



Examiners' Report June 2022

IAL Accounting WAC11 01

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Introduction

Centres are again to be congratulated for the preparation of their candidates for this paper that this has been achieved in challenging times.

In this series, candidates were generally able to demonstrate an overall ability in accounting with no major weaknesses, but areas where some additional concentration could improve performance. These are referred to specifically in the summary and Centres may wish to apply some attention to those issues.

Question 1

Candidates generally answered this question well and with considerable accuracy. Candidates were able to demonstrate a good understanding of the concepts of revenue and capital expenditure and then apply those principles to the examples set in the question. The journal entries to correct the errors were also substantially accurate.

The statement of profit or loss and other comprehensive income was mostly prepared accurately together with the appropriation account. A minority of candidates attempted to include an adjustment of the allowance for doubtful debts, but the question did not require this to be completed. The current accounts were substantially accurate, containing the appropriate entries only.

The statement of financial position was generally presented in a good format and substantially correct. Appropriate adjustments had normally been made to the bank account and the trade payables to take account of the correction of the errors from part (c) of the question.

The evaluation of the possible change from some credit sales to all cash sales was generally well answered. Candidates could generally identify at least two favourable and two negative aspects of the proposed change. To achieve full marks and a level 4 answer, candidates should make an appropriate decision and then provide some summarised rationale for that decision. Many candidates did make that decision but failed to justify it with a reason.

This is a response that was awarded 50 marks for question 1. Overall, candidate responses to this question were generally very good, accurate and in a good format.

1 (a) Explain **two** differences between **revenue expenditure** and **capital expenditure**. (4)

1 Revenue expenditure is the day-to-day expenses that a business incurs while capital expenditure is the acquisition or improvement for non-current assets.

2 Revenue expenditure only benefits the business for 1 accounting period while capital expenditure benefits the business for more than 1 accounting period.

(b) State whether **each** of the following costs is **revenue expenditure** or **capital expenditure**.

(3)

- Redecoration.

Revenue expenditure

- Additional computer equipment.

capital expenditure.

- Advertising newly refurbished premises.

capital expenditure.

(c) Prepare the journal entries, including bank entries, to record the premises refurbishment costs in the books. Narratives are **not** required.

(4)

The Journal

Date	Details	Dr (£)	Cr (£)
30/04/2022	Redeclaration	12,600	
	Bank		12,600
30/04/2022	Computer equipment	6,000	
	Jk computers		6,000
30/04/2022	Advertising new premises	600	
	Bank		600

(d) Prepare for the year ended 30 April 2022 the:

(i) Statement of Profit or Loss and Other Comprehensive Income (including an appropriation section)

(16)

Linda and Rita

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 April 2022.

	£	£
Revenue		570,000
Cost of sales		
Opening inventory	61,000	
Purchases	390,000	
Carriage inwards	3,600	
Closing inventory	(72,000)	(382,600)
Gross profit		187,400
Other income:		
Commission receivable	6,750	
Decrease in allowance for irrecoverable debts $5\% \times 8000 = 400$ $1000 - 400$	600	7,350
		194,750
Expenses:		
Carriage outwards	8,100	
Staff wages	57,500	
General expenses	9,200	
Management salaries	38,000	
Depreciation: (computer equipment $20\% (50,000 + 6,000 - 21,000)$)	7,000	
Fixtures and fittings ($15\% \times 28,000$)	4,200	
Rent and insurance ($4,800 + 450 - 800$)	4,450	

Irrecoverable debts	2,850	
Advertising (7950 + 2400)	10,350	
Redeoration	12,600	(154,250)
Profit for the year		40,500
Add: Interest on drawings - Linda (8% x 15000)	1,200	
Rishi (8% x 20,000)	1,600	2,800
		43,300
<u>Less: Appropriations</u>		
Interest on capital: Linda (5% x 40,000)	2,000	
Rishi (5% x 60,000)	3,000	(5,000)
Residual profit		38,300
Profit share:		
Linda ($\frac{1}{2} \times 38,300$)		19,150
Rishi ($\frac{1}{2} \times 38,300$)		19,150
		<u>38,300</u>

(ii) current accounts of the partners.

(4)

	Linda	Rishi		Linda	Rishi
Drawings	15,000	20,000	Balance b/d	2,000	450
Interest on drawings	1,200	1,600	Interest on capital	2,000	3,000
Balance c/d	6,950	1,000	Profit share	19,150	19,150
	23,150	22,600		23,150	22,600
			Balance b/d	6,950	1,000

(e) Prepare the Statement of Financial Position at 30 April 2022.

