**Question 21**

Malcolm Doherty operates a small fishing supplies business called ‘Flies Are Us’. The following information was extracted from his ledger on 31 December Year 3:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | £ |  |  | £ |
| Purchases | 24,650 |  | Opening Inventory | 4,600 |
| Bank Loan | 2,000 |  | Trade Receivables | 3,000 |
| Wages | 20,000 |  | Sales Revenue | 73,250 |
| Drawings | 1,500 |  | Returns Out | 900 |
| Carriage Out | 350 |  | Provision for Depreciation of Van | 3,000 |
| Carriage In | 175 |  | Van (at Cost) | 10,000 |
| Electricity | 1,540 |  | Trade Payables | 2,500 |
| Bad Debts | 150 |  | Finance Costs | 200 |
| Rent Received | 1,200 |  |  |  |

**Notes**

* Closing inventory is £5,000
* Electricity paid in advance is £90
* Wages owing amounts to £1,000
* This year’s depreciation on the van is to be 15% on cost
* A bad debts provision of 10% on trade receivables is to be created

1. Select the necessary information and prepare the Income Statement for the year. **20**
2. On checking the accounts, the following errors were found:

1) The sales revenue account had been under-added by £400.

2) A payment of £380 for electricity had been entered in the electricity account as £308.

3) Carriage in of £120 had been entered in the carriage out account by mistake.

4) Wages paid of £850 had been entered correctly in the bank account, but had been entered on the wrong side of the wages account.

State whether each correction above will **increase/decrease/not affect** Profit   
for the Year. Set out your answer as follows: **6**

|  |  |  |
| --- | --- | --- |
| Error No | Effect (increase/decrease/no affect) | Amount |
|  |  |  |

1. Name two additional financial statements which Malcolm might prepare and give a   
   reason why each is prepared. **4**

**Total marks 30**

|  |  |  |  |
| --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **21 (a)** | |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Income Statement of Malcolm Doherty for y/e 31 December Year 3** | | | | | |  | **£** | **£** | **£** |  | | Sales Revenue |  |  | 73,250 | **(1)** | | Less Cost of Sales |  |  |  |  | | Opening Inventory |  | 4,600 |  | **(1)** | | Purchases | 24,650 |  |  | **(1)** | | Less Purchases Returns | 900 | 23,925 |  | **(1)** | | Carriage In |  | 175 |  | **(1)** | |  |  | 28,525 |  |  | | Less Closing Inventory |  | 5,000 |  | **(1)** | | Cost of Sales |  |  | 23,525 | **(1)** | | **Gross Profit** |  |  | **49,725** |  | | Less Expenses: |  |  |  |  | | Wages (20,000 + 1,000) |  | 21,000 |  | **(2)** | | Carriage Outwards |  | 350 |  | **(1)** | | Electricity (1,540 − 90) |  | 1,450 |  | **(2)** | | Bad Debts |  | 150 |  | **(1)** | | Creation of PBD (3,000\*10%) |  | 300 |  | **(1)** | | Depreciation (of Van) (10,000\*15%) |  | 1,500 |  | **(1)** | | Finance Costs (Loan Interest) |  | 200 |  | **(1)** | |  |  |  | 24,950 |  | |  |  |  | 24,775 |  | | Add: Rent Received |  |  | 1,200 | **(1)** | | **Profit for the Year** |  |  | **25,975** |  | |  |  |  |  |  | | In addition: |  |  |  |  | | Layout/heading/account names |  |  |  | **(1)** | | No extraneous items |  |  |  | **(1)** | | All arithmetic correct |  |  |  | **(1)** | | **20** | Figures must have nomenclature for award.  Cost of sales total gets award on its own (not part of arithmetic mark). Note — nomenclature not needed here.  Rent received must be correct effect.  Accept adjustments detached if directly below. If not directly below — no award.  Wages: 20,000 = **1 mark**  19,000 = **1 mark**, 1,000 = **1 mark**  Electricity: 1,540 = **1 mark**  1,630 = **1 mark**, 90 = **1 mark**  For layout mark, candidates need:   * Account name (must have date **and** year, no need for Malcolm Doherty) Accept TPL heading. * The following headings: * Gross Profit * Profit for the Year * An acceptable layout |

|  |  |  |  |
| --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **21 (b)** | 1) Increase £400 **(1)**  2) Decrease **(1)** £72 **(1)**  3) No effect **(1)**  4) Decrease **(1)** £1,700 **(1)** | **6** |  |
| **21 (c)** | **Statement of financial position (1)**   * to show what the business is worth * to show assets owned by the business * to show liabilities of the business   **Cash budget (1)**   * can predict future cash surpluses * shows best time to purchase assets * can predict future cash shortages * shows when you might need overdraft/loan * you can plan for the future * helps you monitor spending * you know your opening/closing balances * shows cash inflows and outflows * can be used to support applications for loans * can be used to show prospective investors | **4** | **1 mark** for each financial statement.  **1 mark** for each reason.  Accept any other relevant answer. |