset which is usually removed from the books of accounts due to the inability of giving it a monetary value

(ii) State **two** examples of goodwill.

(2)

1 purchase goodwill

2 Skill of staff

(iii) State **two** reasons why goodwill is **not** normally recorded in the books.

(2)

1 It violates the ~~prudence~~^{money} measurement concept as goodwill cannot be given a monetary value.

2 According to IAS, only purchase goodwill should be recorded and the goodwill should be removed.

(iv) State the effect on each of the following if goodwill is retained in the books:

(2)

- profit/loss for the year

Profit for the year would be overstated

- bank overdraft.

Bank overdraft ~~it~~ would not change as it does not give a monetary value but is an intangible ^{asset}.

Part (a) of the question is substantially correct. There were 22 marks available marks for this section.

The candidate is awarded 19 marks because there are three errors where marks are not awarded. These are:

- the adjustment of the shop opening inventory to £15 600 (1 mark)
- not adjusting the £700 from purchases, (1 mark)
- the depreciation of the delivery lorry apportioned to each department was incorrect (1 mark). There was an 'alien' item of discount allowed, but this was not penalised.

In part (b) there are 13 marks available and the candidate is awarded 12 marks. The 1 mark not awarded is for the accumulated depreciation on the timber yard equipment, which is an incorrect figure.

The evaluation in part (c) considers a number of points both for and against. There is good development of a number of those points. There is also a conclusion. The existence of a number of developed points for and against, together with a conclusion, places the answer in Level 4. 11 marks are awarded: had the conclusion had a stronger rationale, full marks would have been awarded.

In part (d) the candidate identifies that goodwill is intangible but does not say how it is measured. Therefore, only 1 mark is awarded. Examples of goodwill, skill of staff are accepted for 1 mark, but purchase goodwill is not accepted.

The reason that including goodwill in the books violates the money measurement concept is accepted for 1 mark. The effect on profit is not accepted because there would be no effect, but the impact on the bank overdraft is accepted, for 1 mark.

46 marks

Question 2

Candidates generally prepared good responses to the question.

In part (a) generally, candidates could accurately record the entries in the trial balance. A minority of candidates did not complete the trial balance by calculating the capital or showing the column totals as balancing.

In part (b) generally candidates could give possible reasons for a credit balance on the debtors account.

In part (c) some candidates recorded the individual debtors balances by name instead of recording a total opening or closing balance. Some candidates also adjusted the credit sales and bank receipts before including these in the control account.

In part (d) there was a varying accuracy of the journals. Some candidates appeared to find difficulty with this part and were very limited in their responses.

The evaluation was generally done well by candidates, who cited a number of positive and negative points before arriving at a reasoned conclusion.

In part (f) most candidates were able to identify the accounting concept being applied in the majority of the scenarios and then could explain how the concept would apply to the scenario.

Common errors.

- Recording the individual debtors balances, instead of the total opening and closing balances in the control account.
- Adjusting stated balances for sales and bank receipts in the control account.

This is a good, thorough, answer from the candidate.

- 2 (a) Prepare the trial balance at 30 April 2019, including the calculation of the capital. (10)

Samantha		
Trial balance at 30 April 2019		
	Dr	Cr
	£	£
Revenue		5000
Purchases	2700	
Returns inwards	450	
Returns outwards		210
Discount allowed	120	
Bad debts	50	
Bad debts recovered		200
General expenses	1250	
Inventory	600	
Trade receivables	2990	
Allowance for doubtful debts		300
Trade payables		1900
Bank overdraft		730
Non-current assets (at cost)	4100	
Provision for depreciation – non-current assets		3000
Drawings	550	
Capital	5060	1470
	17320 12810	12810

(b) State **two** possible reasons why Mel has a credit balance on her account.

(2)

- 1 Mel might have returned goods after the payment have been made.
- 2 Mel might have been overcharged which was later rectified.

