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

months used this year: April to December = 9

expense = $2{,}400 \times \dfrac{9}{12}$ = £**1**,**800**; prepayment = £**600**

2.2

an accrual: Dr electricity expense 540, Cr accruals (liability) 540

profit falls by £**540** this year

2.3

(a) $\dfrac{18{,}000 - 3{,}000}{5}$ = £**3**,**000** a year; after 2 years $18{,}000 - 6{,}000$ = £**12**,**000**

(b) year 1: $0.30 \times 18{,}000$ = £5,400; year 2: $0.30 \times 12{,}600$ = £3,780; carrying amount $12{,}600 - 3{,}780$ = £**8**,**820**

2.4

Dr cash 1,200, Cr deferred income (liability) 1,200

no revenue this year: the party has not happened, so the work is not done

3.1

(a) (i) prepaid January to August, $9{,}600 \times \dfrac{8}{12}$ = £6,400: +**6**,**400**; (ii) −**1**,**150**; (iii) $\dfrac{4{,}000 - 400}{4}$ = 900: −**900**; (iv) −**800**

(b) $42{,}000 + 6{,}400 - 1{,}150 - 900 - 800$ = £**45**,**550**

(c) (i) prepayment, current asset; (ii) accrual, current liability; (iii) accumulated depreciation, lowering the mixer to £3,100; (iv) deferred income, current liability

3.2

(a) straight-line $\dfrac{10{,}000 - 1{,}000}{4}$ = £2,250 each year; reducing balance: year 1 $0.4 \times 10{,}000$ = £4,000, year 2 $0.4 \times 6{,}000$ = £2,400

(b) $4{,}000 - 2{,}250$ = £**1**,**750** lower; no: depreciation moves no cash; only the purchase did

3.3

(a) (a) +1,080; (b) +2,000; (c) +1,400; total +£**4**,**480**

(b) (a) the oven is used up over its life, so its cost must be matched to the years that use it; (b) revenue is recognised when the work is done, not when cash arrives; (c) an expense used in December must be accrued in December

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(c) cash is unchanged, so the business is no safer; profit is overstated by £4,480 (Ev); an audit or the bank's checks would find it, so the plan risks the loan and is dishonest