

Outlaws Plc  
Statement of Profit or Loss for the Year Ended 31 October 2019

	£000	Marks
Revenue 15,500* (list of balances) – 250* (sales returns) – 180* (discounts allowed)	15,07 0	1½
Cost of sales 8,000* (purchases) + 800* (opening inventory) + 1,600* (production wages and salaries) + 1,000* (machinery depreciation) + 64* (production wages accrual) – 650* (closing inventory)	10,814	3
Gross profit	4, 256	
Distribution and selling costs (list of balances)	*2,000	½
Administration expenses 1,250* (list of balances) + 75* (audit and accountancy fees) + 60* (insurance paid) + 120* (buildings depreciation) – 12* (insurance prepayment) + 100* (allowance for receivables increase: 100 – 0)	1, 593	3
Operating profit	663	
Finance expense	**125	1
Profit before taxation	538	
Income tax	*108	½
Profit for the year	430	
Total marks for the statement of profit or loss		9½

\* = ½ mark

\*\* = 1 mark

- ◆ Plant and machinery depreciation: (£7,000 cost – £2,000 accumulated depreciation at 1 November 2018) x 20% = £1,000
- ◆ Buildings depreciation: £6,000 cost x 2% = £120
- ◆ Allowance for receivables: £2,500 x 4% = £100
- ◆ Insurance prepayment: £60 x 3 months ÷ 15 months = £12
- ◆ Discounts allowed are a deduction from sales (page 100) not an expense
- ◆ Finance expense: £2,500 x 5% = £125

Outlaws Plc: Statement of Financial Position at 31 October 2019

	£000	Marks
Non-current assets		
6,000* (buildings cost) – 1,200* (buildings depreciation at 1 November 2018) + 7,000* (machinery cost) – 2,000* (machinery depreciation at 1 November 2018) – 120* (buildings depreciation charge for the year) – 1,000* (machinery depreciation for the year)	8,680	3
Current assets		
Inventory 650* (inventory at 31 October 2019)	650	½
Trade and other receivables 2,500* (list of balances) + 12* (insurance prepayment) – 100* (allowance for receivables) – 180* (discounts allowed)	2,232	2
	2,882	
Total assets 8,680 + 2,882	11,562	
Current liabilities		
Borrowings 500** (bank balance is a liability therefore a borrowing)	500	1
Trade payables 1,500* (list of balances) + 125* (finance expense accrual) + 64* (production wages accrual)	1,689	1½
Current taxation 108*	108	½
	2,297	
Non-current liabilities		
Borrowings 2,500*	2,500	½
Total liabilities 2,297 + 2,500	4,797	
Net assets 11,562 – 4,797	6,765	
Equity		
Share capital 1,000* (list of balances)	1,000	½
Retained earnings 5,335* + 430* (from statement of profit or loss)	5,765	1
	6,765	
Total marks for the statement of financial position		10½

\* = ½ mark \*\* = 1 mark

Answer to Question 2: Bears Limited

(a) Definitions

1. Assets:

- ◆ A present economic resource
- ◆ Controlled by an entity
- ◆ As a result of past events
- ◆ An economic resource is a right that has the potential to produce economic benefits

Marking guide: one mark per correct point up to a maximum of 3 marks

Bonus mark:

- ◆ Assets can only be recognized on the statement of financial position when their monetary value can be faithfully represented

2. Liabilities:

- ◆ A present obligation of an entity
- ◆ To transfer an economic resource
- ◆ As a result of past events

Marking guide: one mark per correct point up to a maximum of 3 marks

Bonus mark:

Liabilities can only be recognised on the statement of financial position when their monetary value can be faithfully represented

3. Equity

- ◆ The residual interest in the assets of the entity after deducting all its liabilities
- ◆  $\text{Assets} - \text{liabilities} = \text{equity}$

Marking guide: one mark per correct point up to a maximum of 2 marks

(b) Bears Limited: brand. Does the brand meet the criteria for recognizing an asset?