(c) Prepare the Trade Receivables Control Account for the month of April 2019.

(12)

Trade Receivables Control A/c			
<u>Date</u>	<u>£</u>	<u>Date</u>	<u>£</u>
<u>2019</u>		<u>2019</u>	
1 April Balance b/d	2650	1 April Balance b/d	90
30 April Credit revenue	5000	30 April Bank	3970
Interest on overdue account	20	30 April Return inwards	450
		30 April Discount allowed	120
		30 April Bad debts	50
30 April Balance c/d	60	30 April Balance c/d	3050
	7730		7730
1 May Balance b/d	3050	1 May Balance b/d	60

During April 2019 there was a bad debt and a bad debt recovered. The details were as follows:

3 April 2019 Sanjay was declared bankrupt and Samantha received a cheque for £30. The balance of the debt was irrecoverable.

15 April 2019 Received a cheque for £200 from Westley for a bad debt that Samantha had written off as irrecoverable in a previous financial year.

(d) Prepare the journal to include bank entries for the:

(i) bad debt of Sanjay on 3 April 2019

Narratives are **not** required.

(3)

Journal		£	£
Bank	Dr.	30	
	Sanjay Cr.		30
Bad debt	Dr.	50	
	Sanjay Cr.		50

(ii) bad debt recovered from Westley on 15 April 2019.

Narratives are **not** required.

(4)

Journal		£	£
Bank	Dr.	200	
	Bad debt recovery Cr.		200
Bad debt recovery	Dr.	200	
	Income Statement Cr.		200

(e) Evaluate the use of control accounts.

(12)

Control Accounts includes individual ledgers and is prepared after the trial balance. It acts as an checking device for the ledgers and measures the accuracy of the ledgers. It also helps to prevent fraud or theft and, ^{thus} makes financial statements more reliable. ~~As it~~ It also assist in the preparation of financial statements by, ~~readily~~ allowing total debtors and creditors to be readily available. Thus, it helps to bring out a 'true and fair ~~ve~~ view' of the business. As a result, shareholders can better understand the position of the business and thus, can take better decisions.

However, control accounts cannot detect some errors as they are not revealed by the trial balance. For example, error of omission and error of principle etc. Thus, it is, ^{somewhat} dependant on the trial balance. Furthermore, control accounts are time consuming to prepare and may require a specialist to prepare, thus increasing the costs of the business.

In conclusion, although drawbacks for preparing ~~the~~ control accounts exist, the business should still prepare control accounts as it ~~helps to~~ makes it easier to prepare financial statements.

Samantha always applies the appropriate accounting concepts and conventions when preparing her financial statements.

- (f) Explain the accounting concept or convention that Samantha applies to her financial statements for **each** of the following.
- (1) She charges money taken for personal use to her drawings account and **not** to the general expenses account.
 - (2) She uses only one method to depreciate non-current assets.
 - (3) Non-current assets are recorded in the books at their purchase price until they are sold.
 - (4) Debts are considered irrecoverable when Samantha is informed that the debtor may be bankrupt.
 - (5) The financial statements do not contain any valuations for her skill and experience.
 - (6) She does not assume that profit is made until the goods are sold to a customer.

(12)

1 Business entity concept. The business entity concept states that the business and its owners are two different entities and thus, the activities of the owners should be recorded separately from that of the business.

2 Consistency ~~con~~ concept. The consistency concept states that once a method, ^{or rule} ^{adopted} is applied, it should be ~~can~~ repeated in the future.

3 Historic cost concept. Historic cost concept states that assets should be recorded at cost price and this should be the basis of their valuation.

- 4 Prudence concept. Prudence concept states that losses should be anticipated as soon as they are realized.
- 5 Money-measurement concept. The money-measurement concept states that items that cannot be measured in monetary terms do not find a place in the books of accounts. For example - skill of labour cannot be valued at monetary terms.
- 6 Realisation concept. This concept states that profit ^{sales and} should not be anticipated and accounted for unless the goods are sold and delivered i.e. realised.

