

Preparation of financial statements A2

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What you need to know

This builds on the AS topic "Preparation of financial statements" (sole traders, the partnership appropriation account and the basic company statements). By the end of it you should be able to:

1. **Explain why each type of business prepares financial statements** and what each statement is for: a manufacturer, a club or society, a partnership and a limited company.
2. **Explain goodwill**, and tell **purchased** goodwill (paid for when a business is bought) from **inherent** goodwill (built up inside the business and never paid for).
3. **Prepare partners' capital and current accounts for goodwill and for revaluing assets** when the profit-sharing ratio changes, a new partner joins, a partner retires, or the partnership is dissolved.
4. **Prepare a partnership's statement of profit or loss, appropriation account and statement of financial position when the change happens part-way through the year**, splitting the year into two periods.
5. **Prepare a revaluation account and a realisation account.**
6. **Tell a club's receipts and payments account from its income and expenditure account**, and define and calculate the **accumulated fund**.
7. **Prepare a club's statements from full or incomplete records**: receipts and payments account, trading or fund-raising activity account (café, shop, tournament), subscriptions account, income and expenditure account and statement of financial position.
8. **Account for life memberships, donations and other receipts**, and make in a club's statements every year-end adjustment from the AS topic (syllabus 1.5.1): accrued and prepaid expenses; accrued income and income received in advance (subscriptions in arrears and in advance); irrecoverable amounts written off, debts recovered and any allowance for irrecoverable debts; depreciation; inventory valuation; and the correction of errors.
9. **Evaluate ways for a club to raise funds** and the sources of finance open to it.
10. **Prepare a manufacturing account**, telling direct costs from indirect costs, and adding a **factory profit**; then the statement of profit or loss and statement of financial position of a manufacturer.
11. **Account for factory profit and remove the unrealised profit from unsold inventory**, and explain why a business adds a factory profit at all.
12. **Prepare a limited company's statement of profit or loss, statement of financial position, statement of cash flows (IAS 7), statement of changes in equity and schedule of non-current assets**, following the international accounting standards and the law.
13. **Use all these statements to judge information and advise** owners, partners, directors and club committees.

The standards themselves (IAS 1, 2, 7, 8, 10, 16, 36, 37, 38) are taught in "Regulatory and ethical considerations", ratios in "Analysis and communication of accounting information", and a company buying a partnership in "Business acquisition and merger". Here you **use** them.

Understand it

Why these statements exist

Every set of statements shows how the organisation did and what it owns and owes; the format depends on the owners. A **manufacturer** shows what its goods cost to make. A **club** shows a **surplus** or **deficit** and an **accumulated fund** instead of profit and capital. A **partnership** must share profit fairly when partners change. A **limited company's** shareholders don't run it, so the law and the standards fix what it publishes.

Manufacturing accounts

The manufacturing account lists the **costs of making** the year's output, in a fixed order.

Line	What goes in it
Direct materials consumed	Opening raw materials + purchases + carriage inwards on raw materials – returns – closing raw materials
Direct labour	Wages of the people who make the product (machine operators, assemblers)
Direct expenses	Costs traced to each unit, such as royalties per item made or hire of a machine for one job
Prime cost	The total of the three direct costs
Factory overheads	Indirect factory costs: supervisors' and maintenance wages, factory rent, power, insurance, depreciation of factory machinery
Work in progress	Add opening WIP, deduct closing WIP
Cost of production	What it cost to make the goods finished this year

A **direct** cost can be traced to each unit made; an **indirect** cost can't. Costs shared by the factory and the office (rent, insurance, electricity) are **apportioned** in the ratio given; only the factory's part goes in the manufacturing account, the rest in administrative expenses. Carriage inwards on raw materials is a direct material cost; carriage inwards on finished goods bought in goes in cost of sales; carriage outwards (delivering goods to customers) is a distribution cost, never in the manufacturing account.

Work in progress is part-made goods: opening WIP is finished this year, so it is added; closing WIP isn't finished, so it is deducted. Under IAS 2 it is valued at cost: direct materials, direct labour and a share of **production** overheads, never selling or office costs.

The cost of production goes into the statement of profit or loss where a trader would put purchases:

Cost of sales = opening finished goods + cost of production (or transfer price) + finished goods bought in – closing finished goods.

The statement of financial position shows three inventories: raw materials, work in progress and finished goods.

Factory profit and the provision for unrealised profit

Some manufacturers transfer goods from the factory to the sales side at a **transfer price** above cost: cost of production plus a **factory profit**, usually a percentage of cost set to match what the goods would cost to buy from an outside supplier.

Direct materials	Labour and expenses	Overheads	Factory profit
\$97 500	\$75 000	\$52 500	\$56 250
Prime cost \$172 500			
Cost of production \$225 000			
Transfer price \$281 250			

Overheads: \$54 000 less the \$1 500 rise in work in progress.

Factory profit is 25% of the cost of production.

Why add a factory profit? It lets the owner judge the factory and the selling side separately: if the factory makes goods for less than an outside supplier would charge, it earns a profit; if not, buying in may be cheaper. It can also reward factory managers. **Against it:** it is extra work, and the "profit" is only a book entry; a business can't earn a profit by selling to itself.

The factory profit is not earned until the goods are sold. The transfer price goes into cost of sales, and the factory profit is **added back** below gross profit. But closing finished goods are now at transfer price, so they contain unrealised profit. IAS 2 and **prudence** say inventory must be at cost, so a **provision for unrealised profit (PURP)** removes it.

If the factory profit is $r\%$ of cost, the unrealised profit in finished goods valued at transfer price is

$$\text{PURP} = \text{closing finished goods at transfer price} \times \frac{r}{100 + r}.$$

For finished goods of \$36 000 at transfer price with a 20% factory profit: $\text{PURP} = 36\,000 \times \frac{20}{120} = 6000$, so the goods are worth \$30 000 at cost. If last year's PURP was \$4500, the provision goes **up** by \$1500.

- **Statement of profit or loss:** only the **change** in the provision goes in, next to the factory profit. An increase is deducted (it reduces profit); a decrease is added.
- **Statement of financial position:** the **closing** provision is deducted from finished goods inventory, in current assets: finished goods \$36 000 less PURP \$6000 = \$30 000.
- **The PURP ledger account** has a credit balance. An increase: Dr statement of profit or loss, Cr PURP. A decrease: the other way round.

If the rate changes, each year's provision uses that year's own rate. To find last year's rate from the provision: rate on cost =

$$\frac{\text{PURP}}{\text{inventory at transfer price} - \text{PURP}}, \text{ for example } \frac{5000}{30\,000 - 5000} = 20\%.$$

Clubs and societies

A club's treasurer usually keeps only a cash book, summarised as a **receipts and payments account**. That is a cash account: opening bank balance, money received, money paid, closing bank balance. It includes capital items (a new mower) and money relating to other years, and it ignores depreciation and amounts owed. So it can't show whether the club's activities cover their costs.