- ◆ An asset is a present economic resource controlled by an entity as a result of past events An economic resource is a right which has the potential to produce economic benefits
- ◆ The brand is a present economic resource
- ◆ There is a past event, the development of the brand
- ◆ The brand is controlled by Bears Limited
- ◆ The brand is a right which has the potential to produce economic benefits for Bears Limited in terms of income, profit and cash
- ◆ In order to recognize an asset on the statement of financial position, the monetary value of the asset must be faithfully represented
- ◆ The cost of the brand cannot be measured to achieve a faithful representation of its monetary value

- ◆ Therefore, although the brand meets four of the five criteria for recognition, the brand cannot be recognized as an asset as a faithful representation of its monetary value cannot be achieved

Marking guide: one mark per correct point up to a maximum of 6 marks

- (c) Bears Limited: major repairs. Do the major repairs meet the criteria for recognizing a liability?
- ◆ A liability is a present obligation of the entity to transfer an economic resource as a result of past events
  - ◆ Liabilities can only be recognized on the statement of financial position if a faithful representation of their monetary value can be achieved
  - ◆ The fact that the cost of the major repairs cannot yet be measured is not an obstacle to recognizing the liability as an estimate could be used in order to achieve a faithful representation of the monetary value of the liability
  - ◆ If the repairs do go ahead, then there would be a transfer of economic resources from Bears Limited in the form of cash
  - ◆ However, as no decision has yet been taken, there is no past event giving rise to a present obligation at the end of the year
  - ◆ Therefore, the major repairs cannot be recognized as a liability as there is no present obligation of the entity to transfer an economic resource as a result of past events even though a faithful representation of the monetary value of the major repairs could be achieved

Marking guide: one mark per correct point up to a maximum of 6 marks

**Answer to Question 3: Dynamos plc**

**Multiple choice answers:**

- |    |   |
|----|---|
| 1  | a |
| 2  | b |
| 3  | c |
| 4  | b |
| 5  | d |
| 6  | d |
| 7  | c |
| 8  | d |
| 9  | a |
| 10 | a |

Alternatively, the question can require the preparation of the statement of profit or loss and the statement of financial position. The answer and marking guide are presented on the following pages to show how the correct answers above are calculated.

Statement of Profit or Loss for the Year Ended 31 December 2019

	£	Marks
Revenue 900,000* (list of balances) – 6,000* (sales returns)	894,000	1
Cost of sales 720,000* (purchases) + 92,450* (opening inventory) – 6,200** (discounts received) – 108,420* (closing inventory)	697,830	2½
Gross profit	196,170	
Expenses		
Administration expenses (list of balances)	*22,000	½
Repairs and renewals (list of balances)	*5,000	½
Rent 15,000* – 3,000* prepayment	12,000	1
Insurance 17,500* + 2,500* accrual	20,000	1
Loan interest 150,000 x 6%	**9,000	1
Fixtures and fittings depreciation: 40,000 x 20%	**8,000	1
Equipment depreciation: **(250,000 – 50,000) x 20%	*40,000	1½
Net profit for the year	80,170	
Total marks for the statement of profit or loss		10

\* = ½ mark

\*\* = 1 mark

Dynamos Limited: Statement of Financial Position at 31 December 2019

	£	Marks
<b>Non-current assets</b>		
Fixtures and fittings: 40,000* cost – 16,000* accumulated depreciation at 1 January 2019 – 8,000* depreciation charge for year	16,000	1½
Equipment: *250,000 cost – *50,000 accumulated depreciation at 1 January 2019 – *40,000 depreciation charge for year	160,000	1½
	<u>176,000</u>	
<b>Current assets</b>		
Inventory	*108,420	½
Trade and other receivables 123,200* (list of balances) + 3,000* (rent prepayment)	126,200	1
Bank balance	*35,400	½
	<u>270,020</u>	
<b>Total assets</b> 176,000 + 270,020	<u>446,020</u>	
<b>Current liabilities</b>		
Borrowings 15,000** (150,000 ÷ 10 years)	15,000	1
Trade payables 115,600* (list of balances)	115,600	½
Accruals: 2,500* (insurance) + 9,000* (interest)	11,500	1
	<u>142,100</u>	
<b>Non-current liabilities</b>		
Borrowings (150,000* – 15,000* current liability)	135,000	1
<b>Total liabilities</b> 142,100 + 135,000	<u>277,100</u>	
<b>Net assets</b> 446,020 – 277,100	<u>168,920</u>	
<b>Equity</b>		
Share capital 10,000* (list of balances)	10,000	½
Retained earnings 78,750* + 80,170* (from statement of profit or loss)	158,920	1
	<u>168,920</u>	
<b>Total marks for the statement of financial position</b>		<u>10</u>