(12)

Linda and Rishi

Statement of financial position

As at 30 April 2022.

ASSETS	£	£	£
<u>Non-current assets</u>			
Computer equipment (21,000 + 7,000) → Acc-dep	56,000	(28,000)	28,000
Fixtures and fittings (9,000 + 4,200) → Acc-dep	28,000	(13,200)	14,800
	<u>84,000</u>	<u>(41,200)</u>	<u>42,800</u>
<u>Current assets</u>			
Inventory		72,000	
Trade receivables (8,000 - 400)		7,600	
Other receivable		800	
Cash and bank (17,350 - 12,600 - 1800)		<u>2,950</u>	<u>83,350</u>
TOTAL ASSETS			<u>126,150</u>
<u>EQUITY & LIABILITIES</u>			
Capital account: Linda		40,000	
Rishi		60,000	
Current account: Linda		6,950	
Rishi		<u>1,000</u>	<u>107,950</u>
<u>LIABILITIES</u>			
<u>Current liabilities</u>			
Trade payables (11,150 + 6,000)		17,150	
Other payables (450 + 600)		<u>1,050</u>	<u>18,200</u>
TOTAL EQUITY & LIABILITIES			<u>126,150</u>

Linda and Rishi sell many of their goods on credit. They are considering changing the method of sale to cash sales **only**.

(f) Evaluate the possible change of the method of sale to cash sales **only**.

(12)

Advantages of change of the method of sale to cash sales only includes:
Firstly, it will enable Linda and Rishi reduce the value of irrecoverable debts as customers who buy ~~from~~ in credit from Linda and Rishi may fail to pay the money in future but with cash sales Linda and Rishi will immediately receive the money after the goods are sold which reduces the irrecoverable debts for the business.

Secondly, with cash sales you don't have to every now and then make phone calls to ~~ask~~ customers to pay for goods bought unlike in credit sales where Linda and Rishi have to force the customers to pay through making frequent phone calls to them. This time spent running for money may have been used for production.

Moreover, with cash sales Linda and Rishi are able to receive money immediately once the products are sold which ensured that they are not left in cash flow crisis. This means that they will have money for the day to day expenses.

However, some customers who don't have money now to buy goods from Linda and Rishi may probably have money in the future to pay them but if they do not allow credit sales some customers may be discouraged and may not buy anymore more goods from Linda and Rishi.

In addition with credit sales customers may be offered discounts if they buy in bulk or pay before the credit period which encourages them to repeatedly buy from Linda and Rishi but with cash sales customers will not get discounts which means that they may switch to other firms which may lead to decreased profits for Linda and Rishi.

In conclusion, Linda and Rishi should offer both credit sales and cash sales since their benefits may outweigh for only 1 method of sales.



In this response, the candidate gave a clear understanding of the difference between revenue expenditure and capital expenditure.

In part (a) the full 4 marks were awarded. In part (b) the first 2 items were correct but the third was incorrect, therefore 2 marks were awarded.

In part (c) the first two journals were correct, and 2 marks were awarded. The third entry was incorrect, and no marks were awarded.

The statement of profit or loss and other comprehensive income was completely correct and in a good format. A total of 16 marks were awarded. The current accounts were in columnar format and were correct both numerically and with appropriate narratives. 4 marks were awarded.

The statement of financial position was in an appropriate format and included all the correct elements and values. The bank and trade payables were adjusted for the corrections. 12 marks were awarded.

The evaluation contained a range of positive and negative points relating to the proposal. For the positives, the absence of irrecoverable debts, no need to apply resources for credit control and the immediate cash flow advantage were all stated. On the negative side, the impact on sales due to customers not having available cash, and their possible defection to another supplier were all considered. A conclusion was reached but without any real reasoning.

Overall, the response for question 1 was considered a level 4, but because of the absence of any real rationale for the conclusion, it was placed at the bottom of level 4 and was awarded 10 marks for part (f).



Candidates generally are very proficient at completing financial statements. It is really just a question of maintaining this standard.

Question 2

There was a considerable variance in the quality of responses from candidates. Generally, candidates calculated the ratios in part (a) with considerable accuracy but failed to explain the implications of the calculations that they had made. An understanding of what the ratio was telling us was missing.

The differences between cost behaviours of fixed and variable was generally understood and answered well. Candidates were less certain about semi-variable and semi-fixed. The examiners accepted that this may be a difficult topic to explain for many and the drawing of a simple diagram may assist and still gain the award of the marks. Examples of each cost behaviour was completed with a great deal of variability by candidates. The rent was generally correct, but the other types of cost were more difficult to find.