The **income and expenditure account** is the club's statement of profit or loss. It uses the accruals concept: income **earned** and expenses **incurred** in the year, including depreciation, with capital spending left out. The result is a **surplus** (income more than expenditure) or a **deficit**.

The **accumulated fund** is the club's equivalent of capital: total assets less total liabilities. At the start of the year you usually have to work it out from a list of balances, and remember the bank balance (or overdraft) and the life membership fund, which is a liability. Then

$$\text{closing accumulated fund} = \text{opening accumulated fund} + \text{surplus} (-\text{deficit}).$$

Subscriptions. The income is what members owe for **this** year, not the cash received. In a subscriptions account the opening arrears and closing advance are debits; the opening advance, cash received and closing arrears are credits; the income and expenditure figure is the balancing item. Arrears never to be collected are written off (credited). Some clubs don't count arrears as income until paid; follow the question.

Life membership. A member pays once, for membership for life. Taking it all as income in one year would overstate that year and understate every later one, which breaks the **accruals (matching)** concept. So it is credited to a **life membership fund** (a liability, like income received in advance) and a fixed part is transferred to income each year, for example one-tenth for 10 years. A life member brings less income per year than an annual member, but the cash comes earlier, which helps a club with an overdraft, and it removes the risk of that member falling into arrears.

Donations. A donation for general use is income in the year received (or put straight into the accumulated fund if it is large and one-off, as the question says). A donation for a set purpose, such as a new pavilion, goes into a special fund; a grant towards an asset is released to income over the asset's life, like life membership.

The other year-end adjustments from the AS note apply to a club unchanged: expenses owing or prepaid; income accrued or received in advance (subscriptions in arrears and in advance are this); subscriptions written off, and any later recovery as income; the change in any allowance for irrecoverable debts; depreciation, with a loss on disposal as expenditure; café or shop inventory at the lower of cost and net realisable value; and errors in a draft income and expenditure account corrected one line at a time.

Trading and fund-raising activities. A bar, café, shop, vending machine or tournament is run to raise money. Prepare a small statement of profit or loss for it:

$$\text{profit} = \text{takings} - (\text{opening inventory} + \text{purchases} - \text{closing inventory}) - \text{its own expenses}.$$

Purchases often have to be found from payments to suppliers adjusted for opening and closing payables, and the activity's share of wages is split off from the club's wages. Only the **profit** (or loss) goes into the income and expenditure account, as one line of income.

Raising funds. A club can increase subscriptions, recruit members, charge entrance fees or fees for events, run a café or shop, seek donations or sponsorship, apply for grants, or borrow. Each has a cost: higher fees may drive members away, borrowing needs interest and repayment, a trading activity needs start-up money, volunteers and space and can make a loss, and a large donor or sponsor may expect

influence.

Partnership changes and goodwill

Goodwill is the amount by which a whole business is worth more than its separate net assets, because of its reputation, loyal customers, location, skilled staff and good links with suppliers. **Purchased goodwill** arises when one business buys another and pays more than the fair value of the net assets; it is recorded as an intangible asset. **Inherent goodwill** is built up by the business itself. A partnership does **not** keep a goodwill account for it: it wasn't paid for, its value is subjective and changes often, it can't be measured reliably in money (money measurement), and prudence says assets shouldn't be overstated.

Why value goodwill at all? The old partners built it up and the business keeps enjoying it, so a retiring partner is paid for their share and a new partner pays for the share they get. Goodwill is valued at the date of the change, then:

1. **credit** each old partner's capital account with their share in the **old** ratio;
2. if no goodwill account is to be kept, **debit** each partner in the new firm with their share in the **new** ratio.

A and B share profits 3 : 2. C joins, and the new ratio is A : B : C = 2 : 2 : 1. Goodwill is valued at \$50 000. Credit A \$30 000 and B \$20 000; debit A \$20 000, B \$20 000 and C \$10 000. Net: A's capital rises \$10 000, B's is unchanged and C's falls \$10 000. C has in effect paid A for the share of goodwill A gave up. If C instead pays a **premium** in cash for that share, only A and B are debited in the new ratio.

Revaluation. Assets may be worth more or less than their carrying amounts. Gains and losses up to the date of the change belong to the **old** partners, so they are put through a **revaluation account**: debit it with decreases, credit it with increases, and share the balance (profit or loss on revaluation) in the **old** profit-sharing ratio to the capital accounts. The assets then go into the new statement of financial position at their new values.

Retirement. The amount due to the retiring partner is

$$\text{capital} + \text{current account} + \text{loan to the firm} + \text{share of goodwill} \pm \text{share of revaluation gain or loss}.$$

It may be paid in cash, left as a loan to the firm, or partly each.

A change part-way through the year. When a partner joins or leaves, or the ratio changes, during the year, the profit is split into two periods, each with its own appropriation account (worked example in section 6 of "How to do it").

Dissolution. When a partnership ends, the **realisation account** collects the gain or loss on selling up:

- debit it with the carrying amounts of all assets except cash, and with dissolution costs;
- credit it with the money received for the assets (or their agreed value if a partner takes one over, when that partner's capital account is debited), and any discount received on paying the payables.

The balance is the profit or loss on realisation, shared in the profit-sharing ratio. Then the capital accounts are closed: debit them with any assets taken and debit balances on current accounts, and the final balances are settled in cash, so the bank account ends at nil. If a company buys the business, the purchase consideration (cash, shares or debentures) is credited to the realisation account and the shares are shared out through the capital accounts.

For example, assets with carrying amounts of \$120 000 (non-current assets \$80 000, inventory \$25 000, receivables \$15 000) are sold for \$95 000, \$21 000 and \$13 500, payables of \$18 000 are settled for \$17 400 and dissolution costs are \$2000. Profit on realisation = $129\,500 + 600 - 2000 - 120\,000 = 8100$, shared 2 : 1 as \$5400 and \$2700.

Limited companies: the full set of statements

A company publishes five linked statements (plus notes); the basic formats are in the AS note.

Statement of profit or loss. Use the IAS 1 format from the AS note. Delivery and warehouse costs (including delivery vehicles' depreciation and impairment) are distribution costs; office costs, irrecoverable debts, research written off and amortisation are administrative expenses.

Year-end items you may have to apply, one line at a time:

- **Impairment (IAS 36):** carrying amount is cut to the **recoverable amount**, the higher of **value in use** and **fair value less costs to sell**; the loss goes in the same heading as the asset's depreciation. Assets are never written up this way.

- **Research and development (IAS 38):** research, and development with no future benefit shown yet, is an expense (prudence); development that can be shown to bring future benefits is an **intangible asset**, amortised. Other intangibles: patents, trademarks, brands, licences, copyrights, purchased goodwill.
- **Provisions (IAS 37):** probable and measurable, provide; only possible, disclose as a contingent liability.
- **Events after the reporting period (IAS 10):** adjusting events change the figures; non-adjusting events are only disclosed.
- **Inventory (IAS 2):** lower of cost and net realisable value; unaccepted sale or return goods come out of revenue and back into inventory at cost.