In part (a) all entries are recorded on the correct side, Dr or Cr. Totals are prepared, and from this the difference is identified as the capital figure. The full 10 marks are awarded for this section.

In part (b) the returning of goods after payment is accepted for 1 mark. The second point is not accepted and no mark is awarded.

In part (c) the candidate starts correctly with the balances from the four trade receivables on 1 April, not listing them separately. The only errors made in the control account are that the bad debt recovered £200 is omitted from the debit side and the bank receipts should have been £4 170, but £200 has been deducted. No marks, therefore, are given for the omitted £200 Dr bad debts recovered and the £3 970 Cr bank. All other entries are correct and 10 marks are awarded.

In part (d)(i) the entries are correct and the full 3 marks are awarded. In (d)(ii) the first two entries are correct and 2 marks are awarded. When bad debts are recovered it is the practice to Dr bank, Cr debtor (Westley), then Dr debtor (Westley), Cr bad debts recovered. In this way, a full record is maintained of the debtor, which may influence future decisions regarding their credit worthiness.

The evaluation in (e) was concise but thorough.

Positive points were made regarding:

- control accounts value as a checking device measuring accuracy
- preventing fraud and theft
- the assistance in the preparation of financial statements, which can be relied upon.

Negative points were made regarding:

- their preparation
- the inability to detect some errors
- a time-consuming task
- requirement of specialist input.

The conclusion is drawn together with a reason for that conclusion, making it easier to prepare financial statements. With the multiple points made and developed, together with a conclusion and a rationale, this is deemed a Level 4 response and the full 12 marks are awarded.

In (f) the candidate has identified the correct accounting concept for all six scenarios and given a brief explanation of the reasoning. The full 12 marks are awarded.

50 marks

Question 3

This was a very popular question with candidates but the responses were very variable in quality.

In part (a) candidates were very familiar with the term liquidity and could explain this. Candidates were less certain about the term 'profitability' and often explained the term 'profit'.

In part (b) candidates were generally able to calculate the liquidity ratios. The gross profit and profit for the year calculations were often incorrect. This resulted in the gross profit as a percentage of revenue and the profit for the year as a percentage of revenue also being incorrect. The calculation of the return on capital employed was generally much better than previous examinations. Most candidates did add back the interest on the bank loan to arrive at the profit before interest.

In part (c) candidates were able to advise on the sufficiency of liquidity and profitability based upon their own figures calculated.

Part (d) generally was answered poorly, with the projections for the period inaccurate. In the calculation of the revenue, usually candidates did not start with the cost of sales figure before including the mark up. With the inventory, frequently candidates did not identify the opening inventory, plus purchases at cost, minus cost of goods sold. Most candidates made a reasonable attempt at the expenses but often omitted the opening accrual.

In part (e) candidates were generally aware of the issues in using only ratios, with most candidates identifying the value of comparison. There was also the problem of failing to consider non-financial information.

Common errors.

- Explaining the term profit, not profitability.
- Projections of revenue, inventory and profit for the period were incorrect.

This is a good response from the candidate.

The evaluation is limited, mainly due to the use of bullet points, which restricts the development of points.

More work needs to be done on simple projections for a future period. This will continue to be examined in future examinations.

3 (a) State the meaning of the following terms:

(4)

- liquidity

Liquidity refers to the ability of a firm to meet their short term liabilities by converting their current assets into cash.

- profitability.

Profitability refers to the ability of a firm to generate profit by selling goods/services by adding a markup and covering all costs. ~~Revenue - expenses~~ Gross profit - exp = Profit.

