

Examiners' Report
June 2018

IAL Accounting 1 WAC11 01

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk.

Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.



Giving you insight to inform next steps

ResultsPlus is Pearson's free online service giving instant and detailed analysis of your students' exam results.

- See students' scores for every exam question.
- Understand how your students' performance compares with class and national averages.
- Identify potential topics, skills and types of question where students may need to develop their learning further.

For more information on ResultsPlus, or to log in, visit www.edexcel.com/resultsplus. Your exams officer will be able to set up your ResultsPlus account in minutes via Edexcel Online.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk.

June 2018

Publications Code WAC11_01_1806_ER

All the material in this publication is copyright
© Pearson Education Ltd 2018

Introduction

Centres are to be congratulated for the preparation of their candidates for the June 2018 examination. Candidates generally demonstrated good application of accounting principles based upon a good knowledge and understanding of the subject. The standard achieved was in line with recent examinations.

Candidates found all questions on the paper accessible and generally prepared an answer to each section of each question. There was a lower incidence of candidates leaving sections of questions unanswered than in previous examinations.

Question 4, based on club accounts, proved less popular with candidates than the other questions in Section B. Although those candidates who did attempt the question found no difficulty with accessibility and achieved good marks. It has been noted that questions based on club accounts have been less popular in a number of previous examinations and the examiners believe that this is due to the nature of the topic, being less popular. Centres may wish to place a little more emphasis upon the accounts of non-profit making organisations, removing the concerns of candidates.

The evaluation skills of candidates continue to generally improve. However, candidates must ensure that they carefully read the question before preparing their answer. In question 2 the evaluation related to the ability of information communication technology (ICT) to eliminate errors. The words 'eliminate the errors' were in bold in the resource booklet to ensure that the requirement was brought to the attention of the candidate. Many candidates of all abilities prepared an answer based on the general benefits and disadvantages of ICT, without any reference to eliminating errors. Those candidates generally did not achieve any marks for that evaluation. A similar situation occurred in question 6 where many candidates evaluated partnerships generally, without reference to a formal partnership agreement, which was the basis of the evaluation.

Question 1

The question was generally answered well by candidates. Most candidates calculated the maintenance spares used correctly and proceeded to prepare the income statement and financial position statement with substantial accuracy.

In part (c) there were many correct forecasts of the profit for the year and then candidates were able to progress to the calculation of the total cost per megawatt hour.

Candidates were aware of the term 'fixed cost' but were generally less able to explain why the majority of costs for Future Solar would be fixed costs. The examiners were seeking either a brief explanation that there was an absence of variable raw material cost or dependency on capital non-current assets with fixed depreciation costs.

The evaluation was generally well done with a range of arguments for and against considered and developed. A conclusion for and against was then made with a rationale for that conclusion.

Common errors:

- did not label total assets in the statement of financial position
- did not explain why the majority of costs were fixed costs for this business.

This is an excellent example of a candidate's work.

Centres should study the evaluation to see how a few basic points, suitably developed into an argument, can amount to a Level 4 answer and be awarded maximum marks.

1 (a) Calculate the value of the maintenance spares used for the year ended 30 April 2018.

(3)

~~150000 - 150 = 150000~~

opening inventory	—	23400
purchases (152500 + 1750)		<u>154250</u>
		177650
less: closing inventory cost of sales.		<u>(27300)</u>
		150350

∴ Maintenance spares used → €150350.

(b) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2018

(12)

Statement of profit or loss and other comprehensive income for the year ended 30 April 2018

Revenue		750000
less: opening inventory	23400	
add purchases (152500 + 1750)	154250	
	177650	
less: closing inventory	(27300)	
cost of sales		(150350)
gross profit		<u>599650</u>
less: expenses		
wage of maintenance staff (110000 + 5700)	115700	
Management salary (280000 + 11200)	291200	
selling expenses	9500	
computer expenses	16750	
Administration expenses	34900	
general expenses (41000 - 1400)	39600	
Depreciation:		
land and building $\frac{800000 - 250000}{25} = 550000 = 11000$	11000	
Solar panels & equip. $\frac{600000}{25} = 24000$	24000	
Computers & fixtures $\frac{12000 - 12000}{25} = 60000 = 12500$	12500	
		(555150)
Net profit		<u><u>114500</u></u>

Statement of financial position at 30 April 2018.

Non current asset	Cost	POD	NBV
Land & buildings	800000	96000	704000
Solar panels and equip.	600000	144000	456000
Computers and fixtures.	60000	22500	37500
	<u>1460000</u>	<u>262500</u>	<u>1197500</u>
Current assets			
Closing inventory.		27300	
Trade receivables		69000	
Cash and bank		15850	113550
other receivables.		17600	113900
Net asset		<u>1400</u>	<u>1311050</u>
Capital			<u>1211400</u>
Capital		1250000	
add: net profit		<u>44500</u>	
		1294500	
less: drawings, (25000 + 3000)		<u>(28000)</u>	1266500
Current liability			
Trade payable		32150	
other payable (5700 + 11200)		<u>16900</u>	<u>49050</u>
			<u>1315550</u>

(c) Calculate the forecast:

(i) profit or loss for the year

$$\text{Revenue} = \frac{150 \times 90}{100} = \text{€}135/\text{mhr.} \quad (5)$$

$$\text{Revenue} = 8000 \times 135 = \text{€}1080000$$

less: costs

$$\text{Variable} \rightarrow 12 \times 8000 = \text{€}96000$$

$$\text{Fixed} \rightarrow \text{€}880000 \quad \text{Bank loan int} \rightarrow 45000$$

$$\text{Total cost} \rightarrow \text{€}976000 + 45000 = \text{€}1021000 //$$

$$\text{profit/loss for the year} = 1080000 - 1021000 \\ = \text{€}59000 //$$

(ii) total cost of generating one megawatt hour.

$$\frac{\text{Total cost}}{\text{Total hours}} = \frac{1021000}{8000} = \text{€}127.6/\text{megawatt hour.} \quad (3)$$

(d) Explain:

(i) the term **fixed cost**

(2)

Fixed cost is the cost that does not change if production increases or decreases, and it stays the same throughout the year.
eg. Factory rent.

(ii) why the majority of Future Solar's costs are fixed costs.

(2)

The majority of future solar's costs are fixed costs because most of the costs incurred are purchasing more land, installing solar panels and buying equipment. So even if production increases, these costs won't increase as they have already been incurred once.

Points in favour of expanding of future solar :

1. If it expands then the revenue earned by future solar will be 1250000 which is £330000 £ more than if it doesn't expand. # Expanding also means that the company will have a greater market share. The profit that the company earn will be £59000, £14500 higher. ~~from the~~ higher profit is good for the company. Moreover, it bought 20 more fixed assets, such as land, solar panels.

The non-current asset worth was already high enough, at £1197500, but with the purchase of more assets, it is good, as it increases the value of the business. The owner can also quickly sell these fixed asset in times of getting quick money, and will generate a good amount from it, as they are valuable fixed assets. So, although the firm has spend £800000 to get these fixed asset, it ~~isn't~~ isn't in vain, as ~~they~~ it holds a lot of value.

However, the company's total cost will significantly increase by £465850. More expenses ~~to~~ can also occur during the year, which will reduce the profit of the business.

Although the firm ~~is~~ ^{may} making a profit of £59000 it is not ~~so~~ high enough, as compared to all the costs that ~~it~~ may incur. Moreover, the firm is only providing its service to one customer 'National distribution'. If the two ~~firm~~ stop trading then future solar will ~~not~~ earn no revenue and fall in debt as it won't have the funds to pay the loan of £150000.

So, from the above points it can be concluded that future solar shouldn't ~~be~~ expand as it wouldn't make enough high profits. If it wants to expand then it should tell National distribution that the price per megawatt hour will not be too low, and should reduce its ~~to~~ total costs to try generating higher profit. Moreover, it should try making another customer, to ~~the~~ sell its service to them to increase their revenue ~~and~~ and so on.

In part (a) the value of maintenance spares used was calculated correctly and 3 marks were awarded.

In part (b) the only omission from the income statement was the loss on the sale of the computer, so 11 marks were awarded for the candidate's answer. The statement of financial position was correct using the candidate's own figure for the profit for the year. The 1 mark for the 'total assets' described by the candidate as 'net assets' was not awarded, therefore the candidate was awarded 15 marks.

In part (c) the forecast profit for the year was correctly calculated and 5 marks were awarded. The candidate then correctly applied the formula to calculate the total cost for one megawatt hour and a further 3 marks were awarded.

In part (d) the candidate could explain the term 'fixed costs' and was awarded 2 marks. The candidate could also explain why the majority of costs for Future Solar were fixed. The examiners were looking for an answer which either centred on high capital costs or one emphasising low raw material or production labour costs. This candidate based the answer on the former and was awarded 2 marks.

The evaluation in part (e) contained valid points for the expansion, higher revenue, higher profit, increased asset base were cited and there was reasonable development. Points against were raised and developed, only a small increase in profit for a considerable increase in costs. The risk of a single buyer for the electricity was particularly raised. The candidate then concluded that the expansion should not go ahead together with an appropriate rationale of too low a profit and that Future Solar should try to renegotiate the selling price.

The evaluation met the descriptor for a Level 4 answer and was awarded 12 marks.



Candidates generally prepare the financial statements of businesses well. The difference between good and average answers is generally the evaluations.

This candidate's work is a good example of how information can be derived from the scenario of the question, such as loans required and single buyer. This can be added to the information derived from the financial statements prepared by the candidate, such as profit, interest payable, to prepare an answer which will be a Level 4 answer.

Question 2

The question centred on a range of foundation skills, double entry, trial balance and effect of errors on profit for the year. Candidates generally performed well on these elements of the question and there were many candidates with some or all of sections (a) to (c) correct. In preparing the ledger accounts in part (c) a minority of candidates did not provide appropriate narratives for 'balance' and were not awarded the available 4 marks for balancing. The examiners would remind them that 'b/d', and 'bb/d' is not acceptable as a minimum narrative.

In part (d) candidates were less certain about the meaning of social accounting and very few were aware of ethical accounting. This is an area that centres should concentrate more on for future examinations. The expectations of the examiners will be at the explanation level only.