Statement of financial position. The AS format, with intangible assets after property, plant and equipment, whose detail is in the schedule.

Statement of changes in equity. The AS format: a column for each part of equity (and a total when asked) and a row for each movement: dividends paid, share issues, bonus issues, revaluations, transfers to reserves and the profit for the year. At A Level one year has more movements, and the profit is often the balancing figure.

Schedule of non-current assets. This note (IAS 16) explains the movement in each class of property, plant and equipment. Premises cost \$400 000 with accumulated depreciation \$60 000; this year's charge is \$8000, then the premises are revalued to \$500 000. Machinery cost \$150 000 with accumulated depreciation \$70 000; a machine costing \$30 000 (depreciation \$22 000) is sold, one costing \$40 000 is bought, depreciation is 10% of cost at the year end, and an impairment of \$5000 is found:

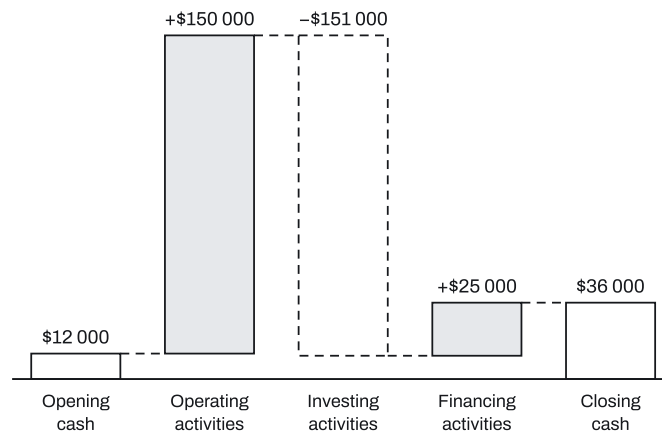
	Premises \$	Machinery \$	Total \$
Cost or valuation			
At 1 January 2025	400 000	150 000	550 000
Additions		40 000	40 000
Disposals		(30 000)	(30 000)
Revaluation	100 000		100 000
At 31 December 2025	500 000	160 000	660 000
Depreciation and impairment			
At 1 January 2025	60 000	70 000	130 000
Disposals		(22 000)	(22 000)
Charge for the year	8 000	16 000	24 000
Impairment		5 000	5 000
Revaluation	(68 000)		(68 000)
At 31 December 2025	0	69 000	69 000
Carrying amount at 31 December 2025	500 000	91 000	591 000
Carrying amount at 1 January 2025	340 000	80 000	420 000

On revaluation the accumulated depreciation is removed and the cost line moves to the new value; the gain, $500\,000 - (400\,000 - 68\,000) = 168\,000$, goes to the revaluation reserve.

Statement of cash flows (IAS 7). Profit is not cash. The statement explains why the cash and cash equivalents (cash, bank balances and short-term deposits easily turned into known amounts of cash, less overdrafts) changed, in three sections:

- **operating activities**, by the indirect method: start at profit from operations, add back items that cost no cash (depreciation, amortisation, impairment, a loss on disposal), deduct a profit on disposal, adjust for the change in inventory, receivables and payables, then deduct interest paid and tax paid;
- **investing activities**: buying non-current assets (tangible and intangible) and the proceeds of selling them;
- **financing activities**: shares issued (including the premium), loans and debentures raised or repaid, and dividends paid.

The three net figures add up to the change between opening and closing cash and cash equivalents.



Items that don't move cash are **not** in it: a bonus issue, a revaluation, a transfer to a reserve, a proposed dividend. A profit on disposal is taken **out** of operating activities because the whole sale price is in investing activities. More inventory or receivables uses cash (deduct); more payables keeps cash in (add). The statement shows where cash came from and went, helps judge liquidity and how growth was financed, allows comparisons, and explains why profit and the change in cash differ.

Key facts and formulas

There is no formula list in the Accounting exam, so every formula here is "Learn it".

Formula	Status
Direct materials consumed = opening raw materials + purchases + carriage inwards – returns – closing raw materials	Learn it
Prime cost = direct materials + direct labour + direct expenses	Learn it
Cost of production = prime cost + factory overheads + opening WIP – closing WIP	Learn it
Transfer price = cost of production $\times \left(1 + \frac{r}{100}\right)$, for factory profit $r\%$ on cost	Learn it
PURP = finished goods at transfer price $\times \frac{r}{100 + r}$ (or $\times \frac{m}{100}$ if the profit is $m\%$ of transfer price)	Learn it
SoPL: add factory profit, deduct an increase in PURP (add a decrease); SoFP: finished goods less closing PURP	Learn it
Subscriptions income = received – opening arrears + closing arrears + opening advance – closing advance	Learn it
Life membership to income each year = fee $\div$ number of years; fund = opening + fees received – transfer to income	Learn it
Accumulated fund = total assets – total liabilities (including the life membership fund and any overdraft)	Learn it
Closing accumulated fund = opening accumulated fund + surplus (or – deficit)	Learn it
Goodwill: credit old partners in the old ratio; debit the new partners in the new ratio	Learn it
Revaluation gain or loss: shared in the old ratio	Learn it

Formula	Status
Due to a retiring partner = capital + current account + loan + share of goodwill $\pm$ share of revaluation	Learn it
Profit on realisation = proceeds from assets + discounts on payables – carrying amounts – dissolution costs	Learn it
Recoverable amount = the higher of value in use and fair value less costs to sell; impairment = carrying amount – recoverable amount (if positive)	Learn it
Profit for the year = change in retained earnings + dividends paid + transfers to reserves + bonus issue from retained earnings	Learn it
Profit from operations = profit for the year + tax + finance costs	Learn it
Depreciation = opening carrying amount + additions – carrying amount of disposals – closing carrying amount	Learn it
Sale proceeds = carrying amount + profit on disposal (or – loss)	Learn it
Interest (or tax) paid = charge for the year + opening amount owing – closing amount owing	Learn it
Net cash from operating + investing + financing = closing – opening cash and cash equivalents	Learn it

How to do it

In the 75 Paper 3 questions tagged for this topic (2021–2025, 25 marks each; eight were set on two variants and each copy is counted), the types came up this often. 73 mix two or more types, so the counts add up to more than 75. Bold rows are groups, with the number of questions in each; each group has one section below, most common first.

