

Please check the examination details below before entering your candidate information

Candidate surname

Other names

**Pearson Edexcel
International
Advanced Level**

Centre Number

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Candidate Number

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Tuesday 14 May 2019

Morning (Time: 3 hours)

Paper Reference **WAC11/01**

Accounting

International Advanced Subsidiary

Paper 1: The Accounting System and Costing

You must have:

Source Booklet (enclosed)

Total Marks

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Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **both** questions in Section A and **three** questions from Section B.
- All calculations must be shown.
- Answer the questions in the spaces provided
– *there may be more space than you need.*
- Do not return the Source Booklet with the question paper.

Information

- The total mark for this paper is 200.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.
- The source material for use with Questions 1 to 6 is in the enclosed source booklet.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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

(13)

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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)

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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)

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

(2)

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

(2)

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

(2)

- profit/loss for the year

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- bank overdraft.

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(Total for Question 1 = 55 marks)

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QUESTION 2 BEGINS ON THE NEXT PAGE.



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

- 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		
Purchases		
Returns inwards		
Returns outwards		
Discount allowed		
Bad debts		
Bad debts recovered		
General expenses		
Inventory		
Trade receivables		
Allowance for doubtful debts		
Trade payables		
Bank overdraft		
Non-current assets (at cost)		
Provision for depreciation – non-current assets		
Drawings		
Capital		

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

(2)

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

(12)

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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)

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

Narratives are **not** required.

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(e) Evaluate the use of control accounts.

(12)

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QUESTION 2 (F) CONTINUES ON THE NEXT PAGE.



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)

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TOTAL FOR SECTION A = 110 MARKS

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SECTION B

Answer THREE questions from this section.

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

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

Source material for Question 3 is on pages 10 and 11 of the Source Booklet.

3 (a) State the meaning of the following terms: (4)

- liquidity

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- profitability.

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

(i) current ratio (2)

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(ii) liquid (acid test) ratio (2)

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(iii) gross profit as a percentage of revenue

(2)

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

(2)

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(v) percentage return on capital employed.

(2)

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(c) Comment on the sufficiency of the:

(2)

- liquidity

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- profitability.

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(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		
Inventory at 30 April 2019		
Expenses for April 2019		
Profit for the month of April 2019		

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

(6)

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(Total for Question 3 = 30 marks)

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

Source material for Question 4 is on pages 12 to 13 of the Source Booklet.

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

(4)

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

(16)

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(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

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- statement of financial position.

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

Source material for Question 5 is on pages 14 and 15 of the Source Booklet.

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

(4)

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

(16)

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

	Eastville Store	Northern Store	Weston Store	Total
	£	£	£	£
Revenue				
Cost of sales				
Gross profit				
Wages				
Advertising				
Rent payable				
Overheads				
Profit for the year				

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(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

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Semi-variable cost

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Semi-fixed cost

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Fixed cost

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

(6)

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(Total for Question 5 = 30 marks)



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

Source material for Question 6 is on pages 16 and 17 of the Source Booklet.

- 6 (a) Prepare the capital accounts of the partners after all adjustments at 1 May 2018. (7)

Area with horizontal dotted lines for writing the answer.

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

(8)

Area with horizontal dotted lines for writing the answer.

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(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

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Salary

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Interest on drawings

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Share of profit or loss

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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)

Area with horizontal dotted lines for writing the answer.

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Pearson Edexcel International Advanced Level

Tuesday 14 May 2019

Morning (Time: 3 hours)

Paper Reference **WAC11/01**

Accounting

International Advanced Subsidiary

Paper 1: The Accounting System and Costing

Source Booklet

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SECTION A

Answer BOTH questions in this section.

- 1 Bob's Material is a retailer of building materials.

Bob's Material has two departments, a shop and a timber yard.

The following balances were available for the year ended 30 April 2019.

	£
Revenue	
Shop	231 000
Timberyard	149 000
Purchases	
Shop	156 000
Timberyard	124 000
Inventory 1 May 2018	
Shop	16 300
Timberyard	9 200
Non-current assets (at cost)	
Fixtures and fittings- Shop	17 000
Equipment- Timber yard	36 000
Delivery lorry	24 000
Provisions for depreciation	
Fixtures and fittings- Shop	8 500
Equipment – Timber yard	21 000
Delivery lorry	14 000
Wages	
Shop	16 700
Timber yard	11 600
Shop repainting	800
Management salary	22 000
Rent, rates and insurance	17 000
Delivery lorry running expenses	8 000
Trade receivables	27 500
Commission receivable- Shop	9 500
Trade payables	41 000
General expenses	11 400
Bank overdraft	24 800
Capital	20 000
Drawings	19 100
Bad debts	2 200

The following information was available at 30 April 2019.

- (1) A sale of goods from the shop, with a list price of £5 000, had been recorded as a sale of goods from the timber yard. The customer had been given a 20% trade discount.
- (2) During the year the shop was repainted. Paint, costing £700 was taken from the shop inventory to carry out the repainting.
- (3) Inventory:

Shop	£14 600
Timber yard	£25 200
- (4) Rent of £2 000 is accrued and insurance of £1 000 is prepaid.
- (5) Commission receivable for the shop of £3 000 is outstanding.
- (6) On 20 April 2019 equipment in the timber yard costing £12 000, and with an accumulated depreciation of £9 000 was sold for £3 000, the payment being received by cheque.