(b) Calculate, using the information at 31 March 2019, the:

- (i) current ratio

(2)

$$\begin{array}{l} 12\,000 + 38\,000 + 4\,000 = 54\,000 \\ 27\,000 + 3\,000 = 30\,000 \end{array} \quad \frac{54\,000}{30\,000} = 1.8:1 \quad \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- (ii) liquid (acid test) ratio

(2)

$$\begin{array}{l} 38\,000 + 4\,000 = 42\,000 \\ 27\,000 + 3\,000 = 30\,000 \end{array} \quad \frac{42\,000}{30\,000} = 1.4:1 \quad \frac{\text{Current Assets - Inventory}}{\text{Current Liabilities}}$$

(iii) gross profit as a percentage of revenue

(2)

$$\frac{\text{Gross profit}}{\text{Sales}} \times 100 = \frac{14000}{80000} \times 100 = 17.5\%$$

(iv) profit for the year as a percentage of revenue

(2)

$$\frac{\text{Net Profit}}{\text{Sales}} \times 100 = \frac{4000}{80000} \times 100 = 5\%$$

(v) percentage return on capital employed.

(2)

$$\frac{\text{Net profit}}{\text{Capital employed}} \times 100 = \frac{\text{Net profit} + \text{Interest}}{\text{Capital} + \text{NCL}} \times 100 = \frac{5600}{140000} \times 100 = 4\%$$

(c) Comment on the sufficiency of the:

(2)

- liquidity

liquidity of the business should ideally be 2:1 but the business for current ^{ratio} and 1:1 for acid test ratio.

The business has idle funds and is showing poor liquidity.

- profitability.

Profitability ratios are also poor with only 4% return on capital employed which should ideally be 10%. Net profit and gross profit as a % of sales is also low.

(d) Calculate the:

- revenue for April 2019
- inventory at 30 April 2019
- expenses for April 2019
- profit for the month of April 2019.

(8)

	Workings	Answer
Revenue for April 2019	$15000 \times \frac{140}{100}$	21 000
Inventory at 30 April 2019	15 000 12 000 10 000 2500 $\begin{array}{r} 12\ 000 + \\ 10\ 000 \\ \hline 22\ 000 - 15\ 000 \end{array}$	7 000
Expenses for April 2019	$\begin{array}{r l} 11\ 000 & 3000 \\ \hline & 4000 \\ 4000 & \end{array}$	4 000
Profit for the month of April 2019	21 000 21 000 $\begin{array}{r} 12\ 000 \\ 10\ 000 \\ (7\ 000) \\ \hline \text{EXP} \end{array}$ $\begin{array}{r} (15\ 000) \\ 6\ 000 \\ \hline (4\ 000) \end{array}$	2 000

(e) Evaluate the use of ratios in determining the success of a business.

(6)

Ad

- Can be used as yardstick for comparison of previous years
- Can show the difference between profitability and liquidity of different years.
- Can be used to measure differences in capital returns over different years

Dis Ad

- Does not take into account quality.
- Does not measure productivity



In part (a) liquidity is described accurately using ability to pay short term debts and ability to convert current assets into cash. The description of profitability is partly correct as the ability to generate profit. There is no mention that this can be measured by comparison with revenue or capital employed. Therefore, 3 marks are awarded.

Part (b) is answered well, with all the ratios calculated correctly. The candidate also calculates correctly the gross profit and the net profit, and adds back the bank loan interest when calculating the return on capital employed. The full 10 marks are awarded.

In part (c) the candidate identifies correctly the sufficiency of the liquidity and profitability. 2 marks are awarded.

In part (d) the candidate correctly projects the figures and 8 marks are awarded.

In part (e) the candidate has adopted a 'bullet point' approach, which often restricts development of points. Broadly, they identify positive points based around the concept of comparison or yardstick.

The negative points are unclear and had they not been in bullet point notes, the candidate's argument could have been made clearer. There is no conclusion. Therefore, the work is considered to be a Level 1 answer, considering only one side of the argument and the candidate is awarded 2 marks for the positive points only.