Question type	Questions
1. Advise or evaluate a decision	53
Advise, discuss or evaluate a decision: points for, points against and a conclusion	53
2. Company statements and IAS explanations	19
Explain a treatment under the standards, a concept, the audit or "true and fair"	15
Prepare or correct a company's statement of profit or loss or statement of financial position after adjustments	13
3. Manufacturing businesses	17
Prepare a manufacturer's statement of profit or loss with factory profit and PURP	16
Prepare a manufacturing account or calculate the cost of production	15
Explain factory profit, unrealised profit and manufacturing cost terms	12
Prepare the PURP account or find the rate of factory profit	8
4. Clubs and societies	17
Prepare an income and expenditure account	15
Explain club accounting (receipts and payments, life membership, donations)	14
Calculate the profit on a trading or fund-raising activity	11
Prepare a subscriptions account or the life membership fund	10
Calculate the accumulated fund or prepare a club's statement of financial position	9
5. Statement of cash flows	15

Question type	Questions
Prepare a statement of cash flows (IAS 7)	13
Work back to profit for the year or profit from operations from reserve movements	8
Explain the purpose and content of the statement of cash flows	6
6. Partnership changes	9
Record goodwill, revaluation, admission, retirement or a change part-way through the year	5
Dissolve a partnership or sell it to a company: realisation account and final settlement	4
7. Statement of changes in equity	9
Prepare a statement of changes in equity or explain share and reserve movements	9
8. Ratios from the statements	7
Calculate and comment on ratios from the statements you prepared	7
9. Schedule of non-current assets	6
Prepare a schedule of non-current assets	6

1. Advise or evaluate a decision (53 questions)

This is the most common single task in Paper 3: "Advise ... whether or not ... Justify your answer" for 5 marks, marked the same way nearly every time: up to **2** marks for points **for**, up to **2** for points **against**, and **1** for a clear **decision** backed by a comment. A decision with no reason earns nothing, and points with no decision lose the last mark.

- Find the question.** Who are you advising, and what are the two choices (do it or not; option A or option B)?
- Look back at your own figures** from the earlier parts and the case facts: profit or surplus, cash or overdraft, costs, capacity, people, what a loan is secured on.
- Write two developed points for and two against**, each using a case fact, labelled "For" and "Against". Look in these directions: money (profit, cash, borrowing, start-up and running costs such as rent, wages, interest and depreciation); risk (losses, the lender taking the security, a donor withdrawing); control and people (who decides, disagreements, skills, members, staff); reputation and customers; the long term (growth, a one-off, whether it can be reversed).
- Decide** in one sentence that weighs the two sides, for example: "The club should not open the shop yet: the overdraft means it cannot fund the inventory, although it may be worth it once the club has cash." Either decision earns the mark if it follows from your points.

Generic points lose marks. *Weak*: "It will increase profit." *Strong*: "The club made a surplus of only \$900 and has an overdraft, so a shop's profit would help, but it has no cash to buy the first inventory."

Variants you will meet:

- "Discuss" or "Evaluate" for 6–7 marks**: often no decision mark and no for/against split, and sometimes two options to consider; "support your answer with calculations" needs at least one relevant figure.
- A large special order when the factory is nearly full**: does the price cover cost, could it bring a regular customer, is it a one-off? Then the ways to meet it: extra capacity (space and staff, wasted if the order isn't repeated), buying in part (buy-in price against the cost of manufacture, quality and delivery, the customer may go to the supplier directly), or cutting supplies to regular customers (lost goodwill; they may not come back).
- Scenarios**: clubs (a shop, a donation with conditions, buying premises); companies (a dividend after a loss, sale and leaseback, in-house deliveries, an audit); manufacturers (buying in, the factory profit rate); partnerships (admitting a partner or borrowing, whether a change helped the existing partners).

2. Company statements and IAS explanations (19 questions)

Prepare or correct the statements (13 questions).

- Set out the format first** (IAS 1 headings), then put in each figure given.
- Work each extra item as a separate labelled working** and decide which heading it changes (cost of sales, distribution, administration, finance costs, or the statement of financial position only).

3. **Total and label** gross profit, profit (or loss) from operations and profit (or loss) for the year.

Variants you will meet:

- **Impairment table:** for each asset recoverable amount = higher of value in use and (fair value – costs to sell); loss = carrying amount – recoverable amount, or nil. For carrying amount \$48 000, value in use \$41 000 and a sale value of \$43 500 with selling costs of \$1000, recoverable amount = 42 500 and the impairment loss is \$5500.
- **Research and development:** the expensed part to administrative expenses, the capitalised part to intangible assets.
- **Retained earnings account entries:** a debit "ordinary share capital" is a bonus issue from retained earnings; a debit "statement of profit or loss" is a loss for the year.
- **Revised profit** after a list of errors, one line each.
- **Equity and liabilities section only**, after bonus issues, reserve transfers and new loans.
- **A loss:** label it "Loss from operations" and "Loss for the year".

Explain a treatment (15 questions). These parts are shared with "Regulatory and ethical considerations", which teaches the standards in full.

1. **Say what is done:** where the item goes (expense, asset, reserve, a note only).
2. **Give the reason**, naming the standard or concept from the list in "Understand it"; for IAS 8, an error from an earlier year corrects the opening retained earnings.
3. **Match the marks:** "state" or "name" is one short point per mark; "explain" is the point and its reason.

Variants you will meet:

- **Name intangible assets** (list in "Understand it").
- **A revaluation journal:** Dr the asset (to the new value), Dr accumulated depreciation (removing it), Cr revaluation reserve.
- **Directors and auditors:** the directors prepare the statements; the auditor reports on whether they give a true and fair view. Care and competence matter so the statements are true and fair, follow the standards and the law, can be compared and relied on, and avoid a qualified audit report.

3. Manufacturing businesses (17 questions)

1. **Manufacturing account:** direct materials consumed, direct labour, direct expenses, **prime cost**; factory overheads (factory share only of shared costs); WIP; **cost of production**; factory profit; **transfer price**.
2. **Statement of profit or loss:** revenue; cost of sales using the transfer price (plus any goods bought in); gross profit; **add** factory profit, **less** increase (or add decrease) in PURP; less office and selling expenses; profit for the year.
3. **Statement of financial position:** raw materials, WIP, and finished goods **less closing PURP**.

Variants you will meet:

- **Finding the factory profit rate:** $\frac{\text{transfer} - \text{cost}}{\text{cost}}$, or from last year's PURP; different rates in the two years (each provision at its own year's rate).
- **The PURP ledger account**, not a statement: balance b/d (credit), increase credited "statement of profit or loss", balance c/d.
- **Gross profit by product** when some goods are made and some bought in, or two product lines.
- **Cost of production given:** cost of sales = cost of production + a decrease in finished goods inventory (– an increase).
- **Draft corrections** before the statements: sale or return goods, impairment, a provision.
- **Theory:** why use factory profit; why PURP is needed (IAS 2, prudence, profit not yet earned); what costs go into WIP (direct materials, direct labour, production overheads, never office or selling costs); why a rate might change (to track the buy-in price).