In part (e) the evaluation many candidates did not answer the question about ICT eliminating errors and instead prepared an answer based on the general advantages and disadvantages of ICT in a business. **The requirement of the question was highlighted in bold on the question paper.** Those candidates who did not address the question set, but answered in general terms, were not awarded any marks for this section.

Common errors:

- a lack of understanding of accounting ethics
- did not evaluate how information communication technology (ICT) might limit the errors made.

This is a very good example of a candidate's response.

Source material for Question 2 is on pages 5 to 7 of the source booklet.

2 (a) Complete the trial balance, correcting all errors.

(8)

Roshan
Trial balance at 30 April 2018

	Dr	Cr
	£	£
Capital		60,000
Drawings	11,900	
Revenue		20,500
Purchases	12,500	
Returns inwards	800	
Inventory – 1 May 2017	31,000	
Non-current assets (cost)	64,000	
Provision for depreciation – non-current assets		3,600
Discount allowed	1,680	
Discount received		3,100
Trade receivables	19,000	
Trade payables		15,650
Allowance for doubtful debts		400
Wages	27,000	
Rent and rates	8,500	
Electricity and gas	4,600	
General expenses	23,500	
Cash in hand	3,170	
Suspense	—	—
	<u>320,150</u>	<u>320,150</u>

- (b) Complete the table, to calculate the revised profit/loss after the corrections of (1) to (6).

(14)

Corrected profit/(loss) for the year ended 30 April 2018

			£
Draft profit for the year			30 700
	Increase	Decrease	
	£	£	
overstated (1) The inventory at 30 April 2018 was recorded in the financial statements as £35 500. There was an error in the inventory count, which should have shown the total as £32 700		2800	
(2) No adjustment had been made for discount receivable owing. £3 100 had been recorded in the financial statements when this should have been £3 450	350		
(3) No adjustments had been made for general expenses prepaid £1 200 and owing £550	1200	550	
(4) Annual depreciation on non-current assets had been charged at the rate of 25% on cost, when this should have been 15% on cost.	6400		
(5) No adjustment had been made to the allowance for doubtful debts, which should have been maintained at 4%.		360	
(6) A provision should have been made for an injury claim from one of Roshan's employees. The injury claim would be for 7 weeks' loss of earnings at £180 per week plus a total loss of bonus £120. No entry had been made in the financial statements.	1260	1380	
Total	7950 9330	5090 3710	+ 2860 33560
Revised profit/(loss) for the year			<u>33560</u> <u>36320</u>

(c) Prepare the following ledger accounts for the year ended 30 April 2018, showing the balance brought down at 1 May 2018:

- Allowance for Doubtful Debts Account
- Wages Account
- Electricity and Gas Account.

(9)

Allowance for d/d			
		1 May 2017 Bal. B/D	400
30 April 2018	Bal d/d	30 April 2018 Profit/Loss A/c	360
			<u>760</u>
		1 May 2018 Bal. B/D	760

Wages A/c.			
30 April 2018	Bank	27000	
30 April 2018	Provision for injury	1380	
			<u>28380</u>
		30 April 2018 Profit and Loss A/c	28380

Electricity and Gas A/c.			
30 April 2018	Bank	4600	

Wages A/c.			
30 April 2018	Bank	27650	
30 April 2018	Bal. d/d	175	
			<u>27825</u>
		1 May 2017 Bal. B/D	650
		30 April 2018 Profit & Loss A/c	27175
			<u>27825</u>
		1 May 2018 Bal. B/D	175

Electricity and gas acc.

1 May 2017	Bal B/d	250	
30 April 2018	Bank	4350	30 April 2018 Profit & loss acc
30 April 2018	Bal c/d	360	4960
		4960	4960
			360
	1 May 2018	Bal B/d	4960

(d) Explain the difference between:

(i) the accounting concepts of accruals and money measurement

(4)

The accruals concept states that all the expenses of the period should be matched against the expenditure of the period. Ex: adjusting accrual/prepayment when making electricity bill. The money measurement concept states that all transaction which can be valued/measured and has a monetary value will be recorded in the books. Ex: accounting for skill of workforce is against money measurement concept.

(ii) bad debts and allowance for doubtful debts

(4)

Bad debts is when debtors fail to pay ~~in the~~ their debt ~~it is known~~ ^{the} precise ~~amount~~ ^{amount} is known. It is what occurs in the current accounting period.

Allowance for d.d is an estimate of how much of the debts will become 'bad' in the next accounting period.

(iii) social accounting and ethical accounting.

(4)

Social accounting is when you take into account non-financial factors. It is when you consider the impact of your decision on the society. Ex: will it cause pollution.

Ethical accounting is when you take into account all the accounting concepts when preparing books. And it considers the cost of your decision on the third party (such as the community).

Roshan is considering computerising his accounts using information and communication technology (ICT). He believes that this will eliminate the errors in his financial statements.

- (e) Evaluate the proposal that information and communication technology (ICT) will **eliminate the errors** made by his bookkeeper in recording transactions and preparing the trial balance and the financial statements.

(12)

In favour of the proposal that ICT will eliminate errors:

- ICT is very accurate, precise. ~~Once you have given it~~ reduces ~~the~~ and eliminates the ~~chance~~ chances of errors occurring. This is ~~because~~

This is because once you have programmed it to do something, it will follow the command and will always use the same method. For example; if you have programmed that Purchases should be entered on the Dr side of the Trial Balance, the ICT software will always follow this.