\* = ½ mark \*\* = 1 mark

Answer to Question 4: Maria

Maria: Statement of Profit or Loss for the Year Ended 31 July 2019

	£	£	Marks
Revenue *550,000 (cash received) – *5,500 (refunds) + *42,000 (cash from credit customers) + *5,250 (credit sales in year unpaid at year end)		591,750	2
Cost of sales *290,000 (cash paid to suppliers) + *65,000 (amounts owed to suppliers at the year end) – *7,500 (discounts receivable) – *55,000 (closing inventory)		292,500	2
Gross Profit		299,250	
Expenses			
Advertising *1,250 (cash paid)	1,250		½
Wages *61,800 (cash paid) + *1,200 (accrual)	63,000		1
Electricity *4,650 (cash paid) + *280 (accrual)	4,930		1
Rent *33,000 (cash paid) + *3,000 (accrual)	36,000		1
Stationery and Postage *13,000 (cash paid)	13,000		½
Business rates *9,100 (cash paid) – *1,300 (prepaid)	7,800		1
Bank charges *1,100 (cash paid) + *150 (accrual)	1,250		1
Insurance *10,800 (cash paid) – *2,160 (prepaid)	8,640		1
Irrecoverable debt *750	750		½
Accountancy *600	600		½
Fixtures and fittings depreciation 12,000 x 25%	**3,000		1
Computer system depreciation 8,000 x 40%	**3,200		1
Total expenses		143,420	
Profit for the year		155,830	
Total marks for the statement of profit or loss			14



Maria: Statement of Financial Position at 31 July 2019

	£	Marks
Non-current assets		
Fixtures and fittings *12,000 cost – *3,000 depreciation for year	9,000	1
Computer system *8,000 cost – *3,200 depreciation	4,800	1
	<u>13,800</u>	
Current assets		
Inventory	*55,000	½
Trade and other receivables *5,250 (amounts owed by customers) – *750 (irrecoverable debt) + *1,300 (rates prepaid) + *2,160 (insurance prepayment)	7,960	2
Bank balance	*130,800	½
	<u>193,760</u>	
Total assets 13,800 + 193,760	<u>207,560</u>	
Current liabilities		
Trade and other payables *65,000 (owed to suppliers) – *7,500 (discounts receivable) + *3,000 (rent accrual) + *1,200 (wages accrual) + *280 (electricity accrual) + *150 (bank charges accrual) + *600 (accountancy accrual)	62,730	3½
Net assets 207,560 – 62,730	<u>144,830</u>	
Capital account		
Cash introduced	*25,000	½
Profit for the year	*144,830	½
Drawings	*(36,000)	½
	<u>144,830</u>	
Format of answer		1
Total marks for statement of financial position		<u>11</u>

Answer to Question 5: Foxes Limited

Foxes Limited

Statement of Profit or Loss for the Year Ended 30 June 2019

	£000	Marks
Revenue	20,360	½
Cost of sales 10,429* (purchases) + 2,626* (opening inventory) + 2,430* (production wages) – 1,950* (closing inventory) + 1,100** (equipment depreciation)	14,635	3
Gross profit	5,725	
Selling and distribution costs 2,579* (list of balances) + 150** (motor vehicle depreciation)	2,729	1½
Administration expenses 1,861* (list of balances) + 25* (accounting costs accrual) + 50* (known irrecoverable debt Hens Limited)	1,936	1½
Operating profit	1,060	
Finance expense 200* (list of balances) + 200** accrual (8,000 x 8% – 200 paid)	400	1½
Profit before tax	660	
Taxation (660 x 20%)**	132	1
Profit for the year	528	