In the preparation of the forecast statement in part (e), candidates generally miscalculated the cost of sales. Candidates allowed for the 10% reduction in unit cost but omitted to calculate the 25% increase in cost of sales due to the same percentage increase in sales volume. In all other respects the forecast statement was accurate.

The application of social accounting to the scenario required consideration of three different headings of the five headings for social accounting contained within the specification. One mark was given for identification of the heading plus one mark for some development. Again, there was great variability in the quality of responses. Candidates generally considered the environmental impact but failed to consider other aspects.

The evaluation was generally well prepared and considered the use of profitability ratios on the one hand, but also the counter argument of liquidity and the consideration of other non-financial factors being important factors to bear in mind.

This is a response that was awarded a total of 51 marks for question 2. This is a good example of candidate work.

Source material for Question 2 is on pages 6 to 8 of the Source Booklet.

2 (a) Calculate the following ratios. Express your answers to two decimal places.

(i) Inventory turnover (in times per year).

(2)

$$\begin{aligned}
 \text{i. } \frac{\text{Cost of Sales}}{\text{Average Inventory}} &= \frac{240000}{\left(\frac{12000 + 18000}{2}\right)} \\
 &= \underline{\underline{6 \text{ times (per year)}}}
 \end{aligned}$$

(ii) Gross profit as a percentage of revenue.

(2)

$$\begin{aligned}
 \text{ii. } \frac{240000 - 90000}{240000} \times 100 &= 62.5 \% \\
 \frac{\text{Gross Profit}}{\text{Revenue}} \times 100 &
 \end{aligned}$$

(iii) Profit for the year as a percentage of revenue.

(2)

$$\begin{aligned}
 \text{iii. } \frac{\text{Profit for Year} \times 100}{\text{Revenue}} &= \frac{150000 - (25000 + 7000 + 14000)}{240000} \\
 &= \underline{\underline{46.25 \%}} = 16.67 \%
 \end{aligned}$$

(iv) Percentage return on capital employed.

(2)

$$= \frac{(40000 + 4000) \times 100}{(120000 + 50000)} = 25.88\%$$



$$(120000 + 50000)$$

$$\frac{\text{Profit} + \text{Interest} \times 100}{\text{Capital employed}}$$

(v) Trade payables payment period (in days).

(2)

$$= \frac{15000}{96000} \times 365 = 57.03 \text{ days}$$
$$= 57 \text{ days}$$

~~or 58 days~~

(vi) Trade receivables collection period (in days).

(2)

$$\frac{18000}{216000} \times 365 = 30.42 \text{ days}$$
$$= 31 \text{ days}$$

(b) Explain a possible reason for the changes in any two ratios for each of the following for the year ended 30 April 2022.

(i) Profitability of the business.

(4)

i. Gross Profit as a percentage of Revenue has increased by 10.5%, this could be because of effective pricing strategies, selling goods with increased selling price, or supplies were obtained cheaper.

The Profit for the Year as percentage of revenue has increased by 3.37%, this indicates that the business is controlling its expenses better than last year, and hence trying to maximise the profit.

(ii) Liquidity of the business.

(4)

ii. The current ratio has increased from 1.8:1 to 2.4:1 it is now above the benchmark of 1.4:1 ~~2:1~~, this indicates that ^{more} ~~large~~ amount of cash is ^{now} tied up in inventory, the business should use those idle funds by investing in profitable areas.

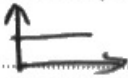
ii. The liquid (acid test) ratio has improved slightly from 0.8:1 to 0.9:1 and is ^{within} ~~within~~ benchmark of 0.7:1 - 1:1. Obtaining the long term loan could be the reason it improved, and this ratio confirms that funds are mainly tied up in inventory.

(c) Explain the difference between:

(i) **fixed costs** and **variable costs**

(4)

i. Fixed costs are costs that do not vary with the level of output produced, they stay the same.


E.g: Rent paid 


While variable costs vary directly with the level of output produced, they increase as output increases or decrease as output decreases. E.g - Raw Materials.



(ii) **semi-fixed costs** and **semi-variable costs**.

(4)

ii. Semi fixed cost are constant then rise for an increase in output then stay constant again before rising for further level.  E.g - supervision wages

While semi-variable costs has an element of fixed cost that does not vary with output level and an element of variable cost that varies directly proportionately with the level of output. 

(d) State **one** example from Syed's costs of the following.

(4)

- Fixed cost

Rent

- Variable cost

~~General Expenses~~ Purchases

- Semi-fixed cost

Depreciation ~~General Expenses~~ (wages of supervisor)

- Semi-variable cost.

