# Pearson Edexcel
International Advanced Level

# Accounting
## Paper 1: The Accounting System and Costing

Tuesday 17 May 2016 – Afternoon
**Source Booklet**

Paper Reference
**WAC11/01**

**Do not return this source booklet with question paper.**

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## SECTION A

**Answer BOTH questions in this section.**

**1** Azlina and Siti are in partnership retailing clothing. Their partnership agreement states that:

- The agreed capital is: Azlina £50 000 and Siti £25 000.
- Profits and losses will be shared equally.
- Salaries will be paid: £5 000 per annum to Azlina and £5 000 per annum to Siti.
- Interest on capital is allowed at the rate of 5% per annum.
- There will be no interest charged on drawings.
- Azlina made a loan to the business of £20 000 on 1 January 2014. Interest is payable at the rate of 8% per annum. The loan is repayable in full on 31 December 2016.

The following balances were extracted from the books on 31 March 2016:

| | | £ |
|---|---|---|
| Capital accounts 1 April 2015: | | |
| | Azlina | 50 000 |
| | Siti | 25 000 |
| Current accounts 1 April 2015: | | |
| | Azlina | 400 Dr |
| | Siti | 200 Cr |
| Drawings (excluding salaries paid): | | |
| | Azlina | 4 000 |
| | Siti | 1 500 |
| Non-current assets (at cost): | | |
| Freehold premises | | 128 000 |
| Delivery vehicles | | 12 000 |
| Fixtures and fittings | | 14 000 |
| Provisions for depreciation: | | |
| Delivery vehicles | | 8 400 |
| Fixtures and fittings | | 5 600 |
| Loans: | | |
| 8% Loan from Azlina | | 20 000 |
| 5% Bank loan (repayable 1 January 2018) | | 40 000 |
| Inventory 1 April 2015 | | 19 500 |
| Trade receivables | | 7 500 |
| Trade payables | | 9 800 |
| Bank overdraft | | 9 520 |
| Revenue | | 117 300 |
| Purchases | | 54 000 |
| Purchase returns | | 1 700 |
| Commission receivable | | 900 |
| Rates | | 4 750 |
| Wages and salaries | | 24 500 |
| Electricity and water | | 8 150 |
| Sundry expenses | | 10 300 |
| Allowance (Provision) for doubtful debts | | 180 |

**Additional information at 31 March 2016**

(1) Inventory £13 800

(2) Wages and salaries include the salaries paid in full to the partners.

(3) Rates £250 were prepaid and electricity £600 was owing.

(4) No interest has been paid on the 8% loan from Azlina or the 5% bank loan for the year.

(5) Depreciation is to be charged as follows:

- no depreciation on the freehold premises
- delivery vehicles at the rate of 25% per annum reducing balance
- fixtures and fittings at the rate of 10% per annum straight line.

(6) The allowance (provision) for doubtful debts is to be maintained at 4% of trade receivables.

**Required**

(a) Prepare for the partnership the:

(i) Statement of Profit or Loss and Other Comprehensive Income (including an appropriation section) for the year ended 31 March 2016

**(18)**

(ii) Current accounts of the partners for the year ended 31 March 2016

**(6)**

(iii) Statement of Financial Position at 31 March 2016.

**(14)**

The business premises of Azlina and Siti are located in a retail area that is growing in popularity with shoppers. Azlina and Siti have plans to take advantage of this popularity by expanding their business in the next financial year. They propose to:

(1) Undertake building work to expand the sales area available.

(2) Substantially increase the level of inventory in the business.

(3) Redecorate the premises.

(4) Employ an additional sales assistant.

(5) Purchase an electronic bar code system for inventory.

(b) State whether **each** of the above proposals is **capital expenditure** or **revenue expenditure**.

**(5)**

To finance the expansion of the business Azlina and Siti will have to obtain finance in the form of additional bank loans.