Total marks for the statement of profit or loss

9

\* = ½ mark

\*\* = 1 mark

Foxes Limited: Statement of Financial Position at 30 June 2019

	£000	Marks
Non-current assets		
Property, plant and equipment 950* (motor vehicle cost) – 350* (MV accumulated depreciation) + 5,500* (equipment cost) – 1,250* (equipment accumulated depreciation) – 150* (MV depreciation for year) – 1,100* (equipment depreciation for year)	3,600	3
Current assets		
Inventory 1,950* (inventory at 30 June 2019)	1,950	½
Trade receivables 5,600* (list of balances) – 50* (Hen known irrecoverable debt)	5,550	1
Cash and cash equivalents 765* (list of balances)	765	½
	8,265	
Total assets 8,265 + 3,600	11,865	
Current liabilities		
Borrowings 5,000* ÷ 10* (due within the next 12 months)	500	1
Trade and other payables 3,879* (list of balances) + 200* (interest accrual) + 25* (accounting costs accrual)	4,104	1½
Current taxation 132* (from statement of profit or loss charge)	132	½
	4,736	
Non-current liabilities		
Borrowings 5,000* – (5,000 ÷ 10 to current liabilities)*	4,500	1
Total liabilities 4,736 + 4,500	9,236	
Net assets 11,865 – 9,236	2,629	
Equity		
Share capital 1,000* (list of balances)	1,000	½
Retained earnings 1,101* + 528** (from statement of profit or loss)	1,629	1½
	2,629	
Total marks for the statement of financial position		11
* = ½ mark ** = 1 mark		

Question 6 Sadia's bank account

	In	Out	Marks
	£	£	
Sadia's own cash	50,000		½
Bank loan	50,000		½
Membership subscriptions	240,000		½
Receipts from daily visitors	30,000		½
Rent		24,000	½
Local business taxes		13,000	½
Bar receipts	60,000		½
Bar purchases £26,000 – £3,750		22,250	1
Staff wages and salaries		51,000	½
Heating and lighting		7,500	½
Equipment purchased		200,000	½
Equipment hire		40,000	½
Insurance		12,000	½
Water charges £18,000 – £1,600		16,400	½
Drawings		24,000	½
Cleaning and maintenance		3,800	½
Loan interest		2,500	½
Bank charges		880	½
Balance in bank at 31 October 2019		12,670	½
	<u>430,000</u>	<u>430,000</u>	
Total marks for the bank account			<u>10</u>

Tutor's Examination Questions Chapters 2 and 3 Suggested Answers  
 Sadia: Statement of Profit or Loss for the Year Ended 31 October 2019

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	£	£	Marks
Membership *£240,000 – *£12,000		228,000	1
Daily visitor fees		30,000	½
Bar takings		60,000	½
		<u>318,000</u>	
Cost of sales: bar			
Purchases	26,000		½
Less: closing inventory	(2,200)		½
	<u></u>	23,800	
Gross profit		<u>294,200</u>	
Expenses			
Rent *£24,000 + *£4,800	28,800		1
Local business taxes *£13,000 – *£1,000	12,000		1
Wages and salaries *£51,000 + *£1,000	52,000		1
Heating and lighting *£7,500 + *£1,500	9,000		1
Depreciation (£200,000 – £40,000) ÷ 4 yrs	*40,000		½
Equipment hire *£40,000 – *(£40,000 x 3/15)	32,000		1
Insurance £12,000	*12,000		½
Water charges *£16,400 + *£1,600	18,000		1
Cleaning and maintenance *£3,800	3,800		½
Loan interest £50,000 x 5%	*2,500		½
Bank charges *£880 + *£75	955		1
Total expenses	<u></u>	211,055	
Net profit for the year		<u>83,145</u>	
Total marks for the statement of profit or loss			<u>12</u>