Furthermore, it won't make any arithmetical (numerical) errors in addition to calculations. For example; Roshan's bookkeeper may incorrectly add the total of the debit side of the trial balance ~~then was~~ or may incorrectly add up the receipts of cash during the year. However, the ICT system ~~can~~ has an advanced technology and won't make such errors.

Furthermore, the accounts will be prepared more accurately as ~~it is~~ if all the journal entries for the transactions are programmed, it will correctly enter it in the accounts. ~~But~~ Roshan

bookkeeper may enter cash ~~in to~~ rec. received in the credit side of cash book, the ICT ~~and~~ system would do this.

~~However, it may not~~ Against

However it may not be so accurate. You need to program it and if it is poorly programmed then it may make ~~incorrect~~ mistakes in preparing accounts. So in the first few months, there may be errors. Furthermore, if there are errors made in the book of prime entry, e.g. error of original entry, this would be detected as ~~perhaps~~ ICT system will only. Sometimes there could be a hardware/software failure and ~~since~~ it won't make correct decisions. After all it does have only artificial intelligence.

In conclusion, it may even though there might be a few errors at the beginning, but if it is programmed well, it will be very helpful and completely eliminate the errors ~~in the~~ while recording transactions, so it is a good move to computerise his accounts using ICT.

This was a question that centred on the basic accounting skills of double entry, trial balance and the effect of errors on profit for the year. There were many correct answers to parts (a), (b) and (c).

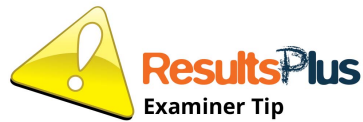
In part (a) the answer is correct and 8 marks were awarded.

In part (b) the calculations of the values were correct and these were correctly shown as increases or decreases to profit for the year, 14 marks were awarded.

In part (c) the double entry was correctly undertaken and suitable narratives shown. 'Profit and Loss' or 'Income statement' were accepted as suitable narratives. The minimum narrative for 'Balance' is shown here as 'Bal' or 'B/ce' and therefore 9 marks were awarded.

In part (d) the candidate demonstrated the differences between accruals and money measurement and was awarded 4 marks. Similarly, the difference between bad debts and allowance for doubtful debts was awarded 4 marks. The candidate understood the meaning of social accounting particularly by the use of the example which was awarded 2 marks but the explanation of ethical accounting was incorrect and therefore 0 additional marks were awarded.

The evaluation did attempt to answer the question set. The first statement that ICT reduces the chances of errors and then goes on to state that the programme follows a set of commands which will result in no more arithmetical errors was good development of the argument. On the other side of the argument if the computer is not set up/programmed correctly errors can still occur. The candidate made a conclusion with the stipulation that programming needed to be done well. The examiners considered that the answer was relevant and well-reasoned and developed and considered it to be a Level 4 answer, 11 marks were awarded. The examiners would have liked to see reference to the system, there is still the weakness of errors at inputting to have been awarded the full mark.



Candidates need to have an understanding of the term 'ethical accounting'.

Where parts of the question are in bold there is a reason for this. This is to emphasize the point to the candidate that this is important in the construction of their answer. Many candidates seemed to see the words 'Evaluate ICT' and then start writing about this in general terms when the question asked for the specific of the effect on eliminating errors.

Centres should ensure that their candidates read the question and pay particular attention to wording in bold to ensure that their response is answering the question set.

Question 3

This was a popular question that was generally answered well by candidates.

In part (a) candidates generally provided informed responses to the probable effect to a lowering of the rate of inventory turnover.

In part (b) the liquid (acid test) ratio and the trade receivables collection period were generally accurate. The percentage return on capital employed was accurate for the first year but many candidates did not use the correct profit for the year in the second year, particularly to adjust for interest paid. In part (c) the comments on the liquidity of the business were informed and candidates were awarded good marks.

In part (d) very few candidates were able to work through the capital introduced. Candidates generally did not calculate the closing capital for the first year after adjustment for profit and drawings. Generally, the comparison was the opening capital for year one with the closing capital for year two.

In part (e) candidates were generally aware of a range of options for alternative financing. Some candidates also considered options open to a company such as the issue of shares or debentures which are outside the scope of the specification and were not accepted by the examiners.

The evaluations were generally informed with most candidates aware of the benefits of use as a 'yardstick' and for comparison. A disadvantage of only considering financial not non-financial factors was generally stated.

Common errors:

- calculation of percentage return on capital employed in the second year
- calculation of additional capital introduced
- use of company funding options such as issue of shares and debentures.

The question was popular and was generally well answered.

3 (a) Explain why a fall in the rate of inventory turnover may lead to a fall in liquidity. (4)

$$\text{Rate of inventory turnover} = \frac{\text{cost of sales}}{\text{average stock.}}$$

A fall in the rate of inventory turnover will mean that the business ~~has~~ could have either held high/large amounts of stock throughout the year, which and would mean as ~~inventory~~ is the least liquid current asset, the

acid test ratio may fall due to this, leading to a fall in liquidity, and the business due to this may have problems paying its short term liabilities.