27 marks



Try to avoid short bullet points in an evaluation. This tends to result in less development of the point

Question 4

Generally, responses to the question were far more limited than would have been desirable.

The manufacturing account question set required a standard manufacturing account layout as a response, but all too often the account that was prepared was incomplete and lacked appropriate labelling.

In part (a) generally, candidates were still uncertain about the difference between inventory valuation and inventory rotation. Many candidates described them as the same thing.

Part (b) required a standard manufacturing account layout but often the entries were absent and labelling of figures was missing. The appropriate labels such as prime cost and production cost

were often missing. The profit/loss on manufacture was often added to the transfer value.

In part (c) candidates generally had a good understanding of how the provision for unrealised profit would be treated in the financial statements.

In part (d) the impact of using LIFO was generally understood.

Common errors.

- Understanding the difference between inventory valuation and inventory rotation.
- Structure and correct labelling of a manufacturing account.

This response is typical of an appropriate answer submitted by candidates.

4 (a) Explain the difference between **inventory valuation and **inventory rotation**.**

(4)

Inventory valuation means the theoretical value showing
the issues and receipts of business using the LIFO and FIFO
method. Inventory rotation means the physical movement of
inventory in the business. The inventory that was initially
brought in is sold to avoid deterioration of ~~inventory~~ ^{sales}.

(b) Prepare the Manufacturing Account for the month of March 2019.

(16)

<u>Raw Materials</u>		
Opening Inventory	20000	
(+) Purchases	16500	
(-) Returns outwards	(1500)	
(-) closing Inventory	<u>(21250)</u>	
COST OF RAW MATERIALS CONSUMED		13750
(+) Direct labour (150 × 1) (126 + 126)	150 1386	
(+) Direct other	<u>-</u>	<u>1386</u>
Prime cost		15136
<u>Overheads</u>		
Wages of employees doing store duties.	294	
Management salary	10500	
Rent, rates and insurance.	6000	
Depreciation	<u>6750</u>	<u>23544</u>
Opening Inventory of work in progress	710	
(-) closing Inventory of working in progress.	<u>(575)</u>	<u>135</u>
COST OF PRODUCTION		23679
(+) Factory Profit		<u>24321</u>
Total cost of production at transfer price.		<u>48000</u>

(c) Explain how an adjustment to the provision for unrealised profit would be treated in the:

(4)

- statement of profit or loss and other comprehensive income

The opening balance and closing balance of provision for unrealised account can be found by using the opening and closing inventory with the mark-up. Then, the increase or decrease in provision for unrealised profit can be found, where increase is treated as an expense and a decrease is treated as an income.

- statement of financial position.

The closing balance of provision for unrealised profit is deducted from the closing inventory value of financial goods in the ^{Statement} ~~balance~~ sheet of financial position.

(d) Evaluate the use of Last In First Out (LIFO) when prices of raw materials are rising.

(6)

• LIFO values the prices of issues at the latest prices, which causes the fact that inventory will be valued at its oldest prices. Hence, this leads to value of inventory being lower and thus it won't be affected by inflation of raw materials. Profits will be prudently lower.

• LIFO considers the fact that the inventory that was bought in recently will be sold at first. This causes the older ^{inventory} ~~stock~~ being retained back in the stores. This would lead to deterioration of the sales value and hence, this could lead to profits being inaccurate too.

Conclusion

LIFO is not an accepted method by the tax authorities and IAS 2 inventories. Thus, it is not a sensible method to use to value inventory, regardless of the fact that raw materials prices are rising. Therefore, LIFO is considered to be an unethical method used to value inventory.



In part (a) the candidate understands that inventory valuation is a theoretical value and inventory rotation is a physical movement. 4 marks are awarded.

In part (b) there are several errors, leading to the cost of materials, the returns outwards, and the closing inventory, being incorrect, although the cost of raw materials was correct at £13 750.