Replacement equipment for the timber yard costing £16 000 was purchased on the 20 April 2019 and was paid for by cheque.

No record of either transaction had been recorded in the books.

- (7) Depreciation is charged on all non-current assets owned at the end of the year as follows:
 - shop fixtures and fittings at the rate of 10% using the straight line method
 - timber yard equipment at the rate of 20% using the reducing balance method
 - delivery lorry at the rate of 25% using the straight line method.
- (8) Expenses are apportioned between the shop and the timber yard as follows:

Expense	Basis	Shop	Timber yard
Management salary	Employees	3	2
Rent, rates and insurance	Floor area	2 500sqm	7 500sqm
Delivery lorry running expenses	Percentage usage	15%	85%
General expenses	Revenue	To be calculated	To be calculated
Bad debts	Bad debts incurred	£1 950	£250

Required

(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)

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

(13)

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 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)

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

(2)

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

(2)

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

(2)

- profit/loss for the year
- bank overdraft.

(Total for Question 1 = 55 marks)

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SOURCE MATERIAL FOR QUESTION 2 IS ON PAGES 6 TO 8.

- 2 Samantha is in business buying and selling goods on credit. The following balances were available for the month ended 30 April 2019.

	£
Revenue	5 000
Purchases	2 700
Returns inwards	450
Returns outwards	210
Discount allowed	120
Bad debts	50
Bad debts recovered	200
General expenses	1 250
Inventory	600
Trade receivables	2 990
Allowance for doubtful debts	300
Trade payables	1 900
Bank overdraft	730
Non-current assets (at cost)	4 100
Provision for depreciation –non-current assets	3 000
Drawings	550
Capital	To be calculated

Required

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

Samantha prepares a trade receivables control account each month.

The following additional information is available for April 2019:

- (1) Trade receivable account balances

	1 April 2019	30 April 2019
	£	£
Binham	1 600 Dr	2 300 Dr
John	970 Dr	750 Dr
Mel	90 Cr	60 Cr
Sanjay	80 Dr	-

- (2) Other information

	£
Cheques received from customers (including bad debt recovered)	4 170
Interest charged to Binham for an overdue account	20

Required

- (b) State **two** possible reasons why Mel has a credit balance on her account. (2)
- (c) Prepare the Trade Receivables Control Account for the month of April 2019. (12)

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.

Required

- (d) Prepare the journal to include bank entries for the:
- (i) bad debt of Sanjay on 3 April 2019
Narratives are **not** required. (3)
- (ii) bad debt recovered from Westley on 15 April 2019.
Narratives are **not** required. (4)
- (e) Evaluate the use of control accounts. (12)

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)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS



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SOURCE MATERIAL FOR SECTION B QUESTIONS ARE ON THE FOLLOWING PAGES.



SECTION B

Answer THREE questions from this section.

3 Raza is in business buying and selling goods on credit.

The following balances were provided on 31 March 2019

	£
Revenue	80 000
Purchases	60 000
Inventory 1 April 2018	18 000
Expenses	7 000
Trade payables	27 000
Trade receivables	38 000
Capital	120 000
Bank	4 000
5 year 8% bank loan	20 000

Additional information at 31 March 2019

Expenses of £3 000 are to be accrued
Inventory £12 000

Required

- (a) State the meaning of the following terms:
- liquidity
 - profitability.
- (4)
- (b) Calculate, using the information at 31 March 2019, the:
- (i) current ratio
- (2)
- (ii) liquid (acid test) ratio
- (2)
- (iii) gross profit as a percentage of revenue
- (2)
- (iv) profit for the year as a percentage of revenue
- (2)
- (v) percentage return on capital employed.
- (2)
- (c) Comment on the sufficiency of the:
- liquidity
 - profitability.
- (2)

On 1 April 2019 Raza increased his mark-up to 40%. The following is a summary of the transactions for April 2019:

- purchases were £10 000
- goods costing £15 000 were sold
- expenses of £11 000 were paid.

Additional information at 30 April 2019

Expenses of £4 000 are prepaid

Required

(d) Calculate the:

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

(8)

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

(6)

(Total for Question 3 = 30 marks)

4 Willow Timber manufactures wooden products for the garden.

The following information was available for March 2019.

- (1) Raw material inventory on 1 March 2019 was 400 metres of wood at a cost of £50 per metre.

Purchases for the month were 300 metres at £55 per metre delivered on 1 March 2019.

30 metres of the delivery on 1 March 2019 were considered defective and were returned to the supplier.

250 metres were used in production in the month.

Willow Timber values inventory on the Last In First Out (LIFO) basis.

- (2) There were a total of six manufacturing employees in March 2019 **each** working 180 hours in the month.

All employees were paid at the rate of £7 per hour.

Three of the manufacturing employees worked 14 hours **each** in the month undertaking stores duties.