(b) Calculate for both the year ended 30 April 2017 and the year ended 30 April 2018 the:

- liquid (acid test) ratio
- trade receivables collection period (in days)
- percentage return on capital employed.

(12)

$$\text{liquid (acid test) ratio} = \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$$

$$2017 = \frac{12000 + 10,000}{22,000} = 1:1$$

$$2018 = \frac{26,000}{36000 + 16000} = 0.5:1.$$

$$\text{Trade receivables collection period} = \frac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365.$$

$$2017 = \frac{12,000}{175,200} \times 365 = 25 \text{ days.}$$

$$2018 = \frac{26,000}{300,000 - 60,000} = 39.5 \text{ days.}$$

Percentage return on capital employed = $\frac{\text{Profit for the year} + \text{loan interest}}{\text{Capital Employed}} \times 100\%$

$$2017 = \frac{17,500}{35,000} \times 100\% = 50\%$$

$$2018 = \frac{17,700 + 3900}{50,000 + 40,000} \times 100\% = 24\%$$

(c) Comment on the liquidity of Gadhar's business at 30 April 2018.

(3)

The liquidity of Gadhar's business refers to its ability to pay its short term liabilities. This has worsened over the year 2017 to 2018, with the acid ratio falling from the yardstick 1:1 in 2017 to a low 0.5:1. To add to this, the trade receivables collection period has risen from 25 days to 39.5 days. This will mean that creditors will take longer to pay, which will further worsen liquidity. Overall the liquidity of Gadhar's business has worsened over the year.

(d) Calculate the capital introduced by Gadhar during the year ended 30 April 2018.

(2)

$$\cancel{35000 + 17500 + x + 1}$$

$$50,000 - 35000 + 17500 = 30,500$$

(e) State **three** alternative sources of funding, other than the bank loan, that Gadhar could have used to fund the purchase of the non-current assets.

(3)

- 1 Gadhar could have admitted a new partner, who could have brought in the money to purchase the NCA's.
- 2 Gadhar could have introduced more of his money as capital into the business to fund the purchase.
- 3 He could increase his use of the bank overdraft facilities.

(f) Evaluate the usefulness of ratios in determining the performance of a business.

(6)

~~Ratios are~~ Use of ratios in determining performance may have several advantages and drawbacks, these are discussed below.

The use of ratios may be helpful / useful in the measuring of the performance of the business, as they will help users to evaluate the profitability, liquidity and efficiency of the business. This would allow us to easily compare financial results for this year compared to the previous years, and further would allow the business to compare its performance to other businesses in the same industry.

Further the use of ratios such as return on capital employed will allow the owner to decide whether running the business is actually worth it, as the return can be compared to that given by a bank on deposits of 10%.

However ratios may not be useful as they only look at financial factors, and fail to account for non-financial factors when determining the performance of the business. Such non-financial factors can include reputation of the business, or improvement in relations with suppliers, which isn't shown by ratios.

To evaluate, the use of ratios is key in the measuring of the business performance, as most of a business performance is determined by the use of financial factors, and ratios efficiently and show the financial performance of the business, therefore they should be used.



In part (a) the candidate included the formula for rate of inventory turnover, which was not required. The candidate did progress to say that the inventory would rise and there may be problems in paying short-term liabilities, 1 mark was awarded for each comment making 2 marks awarded overall.

In part (b) the ratios were correctly calculated and 12 marks were awarded.

In part (c) the examiners were looking for a qualitative description of the movement of the liquidity position, e.g. deteriorated, not a non-qualitative one such as decreased. In the candidate's response, 'this has worsened' was taken as qualitative. There was also comparison with the 'yardstick' of 1:1 and the fact that trade receivables are taking longer to pay. These points were awarded 1 mark each, making 3 marks in total for this part of the question.

The response to (d) was typical of what the examiners found. If the candidate had taken away the profit for the first year they would have arrived at the correct answer. 0 marks were awarded.

In part (e) the examiners accepted taking a partner and introducing more of their own capital as viable alternatives and awarded 2 marks for the section. The examiners did not accept a bank overdraft because the sum required was too great for this business to obtain.

The evaluation was excellent and based upon the positive point of comparison of data with failure to take non-financial factors into consideration as the alternative perspective. There was a conclusion and rationale for that conclusion so 6 marks were awarded.



There are clear indications of very good teaching of this topic and candidates generally not only prepare accurate answers but are able to interpret their calculations. Centres just need to maintain the existing standard.

Question 4

This was not a popular question with candidates. I think that this was not due to undue difficulty, but the examiners do note that questions on non-profit making organisations are less popular with candidates.

In part (a) candidates could generally state two differences between a club and a sole trader.

In part (b) most candidates calculated the correct value of the cash stolen by the use of a simple cash book.

Part (c) was not done well with candidates not applying the margin to calculate the gross profit and the cost of sales.

Part (d) was generally correct using the own figure rule, but the journals in part (e) were inaccurately prepared often with the debit entry to the Insurance Account (an expense account) when this should have been to the Sports Insurance Company (a receivable). The credit entries to cash and inventory were also absent.

Part (f) was generally accurately prepared and the correct deficit was often seen by examiners.

The evaluation generally considered positive and negative points and arrived at a conclusion.

Common errors:

- did not correctly calculate cost of sales in part (b)
- journalising an insurance claim.