Electricity (standard rate then increases with use)

Telephone charges

~~General Expenses~~

(e) Prepare the Forecast Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2023.

	£	£
Revenue		300000
- Cost of sales $(90000 \times 90/100)$		(81000)
	Gross Profit	219000
- Expenses		
Depreciation		(19000)
Rent		(25000)
General Expenses $(30000 + 0.15 \times 300000)$		(75000)
	Profit For the Year	100000

A friend of Syed's has suggested that when planning the expansion of his business he should also consider social accounting aspects in addition to profit when operating his business.

(f) Explain **three** ways in which Syed could consider **social accounting** in operating his business.

(6)

1. ~~He~~ In the expansion of the business he should consider the effect on ~~the~~ environment, the expansion should not much damage to the local environments, and avoid actions such as deforestation.

2. In the expansion of the business he should consider effect on the workforce, he should make sure the morale of the staff is good, and for e.g. he should hire new employees for the expansion so the work burden is not all on the old employees.

3. The expansion of the business should also consider the effect on local community, that will the expansion deteriorate or improve the local economy, and how extra workers hired increases the ~~job~~ employment rate in the local community.

(g) Evaluate the use of profitability ratios as the **only** way of judging the success of a business.

(12)

Advantages:

Ratios are a common 'Yard stick' which are used by many businesses, they allow comparisons to be made year on year, and allow comparisons with competitors.

In addition, ratios can help identify trends in a business which could be used for forecasting future performance, and also they will focus the management's attention to key areas such as liquidity and profitability.

Moreover, ~~ratios~~ ratios are useful for stakeholders who ~~require~~ do not require detailed financial information.

Disadvantages:

Ratios are based on historic data, and do not take into account inflation, so they might not necessarily be a guide to future performance.

Further more, they do not take into account non-financial factors such as effect on workforce, local community, etc...; taking these into account would benefit business in long term.

Also comparisons might not be straightforward, as different businesses might use different policies for calculating ratios.

Decision: To not only use ratios when determining success of business, as they only consider financial matters and are based on historic data.



In part (a) all of the ratios are completely correct and were awarded 2 marks each giving a total of 12 marks.

In part (b), when commenting upon the ratios prepared, the candidate initially had to select two profitability ratios and then two liquidity ratios for comment. The candidate chose gross profit percentage and profit for the year percentage. This was correct, but the candidate stated that there had been an increase and did not give a qualitative comment, such as improved. No marks were awarded for this but one good possible reason for the increase was stated for each ratio and a total of 2 marks were awarded for part (b)(i). The liquidity selected two appropriate ratios, stating that the current ratio had increased, and the acid test had improved, which was the qualitative response that we wished to see. For both ratios one possible reason for the increase was stated. Therefore, a total of 3 marks were awarded for part (b)(ii).

In part (c), the candidate gave good explanations of the behaviour of the four costs. There was the added dimension of a diagram which the examiners will accept. 4 marks were awarded for (c)(i) and 4 marks for (c)(ii).

In part (d) the candidate appeared a little indecisive, but 4 marks were awarded. In part (e), the candidate made the same common mistake as many candidates in respect of the cost of sales failing to account for the cost of the additional 25% of production. 4 marks were awarded.

In part (f), the candidate identified three social accounting headings, the effect on the environment, workers and the local community. All three were given suitable development and examples, 6 marks were awarded for this section.

The evaluation contained several positive points, including common yardstick measure, identify trends and areas for attention. Points against included non-financial, such as the workforce, and the community need to be considered, as does the difficulty of direct comparison. A conclusion was reached together with a rationale. The response met the criteria for a level 4 answer and was awarded 12 marks for part (g).



Ensure that comments about ratios are of a qualitative nature, ie, have they improved or deteriorated etc, not just increased or decreased.

Question 3

Candidates generally prepared accurate answers to this question. The trial balance was substantially accurate and there were many completely correct answers.

In part (b), the trading account for the dance, the question generally resulted in the expenses not being accurately calculated. It was common to find that candidates had calculated the sale of tickets but failed to adjust the expenses of catering and band hire for the sums outstanding.

In part (c), the construction and content of the income and expenditure account was consistently good. Candidates generally included all the elements which were substantially correct.

In the evaluation, candidates were required to interpret their previous calculations and make comments upon their overall findings. Responses therefore varied widely and depended upon candidates' preparation of the trading account and income and expenditure account, together with their observations.

This is a response that was awarded 30 marks for question 3. It is an excellent answer.

- 3 (a) Prepare the trial balance for the Hillside Sports Club at 30 April 2022 including the balance of the accumulated fund at that date.

