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) current asset; (b) non-current liability

(c) income statement, expense; (d) non-current asset

(e) current liability; (f) income statement, revenue

2.2

gross profit $80{,}000 - 32{,}000 = £\mathbf{48{,}000}$

operating profit $48{,}000 - 30{,}500 = £\mathbf{17{,}500}$

profit before tax $17{,}500 - 1{,}200 = £\mathbf{16{,}300}$

tax $0.2 \times 16{,}300 = £3{,}260$; profit for the year $£\mathbf{13{,}040}$

2.3

opening + profit − dividends $= 18{,}000 + 13{,}040 - 5{,}000 = £\mathbf{26{,}040}$

2.4

current assets $3{,}600 + 2{,}400 + 11{,}200 = £\mathbf{17{,}200}$

current liabilities $4{,}100 + 650 + 3{,}260 = £\mathbf{8{,}010}$

net current assets $17{,}200 - 8{,}010 = £\mathbf{9{,}190}$

3.1

(a) cost of sales $5{,}000+86{,}000-7{,}000 = £\mathbf{84{,}000}$; gross profit $210{,}000-84{,}000 = £\mathbf{126{,}000}$

(b) expenses $58{,}000 + 18{,}000 + 4{,}500 + 9{,}700 = £90{,}200$; operating profit $£\mathbf{35{,}800}$

(c) profit before tax $35{,}800 - 2{,}400 = £33{,}400$; tax $0.25 \times 33{,}400 = £\mathbf{8{,}350}$; profit for the year $£\mathbf{25{,}050}$

3.2

(a) equipment $45{,}000-13{,}500 = £31{,}500$; current assets $7{,}000+6{,}300+14{,}250 = £27{,}550$; total $£\mathbf{59{,}050}$

(b) current liabilities $8{,}900 + 1{,}200 + 8{,}350 = £18{,}450$; with the loan, total $£\mathbf{38{,}450}$

(c) retained earnings $3{,}550+25{,}050-18{,}000 = £10{,}600$; equity $10{,}000+10{,}600 = £\mathbf{20{,}600}$; $38{,}450 + 20{,}600 = 59{,}050$ ✓

3.3

(a) $\dfrac{18{,}000}{25{,}050} \times 100\% = \mathbf{71.9}\%$

(b) $27{,}550 - 18{,}450 = £\mathbf{9{,}100}$; $\dfrac{27{,}550}{18{,}450} = \mathbf{1.49}$

(c) **5**: for: the company is profitable and current assets still cover current liabilities 1.49 times (App); against: equity is only £20,600 against a £20,000 loan, so creditors carry much of the risk; paying out 72% leaves little to repay the loan or replace equipment (An); judgement with a reason, e.g. too high: a payout near 40% would build equity before the repayment (Ev). **3–4**: one side analysed with data, or both without a judgement. **1–2**: relevant points.

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