

Chapter 22: Worksheet mark scheme (60 marks)

- 1 Name **three** stakeholders and give a (different) reason why each would use business accounts. (6)

Stakeholders may include the following:

- managers
- banks
- creditors
- customers
- government departments and agencies
- investors/shareholders
- workforce
- local community.

2 marks are available for each stakeholder stated with an explanation of why they would use the account. For detailed analysis see page 213 of the Coursebook.

- 2 Construct an income statement for a firm with the financial information given below. Indicate which parts are the appropriation account, the trading account and the profit and loss account. (18)

- dividends \$60,000
- cost of sales \$250,000
- overheads \$100,000
- sales \$ 500,000

Item	\$000	Account
Sales turnover	500	
Cost of sales	(250)	
Gross profit	250	Up to here is the trading account
Overheads	(100)	
Profit before interest and tax	150	
Interest	(50)	
Tax @ 20%	(20)	
Profit after interest and tax	80	From overhead to here is the profit and loss account
Dividends	(60)	Appropriation account from here downwards
Retained profit	20	

10 marks available: 1 mark per item.

5 marks available: 1 mark per calculation.

3 marks: 1 mark per account labelled correctly.

- 3** Define 'current assets' and give **two** examples. **(3)**

These are items of monetary value that are owned by the business but have a useful lifetime of less than a year or will be used up in less than a year. Examples may include: inventory, debtors.

Award 2 marks for a correct definition and 1 mark for two examples.

- 4** Define 'fixed assets' and give **two** examples. **(3)**

These are tangible items of monetary value with a lifetime of over 12 months, such as land and buildings, and equipment.

Award 2 marks for a correct definition and 1 mark for two examples.

- 5** Construct an equation to define shareholders' equity. **(2)**

Shareholders' equity = share capital + reserves

- 6** Why can retained profits not be regarded as a source of finance? **(2)**

They are not a pot of cash. They are usually invested back into the business to buy additional assets. The only cash available is 'cash' in the current assets part of the balance sheet.

- 7 a** Give **two** examples of possible intangible assets. **(2)**

- goodwill
- copyrights/patents
- brand names
- R&D
- intellectual property (IP)

- b** Why are intangibles included on the balance sheet and what is the accounting rule about them? **(2)**

They go on the balance sheet when they are part of the price paid for a business bought.

Accounting rule: they have to be taken off the balance sheet as soon as possible.

- 8 Construct an equation for calculation of an annual straight-line depreciation charge. (2)

$$\text{Annual depn.} = \frac{\text{cost} - \text{residual value}}{\text{useful life in years}}$$

- 9 State **three** problems with the straight-line depreciation method. (3)

- requires accurate estimates of lifetime of asset
- requires accurate estimate of residual value
- does not reflect the fact that a lot of assets depreciate very fast in the first years after purchase

- 10 Calculate the value over five years of an asset purchased for \$10,000, using the diminishing balance depreciation method with an annual depreciation charge of 30%. Show all calculations for book value in years 1, 2, 3, 4, 5 and set them out in a table. (6)

Year	Start value (s)	Depreciation = start value \times 0.30 (d)	Book value (s - d)
1	10,000	$10,000 \times 0.30 = 3000$	7000
2	7000	$7000 \times 0.30 = 2100$	4900
3	4900	$4900 \times 0.30 = 1470$	3430
4	3430	$3430 \times 0.30 = 1029$	2401
5	2401	$2401 \times 0.30 = 720.30$	1680.70

Award 1 mark per correct book value calculation shown fully, with the correct answer.

Award 1 mark for labelling s, d and (s - d) in headings.

- 11 A market trader decided to sell paddling pools in the summer. He had three deliveries:

- 1 40 at \$30 each
- 2 100 at \$35 each
- 3 60 at \$40 each

He sold 150 pools over the summer.

- a Calculate the value of his remaining stock. (8)

LIFO:

Year	No \times cost	Cost	Remaining	Value of remaining stock
1	$40 \times \$30$	\$120	all	\$120
2	$100 \times \$35$	\$350	$10 \times \$35$	\$350

3	$60 \times \$40$	\$240	none	\$0
Total		\$710		\$470

FIFO:

Year	No \times cost	Cost	Remaining	Value of remaining stock
1	$40 \times \$30$	\$120	none	\$0
2	$100 \times \$35$	\$350	none	\$0
3	$60 \times \$40$	\$240	$50 \times \$40$	\$200
Total		\$710		\$200

Award 1 mark each for full working and correct calculation of value of remaining stock for each delivery (= 3 marks for LIFO and 3 marks for FIFO).

Award 1 additional mark for each correct calculation of the value of remaining stock.

- b** Calculate his profit if his selling price was \$50 per pool, using LIFO and FIFO methods. (3)

$$\text{Profit} = (\text{no. sold} \times \$50) - (\text{cost} - \text{value of remaining stock})$$

$$\begin{aligned} \text{LIFO profit} &= (150 \times \$50) - (\$710 - \$470) \\ &= \$7260 \end{aligned}$$

$$\begin{aligned} \text{FIFO profit} &= (150 \times \$50) - (\$710 - \$200) \\ &= \$6990 \end{aligned}$$

Award 1 mark for correctly stated word equation and a further 1 mark for each of the two calculations.