(9)

**Hillside Sports Club
Trial Balance at 30 April 2022**

	Dr	Cr
	£	£
Subscriptions received		2950
Trade payables		1850
Rent payable	1500	
Telephone charges	320	
Equipment (cost)	4510	
Equipment – provision for depreciation		1100
Bank overdraft		70
Equipment repairs	600	
Disposal account (profit on sale)		150
Sale of dance tickets		2100
Catering cost for dance	390	
Hire of band for dance	500	
Donations received		300
Sundry expenses	1450	
Accumulated fund		750
	<u>9270</u>	<u>9270</u>

(b) Calculate the profit or loss of the dance.

(5)

Statement of profit or loss of dance at the end of 30Apr, 22

Details	(£)	(£)
Sale of dance tickets		2680
(-) Expenses :		
Catering cost	(390 + 910)	1300
Hire of band	500	1250
		(2550) 2550
Profit for the year from dance show		<u>1210 - 130</u>

Workings

Subs

owing to	prep to
J.S 3610	Bank 2950
prep c 200	owli c 860
<u>3810</u>	<u>3810</u>

$2100 + 580 = 2680$ (Reven)

$\frac{30x}{100} = 390$
 $x = \underline{1300}$

30% — 390
 1% — $\frac{390 \times 100}{30\%}$

$\frac{400 \text{ of } x}{100} = 500$

(c) Prepare the Income and Expenditure Account for the year ended 30 April 2022.

(10)

Income & Expenditure A/c for the year ended 30 April, 22

Details	(£)	(£)
Income:		
Subscription for the year	3610	
Dance	1210 130	
Donation received	300	
Disposal A/c profit	150	
		4190
(-) Expenses:		
Rent payable	1500	
telephone charge	320	
Equipment depreciation (4510 - 1100 - 3310) + 250	100 350	
Equipment repairs (600 - 250)	350	
Sundry expenses 300 (1450 + 420 - 130)	1740	
		(4260)
Defeciet for the year		<u>70</u>

(d) Evaluate the financial position of the Hillside Sports Club.

(6)

Hillside Sports Club does not have enough amount of liquidity. The bank overdraft stands at £70 and there is no significant amount of trade receivable even. Besides, expenses from catering and hiring band is still left which would reduce the bank balance more. There is a relatively high trade payable £1850. The aggregate income from the subscription, donation and profit of dance show is not higher than the total expenses of the business and incurs deficit of £70.

However there is a relatively higher value of non-current asset. If expenses are controlled by the Hillside Sports Club, then the amount of profit might be increased that amount of profit can be utilized to expand the non-profit sports club activities.

Overall the financial position of Hillside Sports Club is not good.



In this response, the candidate correctly prepared the trial balance and calculated the accumulated fund of £750. The statement was also correctly balanced off and it was awarded 9 marks for part (a).

In part (b), the candidate had adjusted the income and expenditure of the dance and arrived at the correct profit figure. 5 marks were awarded for part (b).

In part (c), all of the income and expenditure items were correctly included with suitable narratives and adjustments where necessary. The deficit was described as such and not as a loss. 10 marks were awarded for part (c).

On the other hand, the evaluation considered that the club had an overdraft and that many expenses still required payment. Therefore, the burden of debt was large. The counter argument centred on the value of assets and particularly, that if expenses are controlled the club would have a surplus. A conclusion was reached which could have been a bit more expansive, but 6 marks were awarded for part (d).



Non-profit making organisations use different terminology to profit making organisations. Income and expenditure instead of profit and loss, surplus or deficit instead of profit/loss. Be aware of the correct terminology.

Question 4

In this question, candidates could generally state four reasons why a trader might prepare control accounts.

In part (b), the trade receivables ledger control account was generally substantially correct, although the closing credit balance of £400 was often not included. Considerable latitude was given to the accuracy of the narratives in the account. Part (c) was generally answered well with the credit balance being deducted from the debit balance to give a net trade receivables figure in the current assets.

The ledger account in part (d) was generally not completed with accuracy. Few candidates arrived at the irrecoverable debt of £540, and few recorded the recovery of some of the initial irrecoverable debt. The narrative in the account were again an issue.

This is a response that was awarded a total of 28 marks for question 4. It is an example of a very good, well-structured answer.

4 (a) State **four** reasons why Marvin might prepare control accounts.

(4)

- 1 To check on errors made in the ~~#~~ books.
- 2 To calculate the incomplete records such as total credit purchases.
- 3 To calculate the balance of trade receivables and trade payables at the year ended. or month ~~end~~ end.
- 4 To ~~prepare~~ figures for the preparation of financial statements.
(calculate)

(b) Prepare the Trade Receivables Ledger Control Account for the month of April 2022.