(c) Evaluate whether Azlina and Siti should expand their business.

**(12)**

**(Total for Question 1 = 55 marks)**

**2** Holborn Products manufactures parts for the motor industry. The following balances were extracted from the books on 30 April 2016.

| | £ |
|---|---|
| Inventories at 1 May 2015: | |
| Raw material | 23 400 |
| Work in progress | 52 000 |
| Finished goods | 72 000 |
| Purchases of raw materials | 97 800 |
| Carriage inwards | 8 450 |
| Manufacturing wages | 81 400 |
| Production management salaries | 59 500 |
| Non-current assets: | |
| Manufacturing equipment | |
| Cost | 280 000 |
| Provision for depreciation | 160 000 |
| Computing equipment | |
| Cost | 150 000 |
| Provision for depreciation | 90 000 |
| Computing technician wages | 40 000 |
| Factory consumables | 45 200 |
| Rent and rates | 16 000 |
| Electricity and water charges | 15 600 |
| General expenses | 21 000 |
| Property maintenance expenses | 11 000 |
| Provision for unrealised profit | 12 000 |

**Additional information at 30 April 2016**

(1) Inventories:

| | |
|---|---|
| Raw materials | £16 950 |
| Work in progress | £58 000 |
| Finished goods | £90 000 |

(2) Manufacturing wages of £2 600 were owing.

(3) All of the costs of computing are charged 60% to manufacturing and 40% to administration.

(4) Depreciation is charged on all non-current assets using the reducing balance method:

(i) manufacturing equipment at the rate of 20% per annum

(ii) computing equipment at the rate of 30% per annum.

(5) Factory consumables of £35 300 are direct.

(6) Half of the general expenses relate to manufacturing.

(7) Property maintenance expenses of £1 800 are owing.

(8) Rent and rates, electricity and water, property maintenance expenses are allocated 75% to manufacturing and 25% to administration.

(9) Production is transferred to finished goods at cost plus 20%.

**Required**

(a) Prepare, for the year ended 30 April 2016, the:

(i) Manufacturing Account **(21)**

(ii) Provision for Unrealised Profit on Manufactured Goods Account **(5)**

(iii) Manufacturing Wages Account. **(5)**

The owner of Holborn Products is proposing changes to the way in which financial statements are prepared. There are four proposals.

**Proposal 1**
Include a sum for the skill of the workforce as a non-current asset in the Statement of Financial Position.

**Proposal 2**
Charge the full cost price of non-current assets to the year in which they are purchased.

**Proposal 3**
No longer provide for unrealised profit by removing the provision for unrealised profit on manufactured goods from the accounts.

**Proposal 4**
Charge the drawings of the owner to the Statement of Profit or Loss and Other Comprehensive Income.

(b) State, giving reasons for your answer, an accounting principle or concept that would **not** be complied with if **each** of the proposals 1, 2, 3 and 4 were introduced.

**(12)**

(c) Evaluate the use of International Accounting Standards (IAS) in the preparation of financial statements.

**(12)**

**(Total for Question 2 = 55 marks)**

**TOTAL FOR SECTION A = 110 MARKS**

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**QUESTION 3 STARTS ON THE NEXT PAGE.**

## SECTION B

**Answer THREE questions from this section.**

**3** Channa commenced business as a market trader on 1 May 2015. His capital was an inventory of £4 000 and cash from an 8% bank loan of £5 000 repayable in 2018.

The following balances were extracted from the books at 30 April 2016.

| | £ |
|---|---|
| Revenue | 90 000 |
| Purchases | 60 000 |
| Wages | 12 000 |
| General expenses | 8 200 |
| Rental of market stall | 7 200 |
| Fixtures and fittings | 2 500 |

**Additional information at 30 April 2016**

(1) Inventory £6 000

(2) General expenses included £200 for bank loan interest.

(3) Fixtures and fittings were valued at £1 700.

**Required**

(a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2016.