This was a typical answer seen by examiners.

4 (a) State **two** differences between a club and a sole trader business.

(4)

1 Clubs have accumulated funds while a sole trader business has capital.

2 Clubs have receipts and payments account while a sole trader has a bank account.

(b) Calculate the value of the cash stolen from the manager's office on 27 April 2018.

(3)

Cash account

Balance b/d	250	wages	400
Receipt from hire charge	525	cleaning	190
Subscriptions	310	cash refund	25
		sundry payments	120
		Balance c/d	350
	<hr/>		<hr/>
	1085		1085

Value of cash stolen = £350

(c) Calculate the value of the sports equipment stolen from the shop on 27 April 2018.

(4)

Trading account - sports equipment

	£	£
Revenue		1200
less: cost of sales		
opening stock	3500	
purchases	3200	
closing stock - stolen	(3350)	
- remaining	(2300)	
gross profit		1050

Value of stock stolen = £3350.

(d) Calculate the total value of the insurance claim to be made to the Sports Insurance Company.

(2)

$$£3350 + £150 = £3500$$

(e) Prepare the Journal entry, including narrative, recording the insurance claim made to the Sports Insurance Company.

(5)

	Dr (£)	Cr (£)
Insurance Insurance	3500	
Income Statement		3500
Being an insurance claim from Sport of Sports equipment and cash.		

(f) Prepare a statement showing the profit or loss on the hire of the function room for the **three months** ended 31 March 2018.

(6)

	£	£
Revenue		3750
<u>less: expenses</u>		
rates	390	
wages	1120	
advertising	1650	
heating	600	
depreciation	200 200	(3960) (3760)
net loss		210 210

The Kewstoke Sports Club has received a member's proposal to discontinue the hire of the function room.

(g) Evaluate the member's proposal to discontinue the hire of the function room.

(6)

The function room is currently making a loss and so closure of the function room would mean that the club wouldn't be making a loss from the function room anymore. Due to the closure of the function room, the club would now be able to focus on the expansion of its other departments such as ~~advertising~~ advertising other departments and so this would help increase Kewstoke Sports Club's revenue because it could focus on selling more sports equipment. However, the closure of the function room would also ~~cost~~ ~~cost~~ save less costs for example on heating.

However, due to the closure of the function room, the other departments of the club would experience increased costs eg. rates since there would be one use department to share the costs with. Also, the club could lose ~~potential~~ ^{members} ~~customers~~ because some members would still want to use the function room and so if members leave the club it would result in a fall in incomes.

Overall, the club should ^{not} close the function room ~~as~~ since it is ~~making a loss~~ and should ~~focus~~ ^{focus} on generating an income for them and if they can be more efficient then they can make a profit in the long run.

In part (a) 4 marks were awarded for the candidate stating that clubs have an accumulated fund and sole traders' capital. Also that clubs have a receipts and payments account and a sole trader a bank account.

Part (b) is correct and 3 marks were awarded.

In part (c) the candidate correctly calculated the gross profit but did not record the cost of sales. The candidate correctly recorded the opening inventory and purchases to be 6 700 which was worth 1 mark but then deducted a total of 5 650 closing inventories to arrive at a difference of 1 050 which was the gross profit not the cost of sales. 1 mark each was awarded for 3 200 and (2 300) making 2 marks in total.

In part (d) the candidate included their own figure for the inventory stolen 3 350 and added this to the 350 - 150 for the cash stolen, 2 marks were awarded for this part of the question on the own figure rule.

In part (e) the response is typical of that seen by examiners. The debit narrative 'Insurance' is incorrect as this is an expense account and not a receivable. 1 mark was awarded for the 3 500 on the own figure rule from part (d). The credit entry was incorrect this should have been posted to the cash account and inventory account. The narrative was acceptable and was awarded 1 mark. Total for this part of the question 2 marks.

Part (f) was correctly calculated and was awarded 6 marks.

The evaluation considered points for and against. Most notably that there would be space freed up for other uses but closure would result in the costs being borne by other parts of the club. There was a conclusion with some rationale and therefore the candidate was awarded 6 marks.



Non-profit making organisations (clubs) remain a topic which is less popular with candidates. However, this is a topic contained within the subject specification and therefore must be examined at regular intervals.

My examiners tip for centres is to ensure that candidates are familiar with the alternative clubs terminology and comfortable with that terminology.

I suggest that this question is included in teachers' schemes of work/programme as it contains most of the skills that are required to successfully answer a club accounts question.

Question 5

The question was generally well answered.

In part (a) candidates were generally aware of the two concepts and could explain them. In the case of consistency a minority of candidates explained this concept using depreciation of non-current assets when the question was about inventory valuation methods.

Parts (b) was very well answered and most candidates could apply the methods of First In First Out (FIFO).

Part (c) was generally substantially correct although some candidates only included one month's expenses instead of the three months required.

Part (d)(i) was very well answered with candidates able to apply the method of Last In First Out (LIFO). Part (d)(ii) was less well answered with a range of figures being suggested.

The evaluations were very mixed with the fundamental problem that many candidates were still unaware of the difference between inventory rotation and inventory valuation. In addition only a minority of candidates considered the effect of rising or falling prices on inventory valuations.