(10)

↑ Trade Receivables Ledger Control A/c. ↓

Dr	£	Cr	£
APR1 Balance b/d.	8700	APR1 Balance b/d	250.
# 30 Sales Day Book (¹¹⁵⁰⁰ ₋₂₆₀₀)	8700	30 Cash Book	8350
Cash Book (dishonoured cheque)	420	Sales Returns Day Book	800
Journal (interest)	80	(800 - 250)	550
Balance c/d.	400.	Cash Book	350
		Journal (contra)	50
		Journal (irrecoverable debts)	730.
		Balance c/d.	8220
	<u>18500</u>		<u>18500</u>
May1 Balance b/d	400	May1 Balance b/d.	400.

(c) Prepare the extract from the Statement of Financial Position showing the trade receivables balance at 30 April 2022.

Statement of financial position (extracted) (3)
 As at 30 April 2022. £ £

Current assets.

Trade Receivables (8220 - 400)	7820
--------------------------------	------

(d) Prepare the B Luck Account in the books of Marvin.

↑ B Luck A/c. ↓ (7)

	£		£
2022		2022	
April Balance b/d.	420	Apr 18 Bank	420.
20 Sales	120	30 Irrecoverable debts.	540.
28 Dishonoured cheque	420.		
	<u>960</u>		<u>960.</u>
May 15 Irrecoverable debts recovered (0.25 x 540)	135	May 15. Bank	135
	<u>135</u>		<u>135</u>

(e) Evaluate whether it is ever possible for Marvin to avoid **all** irrecoverable debts.

(6)

It can be possible for Marvin to avoid all irrecoverable debts if he only do cash sales and do not allow sales on credit.

He may also send balance of payment and call the trade receivables every month to remind them to repay debts.

However as long as Marvin continue ~~to~~ making sales on credit, there may ~~be~~ still be irrecoverable debts due to ~~some~~ some unexpected events like bankruptcy of a trade receivable, or when a trade receivable ~~passed by~~ die, so one have no ability to repay.

It does not guarantee that the creditor will repay if he sent ~~to~~ calls every month but this may damage their relationship.

All in all it is not possible to avoid all irrecoverable debts if he still ~~to~~ sell on credit but he can take actions to reduce it.



In this response, two of the reasons for maintaining control accounts were accepted, eg, to control errors and to assist in the preparation of financial statements. The remaining two reasons were not accepted as examiners did not consider it creditworthy that a primary reason was to establish total purchases. Furthermore, if the candidate had stated that the purpose was to calculate the balance of total trade receivables, this would have been rewarded but just trade receivables was not. Therefore, 2 marks were awarded for part (a).

In part (b) the numbers used in the the account were correct and latitude was given to the narratives. Therefore, 10 marks were awarded.

In part (c) the candidate calculated the correct trade receivables, and 3 marks were awarded.

In part (d) the candidate's answer was correct with accurate narratives. Therefore, 7 marks were awarded.

In the evaluation, the candidate quite correctly concluded that the only way to totally eliminate irrecoverable debts was to sell for cash. If credit sales were continued, good credit management could limit the losses, such as regular calls each month. A conclusion was reached together with a reason. Therefore, 6 marks were awarded for part (e).



Narratives in ledger accounts are acceptable. Candidates should always ensure that they are as accurate as possible.

Question 5

This question was generally answered well by candidates.

In part (a) candidates were able to accurately explain overhead allocation and overhead apportionment.

In part (b)(i), candidates generally prepared the manufacturing account in a good format, clearly identifying and sectioning prime costs, overheads, and work in progress. Candidates were mostly successful in apportioning accurately the overheads to manufacturing and administration.

In part (b)(ii) the provision for unrealised profit account was generally prepared accurately.

Candidates were mostly successful at calculating the closing balance of the provision from the closing balance of finished goods accurately and included this in the account.

This is a response that was awarded 30 marks. The candidate prepared an excellent answer in a good format.

5 (a) Explain the following terms:

(4)

- overhead allocation

Overhead allocation is done for costs that are discrete and identifiable and provide ^{direct} benefit to just one cost center. No basis is used for allocation.

- overhead apportionment.

Apportionment is done for costs that provide benefit to multiple cost centers. Hence, a basis is used to allocate its costs over departments.