\* = ½ mark

\*\* = 1 mark

Sadia: Statement of Financial Position at 31 October 2019

	£	Marks
Non-current assets		
Equipment: £200,000 cost – £40,000 depreciation	*160,000	½
Current assets		
Inventory	*2,200	½
Prepayments: *£1,000 (local taxes) + *£8,000 (equipment hire)	9,000	1
Cash	*12,670	½
	23,870	
Total assets	183,870	
Current liabilities		
Trade payables (bar purchases)	*3,750	½
Accruals: *£4,800 (rent) + *£1,000 (wages and salaries) + *£1,500 (light and heat) + *£1,600 (water charges) + *£75 (bank charges)	8,975	2½
Subscriptions in advance	*12,000	½
	24,725	
Non-current liabilities: bank loan	*50,000	½
Total liabilities	74,725	
Net assets	109,145	
Capital account		
Cash introduced	50,000	½
Profit for year	83,145	½
Drawings	(24,000)	½
	109,145	
Total marks for the statement of financial position (* = ½ mark)		8

Question 7

Calculate the balance on Katya's capital account at 1 July 2018

Assets	£	Marks
Shop fittings: cost	60,000	½
Less: shop fittings accumulated depreciation	(24,000)	½
Inventory	28,722	½
Prepaid rent	1,900	½
Cash in the bank	22,488	½
Total assets	89,110	
Liabilities		
Amounts owed to suppliers of sports equipment	24,375	½
Accrued wages due to employees	870	½
Total liabilities	25,245	
Net assets = balance on Katya's capital account	63,865	½

Total marks: 4

Calculate the balance on Katya's bank account at 30 June 2019

	Receipts	Payments
	£	£
Balance at 1 July 2018	22,488	
Amounts paid to suppliers (= purchases)		289,640
Employee wages		44,320
Rent paid on shop		23,500
Cash received from sales	428,790	
Cash withdrawn by Katya		27,000
Heating and lighting		7,200
Insurance		6,000
Local business taxes		12,000
Bank charges		955
Property repairs		1,447
Cash received from credit customers	12,600	
Water costs		1,300
Balance at 30 June 2019		50,516
	<u>463,878</u>	<u>463,878</u>

Marking guide:

- ◆ ½ mark for including the balance at 1 July 2018
- ◆ ½ mark for each correct receipt and each correct payment
- ◆ ½ mark for the correct balance at 30 June 2019

Total marks: 7



Tutor's Examination Questions Chapters 2 and 3 Suggested Answers  
 Katya: Statement of Profit or Loss for the Year Ended 30 June 2019

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	£	£	Marks
Sales (£428,790* cash receipts + £20,800* credit sales)		449,590	1
Opening inventory	28,722		½
Purchases (– £24,375** opening liability + £289,640* cash paid + £31,295* amounts owed to suppliers at year end)	296,560		2
Closing inventory	(32,142)		½
Cost of sales		293,140	½
Gross profit		156,450	
Expenses			
Rent (£1,900* prepayment at 1 11 + £23,500* cash paid – £2,100* prepayment at 30 06)	23,300		1½
Wages (– £870* accrual at 1 11 + £44,320* cash paid + £920* accrual at 30 06)	44,370		1½
Depreciation (£60,000 cost ÷ 5 years)	12,000		1
Heating and lighting (£7,200 cash paid)	7,200		½
Insurance (£6,000 cash paid)	6,000		½
Local business taxes (£12,000 cash paid)	12,000		½
Bank charges (£955* cash paid + £65* accrual)	1,020		1
Property repairs (£1,447 cash paid)	1,447		½
Water costs (£1,300 cash paid)	1,300		½
Total expenses		108,637	
Net profit for the year		47,813	
Total marks for statement of profit or loss			12

