**Question 3**

The following information has been taken from the ledger of Andrew Chancellor, a sole trader for the year ended 31 January Year 3.

|  |  |  |  |
| --- | --- | --- | --- |
|  | £ |  | £ |
| Trade Receivables | 12,500 | Purchases | 74,000 |
| Fixtures & Fittings | 16,000 | Sales Revenue Returns | 6,000 |
| Sales Revenue | 111,000 | Other Operating Expenses | 12,900 |
| Discount Allowed | 550 | Rent Received | 3,600 |
| Opening Inventory | 8,000 | Carriage In | 1,200 |
| Purchases Returns | 3,000 | Vehicles | 24,000 |
| Property | 100,000 | Provision for Depreciation of Vehicles | 10,000 |
| Discount Received | 400 | Trade Payables | 14,000 |

**Notes:**

* Closing inventory is £9,500
* Other operating expenses paid in advance are £600
* Rent owing from tenant is £1,400
* This year’s depreciation on motor vehicles is to be 10% on cost
* A bad debt provision of 5% on trade receivables is to be created

1. Prepare Andrew’s Income Statement for the year ended 31 January Year 3. **(19)**
2. On checking the accounts, the following errors were found:

**(i)** The sales revenue account had been over added by £200.

**(ii)** A payment of £109 for advertising had been entered in the advertising account as £190.

**(iii)** £65 received from S Fraser had been entered in K Fraser’s account by mistake.

**(iv)** Rent received of £450 had been entered correctly in the bank account, but had been entered on the wrong side of the rent received account.

State whether each correction above will **increase/decrease/no effect** on the Profit for the Year. Set out your answer as follows: **(6)**

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| --- | --- | --- |
| Error no | Effect (increase/decrease/no effect) | Amount |
|  |  |  |

1. Andrew aims to expand his business by opening another outlet. Suggest one source of finance that he could use to fund this, without having to share control of his business. Describe one advantage and one disadvantage of the source. **(3)**
2. State two purposes of a trial balance. **(2)**

**Total marks 30**

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| **Question** | **Expected answer(s)** | **Max mark** | | **Additional guidance** | |
| **3 (a)** | |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Income Statement of Andrew Chancellor for y/e 31 January Year 3** | | | | | |  | £ | £ | £ |  | | Sales Revenue |  |  | 111,000 | **(1)** | | Less Sales Revenue Returns |  |  | 6,000 | **(1)** | |  |  |  | 105,000 |  | | Less Cost of Sales |  |  |  |  | | Opening Inventory |  | 8,000 |  | **(1)** | | Purchases | 74,000 |  |  | **(1)** | | Carriage In | 1,200 |  |  | **(1)** | | Less Purchases Returns | (3,000) |  |  | **(1)** | |  |  | 72,200 |  |  | |  |  | 80,200 |  |  | | Less Closing Inventory |  | 9,500 |  | **(1)** | |  |  |  | 70,700 | **(1)** | | **Gross Profit** |  |  | **34,300** |  | | Less Expenses: |  |  |  |  | | Discount Allowed |  | 550 |  | **(1)** | | Other Op Expenses (12,900 − 600) |  | 12,300 |  | **(2)** | | Depreciation — Motor Vehicles |  | 2,400 |  | **(1)** | | Bad Debts Provision |  | 625 |  | **(1)** | |  |  |  | 15,875 |  | |  |  |  | 18,425 |  | | Add: Discount Received |  |  | 400 | **(1)** | | Rent Received (3,600 +1,400) |  |  | 5,000 | **(2)** | | **Profit for the Year** |  |  | **23,825** |  | |  |  |  |  |  | | **In addition:** |  |  |  |  | | Layout/heading/account names |  |  |  | **(1)** | | No extraneous items |  |  |  | **(1)** | | All arithmetic correct |  |  |  | **(1)** | |  |  |  |  |  | | **19** | | Figures must have nomenclature for mark.  Cost of Sales total gets mark on its own  (not part of arithmetic mark).  Discount Received must be correct effect.  Accept adjustments detached, if directly below. If not directly below — no mark.  Rent Received: 3,600 = **1 mark**,  2,200 = **1 mark**, 1,400 = **1 mark**.  Other Op Expenses: 12,900 = **1 mark** 13,500 = **1 mark**, 600 = **1 mark**.  If existing provision for depreciation included as a separate line along with new provision — it is extraneous. If only one line with existing provision as part of the calculation — no marks.  For layout mark, candidates need:   * Account name (must have date **and** year, no need for Andrew Chancellor) * The following headings: * Gross Profit * Profit for the Year * An acceptable layout | |
| **Question** | **Expected answer(s)** | | **Max mark** | | **Additional guidance** | |
| **3 (b)** | (i) Decrease £200 **(1)**  (ii) Increase **(1)** £81 **(1)**  (iii) No effect **(1)**  (iv) Increase **(1)** £900 **(1)** | | **6** | |  | |
| **3 (c)** | |  |  |  | | --- | --- | --- | | **Source** | **Advantage** | **Disadvantage** | | Bank loan | * relatively simple to arrange * money can be made available relatively quickly * cost of repayment known in advance | * interest must be paid on loan * loan must be repaid * additional expense — could cause cash flow problems | | Loan from family/  friend | * simple to arrange * possibly greater flexibility in repaying * possibly lower or no interest charged on loan | * interest may have to be paid * loan must be repaid * could cause family tensions about business | | Mortgage/  re mortgage | * relatively simple to arrange * money can be made available relatively quickly * repayment known in advance * could be spread over a longer period of time, eg 25 years | * interest rate may be variable * additional expense * possible reduction in profits | | Grant | * does not require to be paid back * no interest repayments | * may take long time to arrange * forms to be completed * conditions may have to be met | | Personal  savings | * easy to arrange | * heavier commitment * opportunity cost | |  |  |  | | | **3** | | **Any source — 1 mark.**  **Advantage for source —  1 mark**  **Disadvantage for source —  1 mark.**  Accept any other relevant answer, providing control not lost. | |

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| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **3 (d)** | **Any TWO** — **1 mark** **each:**   * To check the **arithmetic** accuracy of the ledger accounts. * To check that for every debit transaction there is a corresponding credit transaction. * Debits/credits add up to the same. * However, a number of errors can arise even though the trial balance totals agree. | **2** | Candidates must use the word ‘arithmetic’.  Accept any other relevant answer. |