(b) Prepare for the year ended 30 April 2022, the:

(i) Manufacturing Account

(16)

	£	£
Opening inventory of raw materials	20500	
Purchases of raw materials	134250	
Closing inventory of raw materials	(18900)	
Cost of production		135850
<u>Direct costs:</u>		
Production wages		165750
Production expenses		5400
Royalty payments		10200
Prime cost		317200
<u>Overheads:</u>		
Production expenses	3600	
Rent and rates	21000	
Electricity and power	4800	
Management salary	15000	
Canteen costs	10800	
Depreciation	21000	
		106200
Opening work in progress		423400
Closing work in progress		42100
Cost of production		(38700)
		426800
Factory profit		69020
Transfer price		790820

(ii) Provision for Unrealised Profit Account.

(4)

Details	£	Details	£
Income stat statement	400	Balance b/d	6700
Balance c/d	6300		
	<hr/> 6700		<hr/> 6700
		Balance b/d	6300

The Management of Harptree Manufacturing is considering changing the method of remuneration for production workers to a group bonus scheme basis.

(c) Evaluate the proposed change in the remuneration method.

(6)

There are several benefits of a group bonus scheme. Firstly, it will motivate workers to produce more in order to ~~each~~ get the bonus. Hence, productivity rises. As productivity rises, average cost of production/unit cost falls. ~~As~~ As a result, this might enable Harptree ~~manuf~~ manufacturing to reduce their prices leading to higher sales and revenue. Moreover, group bonus scheme would ensure that output is produced quickly. Thus ~~to~~ This prevents delays in deliveries to customers.

However, ~~such~~ such transformation of remuneration system may lead to poor quality goods produced resulting into lower brand reputation. Moreover, this might also lead to accidents which might be costly for the business. Lastly, extra supervision is required which might inflate business costs.

To conclude, they should change the remuneration method as it may portray their social responsibility i.e. paying workers adequately leading to higher ~~at~~ sales.



In this response, the candidate was able to explain overhead allocation and overhead apportionment and was awarded the full 4 marks.

In part (b)(i), the manufacturing account was accurately prepared with the prime cost and overheads sections. These were then added together. An adjustment was made for work in progress, the cost of production, the manufacturing profit and the transfer values were correct. All 16 marks were awarded.

In part (b)(ii) the revised provision was accurately calculated and recorded in the provision account and 4 marks were awarded.

The evaluation demonstrated that the candidate was aware of the positives of a bonus scheme, motivation, productivity, reduction in cost and increased output. The candidate was also aware of the potential disadvantages, such as increased supervision, product quality, increased accidents, and worker bad feeling. A conclusion was reached together with a rationale.



The evaluation on this candidate's work was particularly good as it summarised all the key points and arrived at a conclusion with a good rationale.

Question 6

In this question, candidates generally prepared informed answers. In part (a) candidates were generally familiar with how the three accounting concepts would be applied when charging depreciation.

The calculation of the year's depreciation in part (b) consisted of four elements and candidates generally collected at least two of those marks, and there were quite a few correct answers.

In part (c), the double entries were substantially correct. However, this was another section where the narratives used were inaccurate and the name of the other account involved was not used. It was common in the equipment account to find the narratives 'Equipment', 'Purchases' or 'Sales'. These clearly are both incorrect and inaccurate narratives and were penalised as such.

In part (d), candidates' understanding of the revaluation method varied significantly, but most candidates managed to state at least one disadvantage.

The evaluation considered the use of the straight-line method allowing for equal cost for equal use over the years and reducing the balance, which would probably give a more realistic book value for the non-current asset. Candidates were generally aware of the counter arguments.

This is a response that was awarded 30 marks. The candidate has prepared an excellent response to this question.

6 (a) Explain how the following accounting concepts and conventions would be applied in the recording of non-current assets and charging depreciation.

(i) Historic cost

(2)

Non Current Assets should be recorded as per the cost it was purchased at and not at a value the owner thinks it is worth. This provides fair view in statements.

(ii) Consistency

(2)

The same method of depreciation is to be applied each year so profits not distorted

(iii) Going concern

(2)

The business will operate for a number of years in future so depreciation must be matched to ~~years~~ correct accounting year

(b) Calculate the total depreciation charge on equipment for the year ended 30 April 2022.

