**Question 11**

The following balances were extracted from the ledger of Kathleen Fitzpatrick on   
1 May Year 4:

Sales Revenue £12,250

Purchases £3,560

Bank £6,220

Machinery £25,600

**(a)** Enter the above balances into the appropriate accounts and record the following transactions, opening new accounts as necessary:

2 May — sent an invoice to Maureen Prescott for £4,000, plus VAT

4 May — sent a credit note to Maureen Prescott for £200, plus VAT

7 May — Maureen Prescott is declared bankrupt and as a result:

* her solicitor sends a cheque for £500
* a machine with a value of £2,000 is accepted in part payment
* the outstanding amount is to be written off

11 May —took £100 out of the bank for business use

15 May — the bank approved a loan of £5,000, which is available for Kathleen to   
use immediately **25**

**(b)** Kathleen Fitzpatrick is concerned about the possibility of bad debts.

Explain how the business might decide to deal with any future bad debts and state   
**one** effect this would have on the final accounts. **3**

**(c)** The machinery owned by Kathleen Fitzpatrick may have to be depreciated.

Explain what depreciation is and state **one** reason why the businesses will have   
to provide for it. **2**

**Total marks (30)**

| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
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| **11 (a)** | **Sales Revenue Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  |  | **Dr** |  | **Cr** |  | **Balance** | | 1 May | Balance |  |  | 12,250 | **(1)** | 12,250 cr | | 2 May | M Prescott |  |  | 4,000 | **(1)** | 16,250 cr |   **Purchases Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | 1 May | Balance | 3,560 | **(1)** |  |  | 3,560 dr |   **Bank Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | 1 May | Balance | 6,220 | **(1)** |  |  | 6,220 dr | | 7 May | M Prescott | 500 | **(1)** |  |  | 6,720 dr | | 11 May | Cash |  |  | 100 | **(1)** | 6,620 dr | | 15 May | Loan | 5,000 | **(1)** |  |  | 11,620 dr |   **Machinery Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | 1 May | Balance | 25,600 | **(1)** |  |  | 25,600 dr | | 7 May | M Prescott | 2,000 | **(1)** |  |  | 27,600 dr |   **VAT Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | 2 May | M Prescott |  |  | 800 | **(1)** | 800 cr | | 4 May | M Prescott | 40 | **(1)** |  |  | 760 cr |   **Maureen Prescott Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | 2 May | Sales rev/VAT | 4,800 | **(1)** |  |  | 4,800 dr | | 4 May | Returns & VAT |  |  | 240 | **(1)** | 4,560 dr | | 7 May | Bank |  |  | 500 | **(1)** | 4,060 dr | | 7 May | Machinery |  |  | 2,000 | **(1)** | 2,060 dr | | 7 May | Bad debts |  |  | 2,060 | **(1)** | 0 |   **Sales Revenue Returns Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | 4 May | M Prescott | 200 | **(1)** |  |  | 200 dr |     **Bad Debts Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | 7 May | M Prescott | 2,060 | **(1)** |  |  | 2,060 dr | | **25** | Purchases, Bank, Machinery, VAT A/c’s — mark as per solution.  **Sales Revenue/Returns Account**  If sales revenue and machinery balances are reversed AND 2 May sales revenue is debited, then sales revenue entry (and everything that follows) is consequential.  If sales revenue on 2 May is credited, 4th and 7 May are as per solution.  If transaction for 2 May is treated as purchases — no mark for purchases, VAT and M Prescott A/c’s, and accept transaction for 4 May in purchase returns, VAT and M Prescott as consequential.  **M Prescott Account**  Accept:  2 May — sales revenue £4,000 DR, VAT £700 DR  4 May — returns £200 CR, VAT £35 CR  **Bad Debts Account**  May be consequential. |
| **11 (a) cont.** | (**Petty) Cash Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | 11 May | Bank | 100 | **(1)** |  |  | 100 dr |   **Loan Account**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | 15 May | Bank |  |  | 5,000 | **(1)** | 5,000 cr |   All dates correct **(1)**  All account names correct **(2)**  All nomenclature correct **(2)** |  | **PLUS** additional marks for the following:    **1 mark** for all dates correct.  **2 marks** if all account names are correct;  1 mark if at least half account names are correct, 0 marks if less than half of the account names are correct.  Mark nameless accounts if identifiable by its figures.  **2 marks** if all nomenclature is correct;  1 mark if at least half nomenclature is correct, 0 marks if less than half of the nomenclature is correct.  Do not penalise nomenclature if consequential on transaction. |
| **11 (b)** | * Kathleen can create a provision for bad debts. **(1)** * Set aside some of the profit. **(1)** DO NOT ACCEPT MONEY * Reduce the profit by an amount calculated by taking a % of the figure for trade receivables. **(1)**   **Any ONE — 1 mark.** DO NOT ACCEPT BAD DEBTS or DISCOUNT   * The provision will be an expense **(1)** in the income statement. **(1)** * Reduce the profit for the year **(1)** in the income statement **(1)** * Deducted from trade receivables **(1)** in statement of financial position **(1)** * Reduce current assets **(1)** in the statement of financial position. **(1)** * Reduce working equity **(1)** in the statement of financial position**. (1)** * Reduce balancing totals **(1)** in the statement of financial position. **(1)**   **Any ONE — 2 marks.** Must indicate the financial statement for both marks. | **3** | Mark as per solution. |

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| **Question** | **Expected Answer(s)** | **Max Mark** | **Additional Guidance** |
| **11 (c)** | Depreciation is the writing down/loss/reduction in the **value** of **non-current assets.** **(1)**    Reasons for allowing for depreciation include:   * causes of depreciation — wear and tear, etc * gives a more realistic profit figure for the period * non-current assets are shown at a more realistic value/book value * it spreads the cost over the lifetime of the non-current asset * statement of financial position is shown at a more realistic value * more accurate idea of business worth | **2** | **Any two for 1 mark each.**  If candidates give an example of a  non-current asset — accept (ie when a vehicle goes down in value). |