Common errors:

- only recording one month's expenses in part (c)
- did not consider the effect of rising and falling prices on inventory valuations and profit.

In general the question was well answered.

5 (a) Explain the following accounting concepts as they relate to the valuation of inventory:

(i) historic cost

(2)

According to this concept the inventory purchased should be valued at cost price and not the market value.

(ii) consistency.

(2)

According to this concept, once a method of valuation is selected, it should be ~~be~~ used throughout to make comparison meaningful.

(b) Calculate the inventory value at the 31 March 2018 using the First In First Out (FIFO) **perpetual inventory** method.

(8)

	Purchases from National Mint (coins)	Sales (coins)	Balance
Balance			180 000. 180 000 (200 @ 900)
January	200 @ 950	110 @ 900	90 @ 900 200 @ 950.
February	250 @ 980	90 @ 900 130 @ 950	70 @ 950. 250 @ 980.
March	150 @ 1050	70 @ 950. 130 @ 980.	120 @ 980. 150 @ 1050.
Total closing value			120 @ 980 150 @ 1050 <u>275 100.</u>

(c) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2018.

(6)

	£	£
Revenue -		550000
Less: <u>COS</u>		
Opening inventory	180000	
Purchases	592500	
(Closing inventory)	(275100)	(497400)
Profit		52600
Less: expenses		(12200)
Total profit		<u>40400</u>

(d) Calculate:

- (i) the value of the inventory at 31 March 2018 using the Last In First Out (LIFO) perpetual inventory method

(4)

	Purchases from National Mint (coins)	Sales (coins)	Balance
Balance			700 (200 @ 900) 180000
January	200 @ 950	110 @ 950	(200 @ 900) 180000 90 @ 950.
February	250 @ 980	220 @ 980	(200 @ 900) 180000. 90 @ 950. 30 @ 980.
March	150 @ 1050	150 @ 1050. 30 @ 980. 20 @ 950.	(200 @ 900) 180000. 70 @ 950
Total closing value			180000 + 70 @ 950) <u>246500</u>

(ii) the difference in the profit for the three months ended 31 March 2018 if Brit Gold had used the Last In First Out (LIFO) **perpetual inventory** method.

(2)

$$\text{Total profit for LIFO.} = 550000 - 526000$$

$$- 12200$$

$$\text{Profit} = \underline{11800}$$

$$40400 - 11800 = \underline{\underline{£28600}} \rightarrow \text{difference in profit}$$

FIFO higher by £28600

The Sales Manager of Brit Gold stated: 'We use the First In First Out (FIFO) inventory valuation because our profit is **always greater**.'

(e) Evaluate the Sales Manager's statement.

(6)

The profit using FIFO will be greater as the inventory is valued at the latest market prices and therefore the value of closing ~~cost~~ inventory will be higher. Therefore cost of sales is lower and profits will be higher. This usually happens at times of inflation.

On the other hand,

during times of deflation instead of inflation the closing inventory will be lower, ~~so~~ making cost of sales higher and leading to a decrease in profits.

We also use FIFO because it is recommended by IAS and accepted by tax authorities and not because profits are greater.

In conclusion, profits are not always greater when using FIFO and there are many why we use FIFO and not just because of more profits.



In Part (a) the explanations were accurate and 2 marks were awarded for each making 4 marks in total for the section.

Part (b) was the correct application of FIFO and 8 marks were awarded.

In part (c) the statement was substantially correct but only one month's expenses had been included, so 5 marks were awarded.

Part (d)(i) was the correct application of LIFO and 4 marks were awarded.

Part (d)(ii) was correct and 2 marks were awarded.

The evaluation was excellent because it considered the impact of inflation and deflation on inventory valuations and hence profit. This is really essential if an accurate answer is to be provided. There was a conclusion and some rationale, 6 marks were awarded for this answer.



Candidates generally are good at working through an inventory valuation using FIFO and LIFO to arrive at an accurate closing valuation.

There are two issues which centres need to continue to work on as these two points appear to not be fully understood. Firstly, that there is a difference between inventory rotation and inventory valuation. It makes sense to rotate inventory on a FIFO basis **but this is not necessarily how it would be valued**. There are many ways of valuing inventory issues which will result in a range of theoretical profits.

Secondly, once a single method has been selected, the effect on profit will depend **on whether the prices are rising or falling**. Candidates should consider this in their responses.

The examiners understand that these concepts appear simple at first, but are really more complex. However, centres need to continue to work on these to ensure that their candidates can demonstrate understanding.

Question 6

This is a topic in which candidates generally answer well and this was the case here.

In part (a) candidates were generally aware of the legal rules where no partnership agreement existed.

The appropriation account in part (b)(i) was completed in good format and without 'alien' items. The most common error was the calculation of the interest on capital for Asanka with a common figure of 1 600 being calculated instead of the correct figure of 2 000. Some candidates also appropriated the salaries actually paid and not the salaries agreed.

The capital accounts in (b)(ii) were generally accurately prepared with appropriate narratives and the balances brought down. The current accounts were accurate on the own figure rule but the debit entry for salaries actually paid was often missing from the account.

The evaluation was based on the presence or absence of a formal partnership agreement. This section was generally answered well but a minority of candidates did evaluate forming a partnership generally and not the desirability of a formal agreement.