The direct labour figure is incorrect and the indirect labour under overheads is incorrect. The closing work in progress is also incorrect. All other figures were correct on the own figure rule and all labels were correct. 11 marks are awarded.

In part (c) the candidate explains correctly the effect of an adjustment of the provision for unrealised profit on the financial statements. 4 marks are awarded.

In part (d) the candidate states that LIFO will result in lower inventory value and higher cost of sales with profits prudently lower. In the conclusion they state that the method is not accepted by the tax authorities as a negative point and a conclusion not to use it, is reached. The answer was considered as Level 3 and 6 marks were awarded.

25 marks



Centres need to undertake further work with their candidates on the:

- distinction between inventory valuation and inventory rotation
- structure of a manufacturing account.

Question 5

Generally, candidates prepared very sound responses to the questions asked.

In part (a) candidates were still unclear as to the difference between the two cost behaviours. Stating that the cost has both a fixed and a variable element will not be awarded any marks because this says nothing about the behaviour of the fixed element and the variable element. A number of candidates explained the difference in the behaviour by explaining the behaviour of particular costs such as supervision and telephone costs. Other candidates drew a sketch graph showing the behaviour. Both of these approaches were acceptable and were awarded the available marks.

Part (b) was prepared in general accurately and there were some totally correct answers. There were no common faults in the preparation.

In part (c) the question related to Expand-it and the only answers that were accepted were those that related to part (b) of the question. A minority of candidates offered examples other than those contained in part (b) but were not awarded any marks for these.

Part (d) was generally answered well, with at least one positive and one negative point raised and developed. Most candidates also drew a conclusion.

Common errors.

- Explanation of semi-fixed cost and semi-variable cost unclear.

Candidates do seem to have difficulty explaining the difference between semi-fixed costs and semi-variable costs.

It may be helpful if candidates draw a sketch graph as in this response, or explain the concepts by explaining the cost behaviour in a particular cost, such as supervision or telephone costs.

Note that just naming these costs will not be sufficient: an explanation of the cost behaviour is required to support the example.

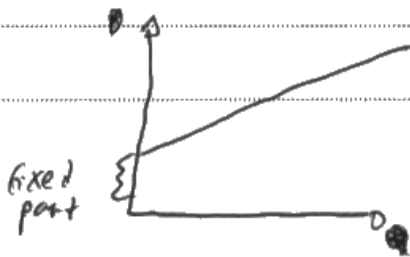
5 (a) Explain the difference between a **semi-fixed overhead** and a **semi-variable overhead**.

(4)

Semi-fixed overhead is the one where an increase in output will result to a step increase in ^{cost} price. It behaves constant for a given ^{level of} output then rises again.



Semi variable, is a cost where there is a ∞ initial fixed sum that you cannot avoid and then the cost rises according to the usage.



(b) Prepare the Projected Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2020. *Weston*

$$\frac{GP}{Sales} \times 100 = 26$$

$$\frac{GP}{400000} \times 100 = 26 \quad GP = 104000 \quad (16)$$

Projected Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2020

Mark up

Cost 100 GP 25 Sales 125
 $\times 345000$
 $\times = 69000$

	Eastville Store	Northern Store	Weston Store	Total
	£	£	£	£
Revenue	365 000	$300000 \times 1.15 =$ 345 000	400 000	1 110 000
Cost of sales	(292 000)	(276 000)	(296 000)	(864 000)
Gross profit	73 000 73 000	69 000	104 000	246 000
Wages	365000×0.06 21 900	17 000	28 000	66 900
Advertising	5000 12 300	5000 11 900	5000 13 000	37 200
Rent payable	12 600	16 200	18 000	46 800
Overheads	20 000	20 000	20 000	60 000
	(66 800)	(65 100)	(79 000)	(210 900)
Profit for the year	6 200	3 900	25 000	35 100

$$5000 + (765000 \times 0.02) = 12300$$

$$5000 + (345000 \times 0.02) = 11900$$

$$5000 + (400000 \times 2\%) = 13000$$

$$400 - 600 = 10000$$

$$600 - 800 = 10000$$

$$800 - 1000 = 10000$$

$$30000$$

Eastville: $\frac{GP}{Sales} \times 100 = 20\%$
 $\frac{GP}{365000} \times 100 = 20 = 73000 \text{ GP}$

Total overhead = 30 000 + 30 000 = 60 000

(c) State for Expand-it **one** cost that is an example of a:

- variable cost
- semi-variable cost
- semi-fixed cost
- fixed cost.