Two of the manufacturing employees worked 9 hours **each** in the month maintaining production equipment.

- (3) Willow Timber's overheads for the month of March 2019 were:

	Total cost (£)	Manufacturing	Administration
Management salary	17 500	6 employees	4 employees
Rent, rates and insurance	15 000	1600 sq mtrs	2400 sq mtrs
Depreciation	9 000	cost of equipment £45 000	cost of equipment £15 000

- (4) Work in progress was valued by an estimate of raw materials and direct labour used in uncompleted products at the beginning and end of the month. These were:

	1 March 2019	31 March 2019
Raw materials	10 metres	8 metres
Direct labour	30 hours	25 hours

- (5) The production for March was transferred to finished goods at an agreed value of £48 000

Required

- (a) Explain the difference between **inventory valuation** and **inventory rotation**. (4)
- (b) Prepare the Manufacturing Account for the month of March 2019. (16)
- (c) Explain how an adjustment to the provision for unrealised profit would be treated in the:
- statement of profit or loss and other comprehensive income
 - statement of financial position. (4)
- (d) Evaluate the use of Last In First Out (LIFO) when prices of raw materials are rising. (6)

(Total for Question 4 = 30 marks)

- 5 Expand-it is a retailer. In the year ended 30 April 2019 Expand-it had two stores in Eastville and Northern.

The following information was available for the year ended 30 April 2019.

**Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 April 2019**

	Eastville Store	Northern Store	Total
	£	£	£
Revenue	365 000	300 000	665 000
Cost of sales	(305 000)	(250 000)	(555 000)
Gross profit	60 000	50 000	110 000
Wages	10 000	16 000	26 000
Advertising	11 000	9 800	20 800
Rent payable	12 000	15 000	27 000
Overheads	<u>14 000</u>	<u>14 000</u>	<u>28 000</u>
	(47 000)	(54 800)	(101 800)
Profit for the year	13 000	(4 800)	8 200

For the following year, ended 30 April 2020, Expand-it will open a third store, Weston.

Expand-it prepared the following projections for the year ended 30 April 2020.

- (1) The additional store to be opened in Weston is estimated to have a revenue of £400 000
- (2) Revenue of the Eastville Store will remain unchanged but revenue of the Northern Store will increase by 15%.
- (3) The cost of sales for **ALL** stores will reduce due to increased purchase volumes. The mark-up in the Northern Store will be 25%. The percentage gross profit to revenue in the Eastville Store will be 20% and in the Weston Store will be 26%.
- (4) Wages in the Eastville Store will be 6% of revenue and in the Northern Store will increase by £1 000 for the year. Wages in the Weston Store will be 7% of revenue.
- (5) Advertising will be £5 000 **per store** plus 2% of the revenue of that store.
- (6) Rent payable will increase by 5% for the Eastville Store and 8% for the Northern Store. The rent payable for the Weston Store will be £18 000 for the year.
- (7) Total overheads will cost £30 000 plus £10 000 for **each** additional £200 000 of **total revenue** above £400 000, up to total revenue of £1 000 000. The overheads will be divided **equally** between the three stores.

Required

- (a) Explain the difference between a **semi-fixed overhead** and a **semi-variable overhead**. (4)
- (b) Prepare the Projected Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2020. **Complete the table in your question paper**. (16)
- (c) State for Expand-it **one** cost that is an example of a:
- variable cost
 - semi-variable cost
 - semi-fixed cost
 - fixed cost.
- (4)
- (d) Evaluate the usefulness to Expand-it of preparing projections for the following year. (6)

(Total for Question 5 = 30 marks)

6 Able and Baker had each traded as sole traders for many years.

On 1 May 2018 the sole traders had the following assets and liabilities in their books:

	Able	Baker
	£	£
Goodwill	12 000	-
Non-current assets (at carrying value)	14 000	18 000
Inventory	9 500	15 500
Trade payables	7 000	10 500
Trade receivables	6 500	11 500
Bank	8 000 Cr	3 000 Dr

On 1 May 2018 Able and Baker formed a partnership. Before opening the books of the new partnership the following assets were revalued:

- £2 000 of the trade receivables of Able were considered irrecoverable
- The inventory of Baker was reduced in value by £2 500

The partnership agreement stated that:

- goodwill would **not** be retained in the books of the partnership
- the capital of Able would be reduced by £5 000 which would be retained in the partnership as a 10% loan, repayable in April 2024
- Baker would take £4 000 of his capital out of the new partnership by cheque
- there would be no interest on capital
- a salary would be paid to Baker of £9 000 per annum
- interest on drawings, excluding salary payments, would be charged at 8% per annum
- profits and losses would be shared Able 1/3, Baker 2/3.

Required

- (a) Prepare the capital accounts of the partners after all adjustments at 1 May 2018. (7)
- (b) Prepare the Statement of Financial Position of the partnership at 1 May 2018. (8)
- (c) State how **each** of the following would be treated if there had been no partnership agreement between the partners. (4)
- Loan from Able
 - Salary
 - Interest on drawings
 - Share of profit or loss

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)

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

(e) Evaluate the partner's statement.

(6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS



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