**Question 25**

The following balances were taken from the books of Scotty’s Sandwich Shop on   
31 December Year 2 after Gross Profit had been calculated:

**£**

Gross Profit 40,800

Discount Received 1,900

Wages 13,500

Carriage Out 300

Insurance 2,600

Property (at Cost) 35,000

Cash 2,700

Equity 45,000

Drawings 7,400

Trade Receivables 5,600

Bad Debts 100

Trade Payables 6,800

VAT 1,000 (Cr)

Van (at Cost) 15,000

Bank Overdraft 2,400

Long Term Bank Loan 5,000

Finance Costs 200

NOTES: at 31 December Year 2

1 Wages owing — £450

2 Insurance prepaid — £800

3 Inventory was valued at £20,500

4 Depreciation on the van is to be 10% per annum on cost

1. Using the figures above prepare the:
2. Income Statement for the year ended 31 December   
    Year 2.

(ii) Statement of Financial Position as at 31 December Year 2. **26**

1. Using the information provided, state two ratios that could be calculated to compare   
   the performance of Year 2 with Year 1 and outline a reason for calculating each of   
   the chosen ratios. **4**

**Total marks 30**

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| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **25**   1. **(i)** | |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Income Statement of Scotty’s for the year ended 31 December Year 2** | | | | | |  | | | | | |  | **£** | **£** |  | | **Gross Profit** |  | **40,800** | **(1)** | | Expenses: |  |  |  | | Wages (13,500 + 450) | 13,950 |  | **(2)** | | Carriage Out | 300 |  | **(1)** | | Insurance | 1,800 |  | **(1)** | | Bad Debts | 100 |  | **(1)** | | Depreciation (15,000 x 10%) | 1,500 |  | **(1)** | | Finance Costs | 200 |  | **(1)** | |  |  | 17,850 |  | |  |  | 22,950 |  | | Add Other Income: |  |  |  | | Discount Received |  | 1,900 | **(1)** | | **Profit for the Year** |  | **24,850** |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | | **9** | **+/− Rule**  For a mark to be awarded for correct entry of opening balance items, they must appear only once. It is therefore advisable to check both accounts before awarding marks.  To be awarded marks, figures must have nomenclature.  Accept adjustments detached if **directly** below. If not, do not award.  **Wages**  £13,500 = **1 mark**, £13,050 = **1 mark**  £450 = **1 mark**  If wages of £13,950 appears in both accounts (+/−), then award **1 mark** in income statement for adjustments. No award will be given for adjustment in SOFP. |

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| **Question** | **Expected answer(s)** | | **Max mark** | | **Additional guidance** | |
| **25 (a) (ii)** | |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Statement of Financial Position for Scotty’s as at 31 Dec Yr2** | | | | | |  | **£** | **£** | **£** |  | | **Non-current Assets** | **Cost** | **Depn** | **NBV** |  | | Property | 35,000 | 0 | 35,000 | **(1)** | | Van | 15,000 | 1,500 | 13,500 | **(2)** | |  |  |  | 48,500 |  | | **Current Assets** |  |  |  |  | | Inventory |  | 20,500 |  | **(1)** | | Trade Receivables |  | 5,600 |  | **(1)** | | Other Receivables |  | 800 |  | **(1)** | | Cash and Cash Equivalent (2,700−2,400) | | 300 |  | **(2)** | |  |  | 27,200 |  |  | | **Current Liabilities** |  |  |  |  | | Trade Payables | 6,800 |  |  | **(1)** | | Other Payables | 450 |  |  | **(1)** | | VAT | 1,000 |  |  | **(1)** | |  |  | 8,250 |  |  | | Working Equity |  |  | 18,950 |  | | Net Assets Employed |  |  | 67,450 |  | |  |  |  |  |  | | **Non-current Liabilities** |  |  |  |  | | Loan |  |  | 5,000 |  | | **Net Assets** |  |  | **62,450** |  | |  |  |  |  |  | | **Equity** |  |  |  |  | | Opening Equity |  |  | 45,000 | **(1)** | | Profit for the Year |  |  | 24,850 | **(1)** | |  |  |  | 69,850 |  | | Less Drawings |  |  | 7,400 | **(1)** | | **Closing Equity** |  |  | **62,450** |  | |  |  |  |  |  | | **Layout/no extraneous items/arithmetic (3)** | | |  |  | | | **17** | | Van — if only this year’s depreciation used or only existing provision used, award **1 mark**. Needs whole line for full marks. If only NBV shown — **maximum 1 mark**.  Equity can be in any order. Has to be correct treatment to be awarded marks.  **Layout mark**  For this mark, candidates need:   * Correct account name (must have date and year — no need for Scotty’s) * The following headings: * Profit for the Year * Non-current Assets * Current Assets * Current Liabilities * Non-current Liabilities * Equity   **No extraneous items**  **1 mark** (watch for +/−).  **Arithmetic**  **1 mark** for all arithmetic correct. | |
| **Question** | **Expected answer(s)** | **Max mark** | | **Additional guidance** | |
| **25 (b)** | **Gross Profit percentage** — shows the percentage profit made on the buying and selling of goods.  **Profit for the Year percentage** — shows the percentage profit after all expenses have been deducted.  **Expenses Ratio** — shows expenses as a percentage of sales revenue.  **Rate of Inventory Turnover** — shows how many times inventory is bought and sold in a year/how quickly inventory is selling.  **Return on Equity Employed** — shows how much profit is made for every  £ of equity invested.  **Current Ratio** — shows how many times they can pay their current liabilities with their current assets.  **Acid Test Ratio** — shows how many times they can pay their current liabilities with their current assets, without having to rely on selling any inventory.  **Non-current Asset:Turnover ratio** — shows how efficient these assets are at generating sales revenue. | **4** | | **1 mark** for stating ratio, **1 mark** for reason.  Accept any other relevant answer. | |