(4)

Variable cost

wages

Semi-variable cost

~~wages~~ ~~overheads~~ Overheads

Semi-fixed cost

~~Advertising~~ Advertising

Fixed cost

Rent payable

(d) Evaluate the usefulness to Expand-it of preparing projections for the following year.

(6)

By preparing projections it allows the business to plan ahead its expenditure, ~~or~~ to check whether it will need how finance for the business and whether it will be profitable enough or whether it is worth opening the 3rd shop

"Weston". It helps to plan potential business interest if there will be sufficient cash.

However, the problem with these forecasts is that they are prepared for a given set of conditions. So if an unexpected event occurs e.g. recession or a credit ~~crunch~~ ^{estimated} crunch the ~~figures~~ ^{estimated} figures will be completely different than the actual figures thus these forecasts will ~~lose~~ ^{lose} completely their credibility.

Overall I believe that preparing projections is beneficial for "Expand-It" because it gives the business an idea of what to expect in the future even if ~~the~~ figures are not completely reliable and accurate.

This is an example of good candidate work.

In part (a) the candidate gives a sketch graph showing how the two costs behave. The word explanations are still not wholly clear but the sketch graphs are sufficient to demonstrate that the candidate understands the concepts. Therefore, the full 4 marks are awarded.

In part (b) the candidate has prepared a completely correct answer and therefore 16 marks are awarded.

In part (c) the variable cost and fixed cost examples are correct and 2 marks are awarded.

The evaluation in part (d) contains a positive point, the ability to plan ahead, and a negative point, the plan can be affected by unforeseen events; these points were developed.

There is a conclusion with a reason for that conclusion and therefore this is a Level 3 answer which was awarded 6 marks.

28 marks

Question 6

Candidates generally provided good answers to this question.

In part (a) most candidates included all the correct elements. The opening capital of Able caused some difficulty in calculation, but the opening capital of Baker was more often correct. It was important that the narrative details were appropriate, in particular the narratives bank and loan on the debit side.

In part (b) the majority of candidates recognised that this was the statement of financial position for a partnership and that only one figure should be recorded for each of the categories, with the exception of capital. A minority of candidates did record two entries for each category eg inventory Able, inventory Baker. Where two entries for each category were used, no marks were awarded for those categories.

In part (c) generally candidates were aware of the treatment in the absence of a partnership agreement.

In part (d) there were many correct answers. A minority of candidates deducted the interest on drawings from the profit for the year.

The evaluation in part (e) was generally completed well by candidates who raised valid points, which were advantages or disadvantages of partnerships.

There were no common errors on this question.

Candidates generally gave good answers to this question. This is an example of such a response.

6 (a) Prepare the capital accounts of the partners after all adjustments at 1 May 2018.

(7)

ABLE AND BAKER

CAPITAL ACCOUNT

DETAILS	ABLE	BAKER	DETAILS	ABLE	BAKER
Goodwill	4000	8000	01/05/18 Balance b/d	40000 26800	45500 48000
Loan	5000		Goodwill	4000	8000
Bank		4000			
Balance c/d	<u>21800</u>	<u>31000</u>			
	<u>30800</u>	<u>43000</u>	Balance b/d	21800	31000
			Salary		4000

(b) Prepare the Statement of Financial Position of the partnership at 1 May 2018.