4. Clubs and societies (17 questions)

1. **List every balance at the start** and calculate the opening accumulated fund (assets less liabilities, including bank and life membership fund).
2. **Work each income and expense for the year:** subscriptions adjusted for arrears and advance; life membership transfer; the trading activity's profit; expenses adjusted for accruals and prepayments; depreciation of equipment (with any disposal loss).
3. **Prepare the income and expenditure account:** income, then expenditure, then **surplus** or **deficit**.

4. **Accumulated fund:** opening + surplus, or total assets less liabilities at the end.

Variants you will meet:

- **Profit on a trading or fund-raising activity** (café, bar, vending machine, tournament): purchases = payments – opening payables + closing payables; cost of sales with the inventory change; less the activity's own costs (its share of wages, machine rental, prizes); the profit is one line of income. With incomplete records the takings may be the balancing figure, and cash stolen from the takings is an expense.
- **Subscriptions account** with arrears written off; **working back** to receipts banked, or to purchases from payments and payables.
- **Reading the ledger accounts:** the number of members is the amount ÷ the fee; say what the change in annual members, arrears and life members means for the club's income and cash.
- **Corrected or revised income and expenditure account** after errors: one line per error, as for a draft profit.
- **Statement of changes in the accumulated fund:** opening fund, plus surplus (or less deficit), closing fund.
- **The club's statement of financial position:** accumulated fund, then life membership fund (non-current liability, or split), then current liabilities.
- **Designated funds and grants:** a donation kept for a purpose, a grant released over the asset's life.
- **Theory:** the points in "Understand it"; the same methods apply to a charity.

5. Statement of cash flows (15 questions)

1. **Profit from operations first.** Rebuild retained earnings: closing – opening + dividends paid + transfers to reserves + any bonus issue from retained earnings – any transfer **into** retained earnings (such as the revaluation reserve on a building sold) = profit for the year. Then add tax and finance costs. If retained earnings fell, the change is negative.
2. **Operating activities:** profit from operations; add depreciation (worked out per class from carrying amounts), amortisation and impairment; add a loss, deduct a profit on disposal; working capital changes; interest paid; tax paid.
3. **Investing activities:** purchases (worked back if needed) and sale proceeds.
4. **Financing activities:** shares issued at their full cash price, loans raised or repaid, dividends paid.
5. **Net increase or decrease**, then the opening and closing cash and cash equivalents (an overdraft is negative).

Variants you will meet:

- **Dividends paid worked back** from the retained earnings movement when profit for the year is given.
- **Intangible assets:** amortisation = opening + development costs capitalised – closing; the capitalised costs are an investing outflow.
- **Vehicles or equipment purchased worked back:** closing carrying amount + depreciation + carrying amount of disposals – opening.
- **A corrected statement of cash flows** after errors, or a prior-period adjustment (IAS 8) to retained earnings first.
- **"What effect would this action have?":** name the section, say whether cash goes up or down and why; a no-cash item (see "Understand it") has **no** effect. Overdrafts, trade credit and leasing are funding **not** in financing activities.
- **Uses of the statement** and the meaning of cash equivalents; **why it starts with profit** (it reconciles the profit with the change in cash and cash equivalents, to show why they differ).

6. Partnership changes (9 questions)

1. **Revaluation account:** increases credited, decreases debited, balance shared in the **old** ratio.
2. **Goodwill:** credit old partners (old ratio); debit new partners (new ratio) if no goodwill account is kept.
3. **Capital accounts in columns**, one per partner, with opening balances, goodwill, revaluation, cash introduced, transfer out for a retiring partner, balances c/d.
4. **Amount due to a retiring partner** (cash or loan), then the new **statement of financial position** at revalued amounts.

A change part-way through the year. Split revenue and gross profit by what happened in each period (months, or volumes and prices if they changed) and expenses by time, unless something happened at a date (a new employee, an asset bought). For example, revenue of \$180 000 before 1 July and \$240 000 after, gross margin 40%, rent \$18 000 a year, wages \$18 000 then \$27 000, and depreciation 10% a year on equipment of \$60 000 plus \$20 000 bought on 1 July: first half 72 000 – 9000 – 18 000 – 3000 = 42 000; second half 96 000 – 9000 – 27 000 – 4000 = 56 000. Then an appropriation account for each half, with interest on capital and salaries for six months each.

Variants you will meet:

- **Cash a new partner brings in:** capital (sometimes set in proportion to another partner's capital, for example 40 : 60) plus any cash premium for goodwill (then only the continuing partners are debited with goodwill) plus any loan.
- **The new bank balance:** opening + cash introduced – cash paid to the retiring partner.
- **Dissolution:** realisation account, capital accounts closed, bank account to nil; a company buying the firm (purchase consideration in shares).
- **Theory:** the goodwill points in "Understand it".

7. Statement of changes in equity (9 questions)

1. **One column per part of equity**, and a total column if asked. Opening balances first.
2. **One row per event in date order**, labelled with what it is (not a date): dividends paid, bonus issue, rights or public issue, revaluation, transfer to general reserve, profit for the year.
3. **Closing balances**, which are the equity section of the statement of financial position.

Variants you will meet:

- **Profit for the year as the balancing figure** when closing retained earnings are given.
- **The equity section only.** Bonus issues and dividends follow the AS note.

8. Ratios from the statements (7 questions)

The ratios themselves, their formulas and what a rise or fall means, are taught in "Analysis and communication of accounting information". Here they finish a question on statements you have just prepared.

1. **Take each figure from your own statements:** profit from operations from the statement of profit or loss, total equity from the closing row of the statement of changes in equity, non-current liabilities from the statement of financial position. Rework any figure the question changes: interest on debentures issued part-way through the year, for example 6% on \$200 000 for 9 months, is \$9000.
2. **Give the answer** to the decimal places asked, with its unit (% , times or \$).
3. **Comment:** say whether it is better or worse than last year, why it changed (new debentures raise gearing; a bonus issue spreads the same profit over more shares), and what that means for shareholders or lenders.

9. Schedule of non-current assets (6 questions)

1. **Columns by class** (land and buildings, plant and machinery, motor vehicles, total).
2. **Cost section:** at start, additions, disposals, revaluation, at end.
3. **Depreciation section:** at start, disposals, charge for the year, impairment, revaluation, at end.
4. **Carrying amounts** at the end and at the start.

Variants you will meet:

- **Working backwards** to opening cost or accumulated depreciation from carrying amounts, rates and years owned, for example $\text{cost} = \text{carrying amount} \div (1 - \text{years} \times \text{rate})$ for straight-line depreciation.
- **Part-exchange**, part-year depreciation on additions and disposals, revaluation resetting accumulated depreciation to nil.
- **Theory:** why depreciate (matching, IAS 16), straight-line versus reducing balance, what impairment means.

Worked examples

The bold codes show where marks are earned, as in Cambridge mark schemes. The number is how many marks.

