

Chapter 22: Exam practice question

Carlos Chaves's accounts

- 1 List **two** advantages that the large supermarket chains will have over Carlos's shop. (2)

Advantages may include:

- purchasing economies of scale
- purchasing power pressure on suppliers to offer lower prices
- breadth of choice for customers
- lower prices
- any other relevant point.

1 mark per valid point listed.

- 2a Prepare a trading profit and loss account for the year ending 31 December 2010. Show all workings. (6)

Profit and loss account for Carlos Chaves for the year ending 31 December 2010

\$000	
Sales	960
= monthly sales \times 12	
= 80×12	
Cost of goods sold	(720)
= $0.75 \times$ sales revenue	
= 0.75×960	
Gross profit	240
(TRADING ACCOUNT IS UP TO THIS POINT)	
Indirect costs	(240)
= $12 \times$ monthly indirect costs	
= 12×20	
Net profit before interest and tax	0
Interest (non-noted)	0
Net profit after interest and tax	0

6 marks:

Correct, full profit and loss statement showing all calculations, trading account and listings down to net profit after interest and tax.

4–5 marks:

Up to two minor omissions or miscalculations.

2–3 marks:

Up to four mistakes/omissions.

1 mark:

Answer attempted – must show some basic understanding of P&L.

b **(HL)** Calculate the annual depreciation expense of the van. **(4)**

It is presumed that the question requires calculation of straight-line depreciation.

$$\begin{aligned}\text{Annual depreciation expense} &= (\text{Purchase price} - \text{final sales price}) \div 4 \text{ years} \\ &= (\$40,000 - \$8,000) \div 4 \\ &= \$8000 \text{ per annum}\end{aligned}$$

4 marks:

A fully correct answer with reasoning fully evident in the calculation.

3 marks:

A numbers-only answer with no word equation to support the logic, or one minor mistake.

2 marks:

Two errors.

1 mark:

Calculation attempted with some logic evident.

c Discuss the usefulness of Carlos's profit and loss account to different stakeholders. (8)

Stakeholder	Usefulness
Business managers	<ul style="list-style-type: none"> • compare with targets/previous time periods/competitors • help take decisions, e.g. investments, projects • control and monitor departments • set future budgets and targets
Banks	<ul style="list-style-type: none"> • decide whether to lend/increase lending/continue lending
Creditors (e.g. suppliers)	<ul style="list-style-type: none"> • assess whether the business is liquid enough to pay debts • assess whether it is a good credit risk • decide whether to ask for early repayment of debts
Customers	<ul style="list-style-type: none"> • assess whether business is secure • determine whether the business can continue to provide a reliable service
Government and tax office	<ul style="list-style-type: none"> • calculate how much tax is due • determine whether the business will expand or cut jobs • determine whether it will expand/contract and the effect on the local economy • determine whether the accounting procedures meet legal requirements
Investors (e.g. shareholders)	<ul style="list-style-type: none"> • assess the value of the business and their share in it • track profitability • track dividend as a percentage of profit • compare with other potential investments • helps decide whether to buy/hold/sell
Workforce	<ul style="list-style-type: none"> • determine whether employment and wages are safe • determine likelihood of expansion/contraction of jobs • determine whether pay could be increased • find out about average wages and director salaries
Local community	<ul style="list-style-type: none"> • determine whether it is likely to contract/expand/close and so determine effect on local economy

I suggest that for full marks at least four stakeholders should be identified and the usefulness of the accounts explained and linked to the case study. Usually 2 marks are appropriate for each 'state'/'explain'/'link'.

SL: apply **Resources table 1** mark band descriptors.

HL: apply **Resources table 2** mark band descriptors.

A justified conclusion is **not** required.