Solutions

Marking: **K** knowledge, **App** use of the case or data, **An** analysis (a chain of reasons: cause, then effect), **Ev** evaluation (a judgement with a reason). In calculations, **M1** is for the method and **A1** for the answer; **B1** is an independent mark.

Each answer shows the steps, then the **result**.

2.1

(a) asset; (b) liability

(c) equity; (d) income

(e) expense; (f) asset (a receivable)

2.2

(a) $E = A - L = 52{,}000 - 19{,}500 =$ £**32**,**500**

(b) $A = L + E = 25{,}000 + 30{,}000 =$ £**55**,**000**

2.3

(a) A: equipment +1,800, cash −1,800; no change in total

(b) A: cash −900; L: payables −900

(c) A: cash +600, inventory −250; E: profit +350

(d) A: cash +5,000; E: share capital +5,000

2.4

(a) not recorded as an asset: it was not bought, so no past transaction gives a reliable cost

(b) an asset: the bakery controls it and paid £2,000 for it in a past transaction

3.1

(a) profit = income − expenses = 4,200 − 1,700 − 900 = £**1**,**600**

(b) cash 15,000 + 10,000 − 8,500 + 4,200 − 900 − 2,000 = £17,800; equipment £8,500; stock 3,000 − 1,700 = £1,300; total £**27**,**600**

(c) liabilities: loan £10,000 + payables 3,000 − 2,000 = £1,000, = £11,000; equity 15,000 + 1,600 = £16,600; 11,000 + 16,600 = 27,600 = A ✓

3.2

4: income must increase equity; the loan creates an equal liability (a duty to repay), so equity does not change (K)(An); an expense must decrease equity; the equipment is still controlled by the café and gives future benefit, so cash becomes another asset, and only its use over time (depreciation) becomes an expense (K)(An). **2–3**: one claim explained, or both stated without the definitions. **1**: one relevant point.

3.3

(a) $E = 40{,}800 - 19{,}000 =$ £**21**,**800**

(b) £**1**,**800**, the profit so far

(c) assets 40,800 − 32,000 = £8,800; equity 21,800 − 32,000 = −£10,200; liabilities £19,000 would exceed assets: the company could not pay its debts

(d) cash is one asset, not the value of the company; worth to the owners is equity, £21,800 (Ev); most of the cash is borrowed or owed to suppliers (App); paying it out breaks the dividend rule and leaves creditors unpaid, so the claim is wrong

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