- **M1** method mark: for a correct method, even if the numbers slip.
 - **A1** accuracy mark: for a correct answer; it needs the M mark before it.
 - **B1** mark for a correct result on its own, with no method needed.
-

Example 1

Tane runs a furniture business that makes all the goods it sells and sells them from its own showroom. The following information is for the year ended 31 December 2025.

	1 January 2025 \$	31 December 2025 \$
Raw materials	14 000	16 500
Work in progress	8 000	9 500
Finished goods, at transfer price	30 000	37 500
		\$
Revenue		410 000
Purchases of raw materials		96 000
Carriage (80% on raw materials delivered to the factory, 20% on deliveries to customers)		5 000
Direct wages		72 000
Royalties paid per chair made		3 000
Indirect factory wages		18 000
Rent (60% factory, 40% office)		24 000
Depreciation of factory machinery		11 000
Factory power		10 600
Office salaries		48 000
Selling expenses		21 000

Goods are transferred from the factory at cost of production plus 25%, the same rate as in 2024.

(a) Prepare the manufacturing account for the year ended 31 December 2025. [8]

(b) Prepare the statement of profit or loss for the year ended 31 December 2025. [7]

(c) Calculate the total inventory shown in the statement of financial position at 31 December 2025. [2]

(d) A supplier offers to supply all the furniture Tane made in 2025 for \$240 000. Advise Tane whether or not he should stop manufacturing and buy the furniture in. Justify your answer. [5]

(a)

Tane: manufacturing account for the year ended 31 December 2025	\$	\$
Raw materials at 1 January 2025		14 000
Purchases of raw materials	96 000	
Carriage inwards (80% × 5000)	4 000	100 000
		114 000
Raw materials at 31 December 2025		(16 500)
Direct materials consumed		97 500
Direct wages		72 000
Royalties		3 000
Prime cost		172 500
Indirect factory wages	18 000	
Rent (60% × 24 000)	14 400	

Tane: manufacturing account for the year ended 31 December 2025	\$	\$
Depreciation of factory machinery	11 000	
Factory power	10 600	54 000
		226 500
Work in progress at 1 January 2025		8 000
		234 500
Work in progress at 31 December 2025		(9 500)
Cost of production		225 000
Factory profit (25% × 225 000)		56 250
Transfer price of goods manufactured		281 250

B1 carriage inwards; **B1** direct materials consumed; **B1** royalties as a direct cost in prime cost; **B1** factory share of rent; **B1** total overheads; **B1** WIP adjustment; **B1** cost of production (own figure); **B1** factory profit and transfer price (own figure).

(b)

Tane: statement of profit or loss for the year ended 31 December 2025	\$	\$
Revenue		410 000
Inventory of finished goods at 1 January 2025	30 000	
Transfer price of goods manufactured	281 250	
	311 250	
Inventory of finished goods at 31 December 2025	(37 500)	
Cost of sales		(273 750)
Gross profit		136 250
Factory profit	56 250	
Increase in provision for unrealised profit	(1 500)	54 750
		191 000
Rent (40% × 24 000)	9 600	
Office salaries	48 000	
Selling expenses	21 000	
Carriage outwards (20% × 5 000)	1 000	(79 600)
Profit for the year		111 400

PURP at 1 January = $30\,000 \times \frac{25}{125} = 6000$; at 31 December = $37\,500 \times \frac{25}{125} = 7500$; increase = 1500.

B1 transfer price and finished goods inventories in cost of sales; **B1** cost of sales (own figure); **B1** factory profit added; **B1** opening and closing PURP; **B1** increase deducted; **B1** expenses including the office share of rent and carriage outwards; **B1** profit for the year (own figure).

(c) Raw materials \$16 500 + work in progress \$9500 + finished goods (37 500 – 7500 = 30 000) = **\$56 000**. **B1** finished goods less closing PURP, **B1** total.

(d)

For buying in: Tane would free cash, by selling the machinery and releasing the \$26 000 tied up in raw materials and work in progress; the supplier would carry the production risks (breakdowns, wasted materials, idle staff), and Tane could buy more or less as demand changes and spend his time on selling. (2)

Against: making costs \$225 000, \$15 000 (6.25%) below the supplier's price, so buying in would cut profit, and the factory's rent may continue anyway; Tane would lose control of quality and delivery and depend on one supplier, who could raise prices later. **(2)**

Decision: Tane should keep manufacturing, because it is \$15 000 cheaper and keeps control of quality, but he should lower his 25% factory profit rate, which gives a transfer price above the market price. **(1)**

Example 2

Riverside Tennis Club's receipts and payments account for the year ended 31 December 2025 was:

Receipts	\$	Payments	\$
Balance b/d	4 300	Café purchases	9 200
Subscriptions	24 600	Wages	16 000
Life membership fees	3 000	Rent	10 000
Café takings	18 400	Coaching	6 500
Donation	5 000	New equipment	6 000
		Balance c/d	7 600
	55 300		55 300

Further information:

	1 January 2025 \$	31 December 2025 \$
Equipment at carrying amount	30 000	?
Café inventory	1 100	1 300
Subscriptions in arrears	600	1 000
Subscriptions in advance	800	400
Amounts owing to café suppliers	700	900
Coaching fees owing	300	500
Rent paid in advance	0	1 000
Life membership fund	7 200	?

- Each life membership fee is transferred to income in equal parts over 10 years, starting in the year it is received. The transfer for fees received before 2025 is \$1500.
- One-quarter of the wages are paid to café staff.
- Equipment is depreciated at 20% of the carrying amount at the year end before depreciation (\$36 000).
- The donation was for the club's general use.

(a) Calculate the accumulated fund at 1 January 2025. **[3]**

(b) Calculate the profit from the café. **[4]**

(c) Prepare the income and expenditure account for the year ended 31 December 2025. **[9]**

(d) Calculate the accumulated fund and the life membership fund at 31 December 2025. **[3]**

(a) Assets: equipment 30 000 + café inventory 1100 + subscriptions in arrears 600 + bank 4300 = 36 000. **B1** (bank included)

Liabilities: subscriptions in advance 800 + café suppliers 700 + coaching owing 300 + life membership fund 7200 = 9000. **B1** (life membership fund included)

Accumulated fund = 36 000 – 9000 = **\$27 000. B1** (own figure)

(b) Purchases = 9200 – 700 + 900 = 9400. **B1**

Cost of sales = $1100 + 9400 - 1300 = 9200$. **B1**

Café wages = $\frac{1}{4} \times 16\,000 = 4000$. **B1**

Profit from the café = $18\,400 - 9200 - 4000 = \5200 . **B1** (own figure)

(c)

Riverside Tennis Club: income and expenditure account for the year ended 31 December 2025		\$	\$
Income			
Subscriptions ($24\,600 - 600 + 1000 + 800 - 400$)		25 400	
Life membership fees ($1500 + 10\% \times 3000$)		1 800	
Profit from café		5 200	
Donation		5 000	37 400
Expenditure			
Rent ($10\,000 - 1000$)		9 000	
Wages ($\frac{3}{4} \times 16\,000$)		12 000	
Coaching ($6500 - 300 + 500$)		6 700	
Depreciation of equipment ($20\% \times 36\,000$)		7 200	34 900
Surplus for the year			2 500

B1 subscriptions; **B1** life membership; **B1** café profit (own figure) as one line; **B1** donation; **B1** rent; **B1** wages excluding the café's quarter; **B1** coaching; **B1** depreciation on $30\,000 + 6000$; **B1** surplus (own figure). The new equipment is **not** an expense: only its depreciation is.