Common errors:

- calculation of interest on capital in the Appropriation Account
- no value for salaries paid recorded in the current account.

The question was generally answered well by the majority of candidates.

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

Source material for Question 6 is on pages 15 and 16 of the source booklet.

6 (a) State the rules that would apply to the following where there is **no partnership agreement:**

- interest on partners' loans
- partners' salaries
- share of profit or loss.

(3)

Interest on partners' loan will be given at 5% per annum.

No partner will receive salaries.

Profits or losses will be shared equally.

(b) Prepare, for the year ended 30 April 2018, the:

- (i) appropriation section of the Statement of Profit or Loss and Other Comprehensive Income

(7)

Appropriation section

Profit for the year		45,585
<u>Add: interest on drawings:</u>		
- Asanka (15000 x 0.05)	290	
Bhulo (6500 x 0.05)	325	
Padman (8000 x 0.05)	400	1015
		46,600
<u>less: interest on capital:</u>	1600	
Asanka (20000 x 0.08)	2000	2
<u>less: salaries to partners:</u>		
Bhulo	8,000	19,600
Padman	10,000	(20,000)
Residual profit		26,600
Profit share - Asanka	6000	27,000
	10640	
- Bhulo	12,000	
- Padman	9,000	(27,000)
		-

(ii) capital accounts of Asanka, Bhulo and Padman

(7)

Capital a/c.

	A	B	P		Asanka	Bhulo	Padman
1.5.17 Bank	10,000			Balance b/d 1.5.17.	30,000	25,000	-
1.5.17 Goodwill							
1.5.17 Goodwill w/o	4,000	8,000	6,000	1.5.17 Goodwill	9,000	9,000	-
				1.5.17 Bank			20,000
1.5.17 Balance c/d	25,000	26,000	14,000				
	<u>25,000</u> 39,000	26,000 <u>34,000</u>	<u>20,000</u>		<u>39,000</u>	<u>34,000</u>	<u>20,000</u>
				1.5.17 Balance b/d	25,000	26,000	14,000

(iii) current accounts of Asanka, Bhulo and Padman.

(7)

Current a/c.

	A	B	P		A	B	P
1.5.17 Balance b/d	1500			1.5.12 Balance b/d	600		
31.4.18 Drawings	5800	6500	8000	31.4.18 Interest on capital	1600		
Interest on drawings	290	325	400	31.4.18 Salaries		8000	10,000
31.4.18 Bank		7500	9000	31.4.16 Profit share	6,000	12,000	9,000
31.4.15 Balance c/d	610	5675	1600				
	<u>8200</u>	<u>20,000</u>	<u>19,000</u>		<u>8200</u>	<u>20,000</u>	<u>19,000</u>
				1.5.18 Balance b/d	610	5675	1600

(c) Evaluate the use of a formal partnership agreement.

(6)

A formal partnership agreement is a legal document, that signifies the existence of a partnership, by showing various things such as interest profit sharing ratio, interest to be charged on capital, etc.

~~The~~ There may therefore be several advantages and disadvantages to the use of the formal agreement.

~~The~~ advantage one of key advantages is that it ~~is~~ is useful in reducing conflicts / arguments in the business, as it ^{the agreement} clearly outlines what should be done in the business in case of a conflict.

However the formal partnership agreement may be quite expensive to prepare, as legal costs of this are normally high, and don't deal with non-financial details of the partnership as much.

To evaluate, as far as possible financially by the business partnership, an agreement should be created, to ensure that there is clarity in decision making and in case of conflicts.



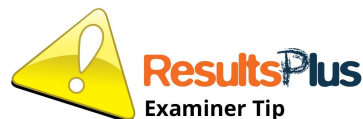
In part (a) the candidate was aware of the rules in the absence of a partnership agreement and was awarded 3 marks.

In part (b)(i) the account is presented well but the calculation of the interest on capital is incorrect. The share of profit marks were awarded on the own figure rule. The candidate was awarded 6 marks.

In part (b)(ii) the account and narratives were correct and therefore 7 marks were awarded.

In part (b)(iii) the account contained all of the correct components. The interest on capital and share of profit were correct on the own figure rule. Therefore 7 marks were awarded for the section.

The evaluation was very good with the document determining allocations and responsibilities resulting in reduced conflict/arguments. This was counterbalanced by the legal costs and time taken. A conclusion was reached together with a rationale, 6 marks were awarded for part (c).



Candidates are generally good at preparing partnership accounts which clearly evidences some excellent tuition.

Teachers might wish to reinforce the difference between salaries that are agreed and those which have actually only been partly paid and the correct treatment in the appropriation account and the current account.

Paper Summary

There was a great deal of excellent teaching by centres and candidates learning evidenced by the examiners in this examination. The standard continues to be developed.

Based on their performance in the examination, candidates are offered the following advice:

- Candidates need to ensure that they are answering the correct question particularly when evaluating. Where the examiners highlight particular words in bold they are emphasising that the candidates answer must address this point and a purely generic answer is not required and will not be awarded many marks.
- Centres may wish to place a little more emphasis on the accounts of non-profit making organisations. Developing greater confidence in candidates.
- Centres will need to ensure that candidates have a basic understanding of accounting ethics.

Grade Boundaries

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

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