\* = ½ mark for correct figure \*\* = 1 mark for correct figure

Katya: Statement of Financial Position at 30 June 2019

	£	Marks
Non-current assets		
Shop fittings (£60,000* cost – £24,000* depreciation at 30 June 2018 – £12,000* depreciation charge in year)	24,000	1½
Current assets		
Inventory	32,142	½
Trade receivables (£20,800* credit sales – £12,600* cash received from credit customers)	8,200	1
Prepaid rent	2,100	½
Cash at bank	50,516	½
	92,958	
Total assets	116,958	
Current liabilities		
Trade payables (amounts due to suppliers)	31,295	½
Wages accrual	920	½
Bank charges accrual	65	½
Total liabilities	32,280	
Net assets (£116,958 – £32,280)	84,678	
Capital account		
Balance at 1 July 2018	63,865	½
Profit for the year	47,813	½
Less: Drawings	(27,000)	½
Balance at 30 June 2019	84,678	
Total marks for SoFP (* = ½ mark for correct figure)		7

Tutor's Examination Questions Chapters 2 and 3 Suggested Answers  
Question 8

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Sabres Limited

Statement of Profit or Loss for the Year Ended 30 September 2019

	£	Marks
Revenue 872,690* (list of balances) – 4,540* (discounts allowed) – 5,250* (sales returns)	862,900	1½
Cost of sales 660,745* (purchases) + 54,300* (opening inventory) – 62,680* (closing inventory)	652,365	1½
Gross profit	210,535	
Expenses		
Administration expenses (list of balances)	*15,000	½
Repairs and renewals (list of balances)	*3,295	½
Rent 12,350* – 950* prepayment	11,400	1
Insurance 12,150* + 1,350* accrual	13,500	1
Loan interest 75,000 x 5%	**3,750	1
Fixtures and fittings depreciation: 35,000 x 25%	**8,750	1
Equipment depreciation: (280,000 – 98,000) x 35%	**63,700	1
Irrecoverable debt	*960	½
Allowance for receivables (95,960 – 960) x 3% – 3,000	**(150)	1
Net profit for the year	90,330	
Total marks for the statement of profit or loss		10½

\* = ½ mark

\*\* = 1 mark

Sabres Limited: Statement of Financial Position at 30 September 2019

	£	Marks
<b>Non-current assets</b>		
Fixtures and fittings: 35,000* cost – 14,000* accumulated depreciation at 1 October 2018 – 8,750* depreciation charge for year	12,250	1½
Equipment: *280,000 cost – *98,000 accumulated depreciation at 1 October 2018 – *63,700 depreciation charge for year	118,300	1½
	<u>130,550</u>	
<b>Current assets</b>		
Inventory	*62,680	½
Trade and other receivables 95,960* (list of balances) – 3,000* (allowance for receivables at 1 October 2018) + 950* (rent prepayment) – 960* (irrecoverable debt) + 150** (decrease in allowance for receivables)	93,100	3
	<u>155,780</u>	
<b>Total assets</b> 130,550 + 155,780	<u>286,330</u>	
<b>Current liabilities</b>		
Borrowings 15,000* (75,000 ÷ 5 years) + 12.630* (bank overdraft)	27,630	1
Trade payables 81,520* (list of balances)	81,520	½
Accruals: 1,350* (insurance) + 3,750* (loan interest)	5,100	1
	<u>114,250</u>	
<b>Non-current liabilities</b>		
Borrowings (75,000* – 15,000* current liability)	60,000	1
<b>Total liabilities</b> 114,250 + 60,000	<u>174,250</u>	
<b>Net assets</b> 286,330 – 174,250	<u>112,080</u>	
<b>Equity</b>		
Share capital 10,000* (list of balances)	10,000	½
Retained earnings 11,750* + 90,330* (from statement of profit or loss)	102,080	1
	<u>112,080</u>	
<b>Total marks for the statement of financial position</b>		<u>11½</u>

\* = ½ mark \*\* = 1 mark