(d) Accumulated fund at 31 December = $27\,000 + 2500 = \$29\,500$. **B1**

Life membership fund = $7200 + 3000 - 1800 = \$8400$. **B1 B1**

Example 3

The following balances were taken from the statements of financial position of Harbour plc at 31 December.

	2025 \$	2024 \$
Property at carrying amount	470 000	400 000
Machinery at carrying amount	206 000	180 000
Inventory	64 000	58 000
Trade receivables	41 000	45 000
Cash and cash equivalents	36 000	12 000
Trade payables	37 000	33 000
Tax payable	18 000	15 000
Interest payable	1 000	2 000
8% debentures	100 000	150 000
Ordinary shares of \$1 each	420 000	320 000
Share premium	36 000	16 000
General reserve	40 000	30 000
Retained earnings	165 000	129 000

During 2025:

- property costing \$90 000 was bought; no property was sold;

- machinery costing \$70 000 was bought, and a machine with a carrying amount of \$12 000 was sold for \$9000;
- shares were issued for cash at \$1.20 each, and \$50 000 of debentures were repaid on 1 July;
- dividends of \$45 000 were paid; the tax charge for the year was \$18 000 and the finance costs were \$10 000.

(a) Calculate the profit from operations for the year ended 31 December 2025. **[4]**

(b) Prepare the statement of cash flows for the year ended 31 December 2025 in accordance with IAS 7. **[14]**

(a)

	\$
Increase in retained earnings (165 000 – 129 000)	36 000
Dividends paid	45 000
Transfer to general reserve (40 000 – 30 000)	10 000
Profit for the year	91 000
Tax	18 000
Finance costs	10 000
Profit from operations	119 000

B1 dividends added back; **B1** transfer to general reserve; **B1** tax and finance costs; **B1** answer (own figure).

(b)

Harbour plc: statement of cash flows for the year ended 31 December 2025	\$	\$
Cash flows from operating activities		
Profit from operations	119 000	
Depreciation: property (400 000 + 90 000 – 470 000)	20 000	
Depreciation: machinery (180 000 + 70 000 – 12 000 – 206 000)	32 000	
Loss on disposal of machinery (12 000 – 9000)	3 000	
Increase in inventory	(6 000)	
Decrease in trade receivables	4 000	
Increase in trade payables	4 000	
Cash from operations	176 000	
Interest paid (10 000 + 2000 – 1000)	(11 000)	
Tax paid	(15 000)	
Net cash from operating activities		150 000
Cash flows from investing activities		
Purchase of property	(90 000)	
Purchase of machinery	(70 000)	
Proceeds from sale of machinery	9 000	
Net cash used in investing activities		(151 000)
Cash flows from financing activities		
Proceeds of share issue (100 000 shares at \$1.20)	120 000	
Repayment of debentures	(50 000)	
Dividends paid	(45 000)	
Net cash from financing activities		25 000

Harbour plc: statement of cash flows for the year ended 31 December 2025

	\$	\$
Net increase in cash and cash equivalents		24 000
Cash and cash equivalents at 1 January 2025		12 000
Cash and cash equivalents at 31 December 2025		36 000

B1 each depreciation figure (2); **B1** loss added; **B1** all three working-capital changes; **B1** interest paid; **B1** tax paid (last year's liability); **B1** net operating (own figure); **B1** purchases; **B1** proceeds; **B1** net investing (own figure); **B1** share issue including premium; **B1** debentures and dividends; **B1** net financing (own figure); **B1** net increase with opening and closing balances.

The waterfall chart in "Understand it" shows these three sections.

Example 4

Ana, Ben and Cal are partners sharing profits and losses 2 : 2 : 1. Cal retired on 31 December 2025 and Dev joined on 1 January 2026. Ana, Ben and Dev will share profits 3 : 2 : 1.

At 31 December 2025 the capital accounts were Ana \$80 000, Ben \$60 000 and Cal \$40 000, and the current accounts were Ana \$3000 credit, Ben \$1500 debit and Cal \$4500 credit.

- Goodwill was valued at \$60 000. No goodwill account is to be kept.
- Premises were revalued from \$150 000 to \$180 000, equipment from \$45 000 to \$38 000 and inventory from \$22 000 to \$20 000.
- Cal's current account was transferred to his capital account. He was paid \$30 700 in cash and the rest was left as a loan to the partnership at 6% a year.
- Dev paid \$50 000 into the business bank account as capital.

(a) Prepare the revaluation account. **[4]**

(b) Prepare the partners' capital accounts in columnar form. **[8]**

(c) Calculate the amount due to Cal. **[2]**

(d) Instead of admitting Dev, Ana and Ben could have borrowed \$30 700 from the bank at 9% a year to pay Cal. The partnership's profit for 2025 was \$90 000. Advise Ana and Ben whether or not they were right to admit Dev. Justify your answer. **[5]**

(a)

Revaluation account	\$		\$
Equipment	7 000	Premises	30 000
Inventory	2 000		
Profit on revaluation: Ana	8 400		
Ben	8 400		
Cal	4 200		
	30 000		30 000

B1 premises; **B1** equipment and inventory; **M1** net gain 30 000 – 9000 = 21 000 shared in the **old** ratio 2 : 2 : 1; **A1** shares.

(b)

Details	Ana \$	Ben \$	Cal \$	Dev \$	Details	Ana \$	Ben \$	Cal \$	Dev \$
Goodwill	30 000	20 000		10 000	Balance b/d	80 000	60 000	40 000	
Bank			30 700		Goodwill	24 000	24 000	12 000	
Loan: Cal			30 000		Revaluation	8 400	8 400	4 200	
Balance c/d	82 400	72 400		40 000	Current account			4 500	
					Bank				50 000

Details	Ana \$	Ben \$	Cal \$	Dev \$	Details	Ana \$	Ben \$	Cal \$	Dev \$
	112 400	92 400	60 700	50 000		112 400	92 400	60 700	50 000

B1 opening balances; **M1** goodwill credited in the old ratio ($\frac{2}{5}, \frac{2}{5}, \frac{1}{5}$ of 60 000); **M1** goodwill debited in the new ratio ($\frac{3}{6}, \frac{2}{6}, \frac{1}{6}$ of 60 000); **B1** revaluation (own figure); **B1** Cal's current account; **B1** Cal's bank and loan; **B1** Dev's capital; **B1** closing balances (own figure). Ana's and Ben's current accounts are unchanged.