(8)

ABLE AND BAKER

Statement of Financial Position at 01.05.18

NON CURRENT ASSETS		32000
CURRENT ASSETS :		
Inventory (25000 - 2500)	22500	
Trade receivables	<u>16000</u>	
(18000 - 2000)		<u>38500</u>
		<u>70500</u>
EQUITIES :		
Capital A/c :		
ABLE	21800	
BAKER	<u>31000</u>	52800
CURRENT LIABILITIES :		
Bank Overdraft	9000	
Trade Payables	<u>17500</u>	26500
NON CURRENT LIABILITY :		
10 % Loan		<u>5000</u>
		<u>84300</u>

(c) State how **each** of the following would be treated if there had been no partnership agreement between the partners.

- Loan from Able
- Salary
- Interest on drawings
- Share of profit or loss

(4)

Loan from Able

5% interest on loan.

Salary

No salaries given

Interest on drawings

No interest on drawings charged

Share of profit or loss

Profit or loss shared equally.

At the end of the first year of trading ended 30 April 2019, the following information was available:

- profit for the year £20 800
- drawings
 - Able £7 500
 - Baker £19 000 including salary paid.

(d) Prepare the appropriation section of the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2019.

(5)

ABLE AND BAKER

Appropriation Section of the Statement of Profit or Loss and other comprehensive Income

Profit for the year		20800
(-) Interest on drawing:		
Able	600	
Baker	<u>800</u>	(1400)
(-) Salary:		
Baker		<u>(9000)</u>
		<u>10400</u>
Profit to be shared:		
Able	3467	
Baker	<u>6933</u>	<u>10400</u>

One of the partners stated that "There are many advantages of forming a partnership and no disadvantages".

(e) Evaluate the partner's statement.

(6)

Partnership can be defined as business formed by 2-20 partners. Through partnership partners can raise finance easily. Also when a new partner enters the loss burden of the business can be shared with the new partner. At the same time the newly entered partners or existing partners may have more skills and knowledge which will support the business to improve. And the decisions of the business can be made as a team.

But through partnership the profit earned should be shared among the partners in the business. Also partners may bring liabilities into the business which can be cost to the business. At the same time there are chances for misunderstanding among the partners.

However through partnership the partners are benefited more.

In part (a) the candidate calculates the opening capitals of Able, which is incorrect, and Baker, which is correct. The 'writing off' of the goodwill, the loan and the bank payment are all correctly recorded on the debit side, together with appropriate narratives. The balances are brought down using the own figure rule. The candidate is awarded 6 marks.

In part (b) the candidate has a single entry for each category. The capital is correct on the own figure rule and therefore the full 8 marks are awarded.

In part (c) the candidate is correct in respect of all four treatments in the absence of a partnership agreement and is therefore awarded 4 marks.

In part (d) the candidate has deducted the interest on drawings from the profit for the year. Therefore, those 2 marks are not awarded. The profit share is correct on the own figure rule therefore 3 marks are awarded for this part of the question.

In the evaluation the candidate has considered positive points – more knowledge, better decisions – and negative points – share profit, misunderstandings. A conclusion has been reached therefore this is a Level 3 answer. However, the conclusion does not have a rationale therefore the candidate is awarded 5 marks.

26 marks

Paper Summary

Centres need to continue with their excellent work in preparing candidates for the examination. Centres should consider the following areas, which would improve significantly their candidates' chances of being successful.

- Candidates should avoid narrative abbreviations in accounts, the minimum is 'bal b/d' or 'b/ce b/d'. Do not use abbreviations such as 'I/S' instead of income statement etc
- The correct entries for bad debts recovered involving the account of the debtor
- The difference between profit and profitability
- Projections of revenue and expenses for a future period and the closing balances of such headings as inventory
- The difference between the valuation attached to issues of inventory and the physical rotation of that inventory
- The standard structure of a manufacturing account
- The difference between semi-fixed costs and semi-variable cost

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