(4)

Depreciation on sold equipment = $24000 \times 15\% \times \frac{3}{12} = \text{£}900$

Depreciation on rest of equipment = $(240000 - 24000) \times 15\% = \text{£}32400$

Depreciation on equipment from CTQ Partners = $32000 \times 15\% \times \frac{6}{12} = \text{£}2400$

Depreciation on equipment from purchase using cheque = $16000 \times 15\% \times \frac{4}{12} = \text{£}800$

$$\begin{aligned} \text{Total Equipment Depreciation} &= 900 + 32400 + 2000 + 800 \\ &= \text{£}36500 \end{aligned}$$

(c) Prepare for the year ended 30 April 2022, the:

(i) Equipment Account

(4)

Equipment A/c					
Date	Details	£	Date	Details	£
2021 1 May	Balance b/d	240000	2021 1 August	Disposal	24000
1 Nov	CT & Partners	32000			
2022 1 Jan	Bank	16000	2022 30 April	Balance c/d	264000
		<u>288000</u>			<u>288000</u>
1 May	Balance b/d	264000			

(ii) Equipment - Provision for Depreciation Account

(3)

Equipment - Provision for Depreciation A/c					
Date	Details	£	Date	Detail	£
2021 1 August	Disposal	16900	2021 1 May	Balance b/d	46000
2022 30 April	Balance c/d	64600	2022 30 April	Income Statement	36500
		<u>81500</u>			<u>81500</u>
			1 May	Balance b/d	64600

(iii) Disposal Account.

(4)

Disposal A/c

Date	Details	£	Date	Details	£
2021 1 Aug	Equipment A/c	24000	2021 1 Aug	Equipment Depreciation	16900
	Pa.		1 Aug	Cash	9000
2022 30 April	Income Statement	1900			
		<u>25900</u>			<u>25900</u>

(d) State **three disadvantages** of using the revaluation method for charging depreciation.

(3)

1. No fixed value of depreciation every year so distort profit.
2. May be difficult to value assets based on market conditions.
3. Revaluation increases value of asset sometimes which is not viable since no actual profit made.

(e) Evaluate whether Highgate Construction should continue to use the straight-line method for depreciating the equipment.

(6)

Using Straight line method of depreciation doesn't distort profits compared to reducing balance.

Straight line method also depreciates asset equally over the cost of its whole life so the cost each year will be same.

However reducing balance method provides a more realistic book value of equipment ~~with~~ and is more recognised with the international accounting standards authorities.

Reducing balance also balances maintenance costs over life of asset with low maintenance & high depreciation in initial years and high maintenance & low depreciation in final years.

Overall, High gate should use reducing balance as it will provide a more realistic book value for equipment. However since SLM is used, it should be continued according to consistency concept.



In this response, the candidate explained how the concepts and conventions would be applied. Therefore, 6 marks were awarded for part (a).

In part (b) the depreciation for the year of £36,500 was calculated and was awarded 4 marks.

The ledger accounts in part (c) were accurately prepared and had appropriate narratives. Therefore, 11 marks in total were awarded.

Three disadvantages of the revaluation method were stated, and three 3 marks were awarded.

The evaluation highlighted the advantage of the straight-line method not distorting profits but had the disadvantage that the net book values in the early years would not reflect market value. Based upon these arguments, together with an evaluation with a conclusion, the answer was awarded the full 6 marks.



Ensure that candidates use appropriate narratives in ledger accounts. This should always be the name of the other ledger account involved.

Paper Summary

Although performance in the paper was generally strong, Centres may improve their candidates' chances in the examination by considering the following for additional attention.

- Financial ratios are components of most examinations. Often, they will involve a comparison with ratios from the same business or a similar business. When comparing ratios and commenting upon them the examiners will be looking for a qualitative judgement of whether there is an improvement or deterioration, or whether it is better or worse than the comparator. It is not sufficient to say that it is higher, lower, or increased, decreased. We need a qualitative judgement of whether this is an improvement or deterioration on the previous period, or to the comparator business.
- Evaluations have improved substantially in recent series. However, examiners have observed that a considerable minority of candidates still fail to provide a decision/conclusion, or a conclusion with a rationale. To move to a level 4 in Section A or a level 3 in Section B in evaluation, a candidates must arrive at a decision/conclusion and provide some reasoning as to why that decision has been reached.
- Narratives in ledger accounts do require some attention. Centres will be aware that the narrative entry should always be the name of the other account involved in the transaction. In question 4 and question 6, there were ledger accounts where there was a requirement for narratives to be accurately recorded. The examiners were flexible, within reason, on this occasion, but will be looking for those narratives to be more accurate. Candidates need to identify the name of the other account in the double entry and record this as the narrative for cross referencing. For example, the narrative in the equipment account cannot be 'Equipment', as was seen commonly in question 6.
- Candidates do not appear to have a clear understanding of semi-fixed and semi-variable costs. These are detailed, together with diagrams, in the Edexcel Accounting 1 textbook (p189). Candidates would be advised to refer to this page.

More concentration on these points will enhance the performance of candidates.

Grade boundaries

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

<https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

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