(c) Due to Cal = 40 000 + 4500 + 12 000 + 4200 = **\$60 700**, paid \$30 700 in cash and \$30 000 left as a loan. **M1 A1**

(d)

For admitting Dev: his \$50 000 covers the \$30 700 paid to Cal with \$19 300 to spare, and capital, unlike a loan, needs no interest (\$2763 a year at 9%), repayment or security; Dev can take over Cal's share of the work. **(2)**

Against: Dev takes one-sixth of the profit, about \$15 000 on the 2025 figure of \$90 000, far more than the interest; Ben's share falls from a half to a third; a new partner may disagree over decisions. **(2)**

Decision: the loan was cheaper, so admitting Dev was right only if his work replaces Cal's and helps profit grow. **(1)**

Common mistakes

- **Putting the whole provision for unrealised profit in the statement of profit or loss.** Only the **change** goes there; the closing balance is deducted from finished goods in the statement of financial position.
- **Reversing the entries in the PURP account**, or writing a statement when the question asks for a ledger account. The provision has a credit balance; an increase is credited to it.
- **Using $\frac{r}{100}$ instead of $\frac{r}{100+r}$** when the rate is on cost, or using this year's rate for last year's provision.
- **Putting office costs in the manufacturing account**, or the whole of a shared cost. Only the factory's share goes there, and carriage outwards never does.
- **Taking all life membership fees as income in the year received.** Credit the fund and transfer only the year's share; examiners say few get this right.
- **Getting arrears and advance subscriptions the wrong way round**, or leaving out arrears written off. Draw the subscriptions account if unsure.
- **Leaving the bank balance (or overdraft) or the life membership fund out of the opening accumulated fund.**
- **Charging new equipment as an expense** in the income and expenditure account, forgetting its depreciation, or putting café takings instead of café profit.
- **Starting the statement of cash flows at profit for the year** instead of **profit from operations**, which usually has to be worked out first.
- **Leaving out the loss on disposal**, or leaving a profit on disposal in operating activities, or showing the carrying amount instead of the proceeds in investing activities.
- **Using the charge instead of the amount paid** for tax, interest and dividends. Tax paid is usually last year's liability.
- **Crediting goodwill in the new ratio**, sharing a revaluation gain in the new ratio, or forgetting the retiring partner's current account and loan in the amount due.
- **Generic advice:** points that could be about any business, one-word points, or no decision.

How to get the marks

- **Statements need a full heading** (name, statement, "for the year ended" or "at" with the date) and every subtotal labelled in words ("Prime cost", "Surplus for the year", "Net cash from operating activities"); unlabelled figures earn nothing.
- **Most lines earn their own mark, and totals are own-figure (OF) marks.** A wrong earlier figure still lets you earn the later marks, so finish every statement and show a labelled working for each calculated line.
- **Use brackets** for deductions and outflows in statements of cash flows and changes in equity; a figure on the wrong side of a total loses its mark.
- **"Prepare"** means the proper format; **"calculate"** means a working and an answer; **"state"** or **"name"** means short points, one per mark; **"explain"** means a point plus why (usually 2 marks: 1 for the point, 1 for its development).

- **Name the standard or concept** when explaining a treatment: IAS 2 and prudence for PURP, accruals for life membership, IAS 36 for impairment, IAS 38 for development costs, IAS 7 for the cash flow format.
- **"Advise", "Discuss" and "Evaluate"**: see section 1 of "How to do it" for how these are marked.

Quick check

1. Finished goods at 31 December are valued at \$48 000 at transfer price, which includes a factory profit of 20% on cost. The provision for unrealised profit at 1 January was \$6500. Calculate the closing provision, the amount shown in the statement of profit or loss and the value of finished goods in the statement of financial position.
2. A club received \$18 000 of subscriptions during 2025. At 1 January subscriptions of \$500 were in arrears and \$1200 had been paid in advance; at 31 December \$900 were in arrears and \$700 had been paid in advance. Calculate the subscriptions income for 2025.
3. Machinery had a carrying amount of \$84 000 at the start of the year and \$91 000 at the end. Machinery costing \$30 000 was bought, and a machine with a carrying amount of \$6000 was sold for \$7500. Calculate the depreciation for the year and show how the sale appears in the statement of cash flows.
4. P, Q and R share profits 3 : 2 : 1. R retires. His capital account has a credit balance of \$35 000 and his current account a **debit** balance of \$2400. Goodwill is valued at \$36 000 (no goodwill account is kept) and the revaluation of the assets gives a net gain of \$9000. Calculate the amount due to R.
5. At 1 January a club had equipment \$24 000, bar inventory \$1800, subscriptions in arrears \$300, subscriptions in advance \$500, a bank overdraft of \$1200 and a life membership fund of \$6000. During the year five members paid \$400 each for life membership; fees are transferred to income over 10 years starting in the year received, and the transfer for earlier fees is \$900. Calculate the accumulated fund at 1 January, the life membership income for the year and the life membership fund at 31 December.

Answers

1. Closing PURP = $48\,000 \times \frac{20}{120} = 8000$. Increase = $8000 - 6500 = 1500$, deducted from the factory profit in the statement of profit or loss. Finished goods = $48\,000 - 8000 = 40\,000$ (cost).
2. $18\,000 - 500 + 900 + 1200 - 700 = 18\,900$.
3. Depreciation = $84\,000 + 30\,000 - 6000 - 91\,000 = 17\,000$. Operating activities: add back depreciation \$17 000 and deduct the profit on disposal $7500 - 6000 = 1500$. Investing activities: proceeds from sale \$7500 (and purchase of machinery \$30 000 as an outflow).
4. R's share is $\frac{1}{6}$: goodwill $36\,000 \div 6 = 6000$ and revaluation gain $9000 \div 6 = 1500$, both credited in the **old** ratio. Due to R = $35\,000 - 2400 + 6000 + 1500 = 40\,100$ (the debit current account is deducted).
5. Accumulated fund = $24\,000 + 1800 + 300 - 500 - 1200 - 6000 = 18\,400$ (the overdraft and the life membership fund are liabilities). Income = $900 + 10\% \times (5 \times 400) = 1100$. Fund at 31 December = $6000 + 2000 - 1100 = 6900$.

Past questions to try

- **9706/32/M/J/25 Q1**: manufacturing account with the factory profit rate found from last year's provision, then the statement of profit or loss.
- **9706/33/M/J/25 Q1**: a club's vending machine, income and expenditure account, accumulated fund and advice on a donation with conditions.
- **9706/32/F/M/25 Q1**: profit from operations worked back from retained earnings, then a statement of cash flows.
- **9706/31/O/N/24 Q2**: a schedule of non-current assets with figures worked back from carrying values, and an impairment.