**(5)**

(b) Calculate the:

(i) rate of inventory turnover

**(3)**

(ii) net profit for the year as a percentage of revenue.

**(3)**

Channa has been offered shop premises and is considering moving his business from market trading to a shop. To assist him to make that decision the following estimates were made for the year ended 30 April 2017:

- Revenue volume would increase by $33\frac{1}{3}$%. Selling prices would also be increased by 20%.
- The inventory on 30 April 2017 would be £12 000.
- The rate of inventory turnover would be 8 times for the year.
- The rent of the shop would be £18 200 per annum.
- Wages and general expenses would rise by 25%.
- Additional fixtures and fittings costing £18 500 would be purchased. At the end of the year **all** fixtures and fittings would have a value of £15 000.
- To finance the move to the shop the 8% bank loan would be increased to £25 000.

(c) Prepare the Forecast Statement of Profit or Loss and Other Comprehensive Income for the first year of trading in the shop ending 30 April 2017.

**(10)**

(d) Calculate the forecast net profit for the year as a percentage of revenue.

**(3)**

(e) Evaluate whether Channa should move his business into the shop premises.

**(6)**

**(Total for Question 3 = 30 marks)**

**4** The following is a schedule of non-current assets from the records of Jabir.

| **Non-current assets** | **Balances at 1 May 2015** | | **For the year ended 30 April 2016** | |
|---|---|---|---|---|
| | **Cost** | **Provision for depreciation** | **Additions at cost** | **Disposals at cost** |
| | **£** | **£** | **£** | **£** |
| Land and buildings | 85 000 | 8 000 | 20 000 | - |
| Computers | 30 000 | 9 200 | 10 000 | 5 000 |
| Fixtures and fittings | 9 500 | 4 300 | 1 500 | - |

The depreciation policy of Jabir is as follows:

- No depreciation is charged on land, which cost £35 000. Depreciation is charged on buildings at the rate of 2% per annum using the straight line method.
- Computers are depreciated at the rate of 20% per annum using the straight line method.
- Fixtures and fittings are depreciated at the rate of 10% per annum using the straight line method.
- A full year's depreciation is charged in the year of addition (purchase).
- A half year's depreciation is charged in the year of disposal (sale).

**Additional information**

(1) All non-current asset additions were paid for by cheque.

(2) All disposals were transferred to the Disposals Account.

(3) The computer disposed of in the year had been purchased on 1 January 2014.

**Required**

(a) Explain why Jabir needs to charge depreciation on his non-current assets.

**(4)**

(b) Calculate the depreciation to be charged on the computers for the year ended 30 April 2016.

**(2)**

(c) Prepare, for the year ended 30 April 2016, the:

(i) Computers Account

**(5)**

(ii) Computers – Provision for Depreciation Account.

**(5)**

(d) Complete in the question paper the extract from the Statement of Financial Position at 30 April 2016 for the non-current assets.

**(8)**

| **Non-current assets** | **Cost** | **Accumulated depreciation** | **Carrying value** |
|---|---|---|---|
| | **£** | **£** | **£** |
| Land and buildings | | | |
| Computers | | | |
| Fixtures and fittings | | | |
| Total | | | |

(e) Evaluate Jabir's depreciation policy for computers.

**(6)**

**(Total for Question 4 = 30 marks)**

**5** Hiruni makes parts for washing machines. Her largest contract is to supply part PNC3 to a major manufacturer, Wash the World.

The following information is available for part PNC3:

- Manufacture of part PNC3 is in batches of 200
- Raw materials cost £303.70 per batch
- Direct labour per batch – 30 hours Assembly<br>20 hours Finishing

  Direct labour is paid at the rate of £5 per hour for Assembly and £4 per hour for Finishing
- Overheads:

| | £ |
|---|---|
| Rent and rates | 16 000 |
| Employment insurance | 9 000 |
| Premises maintenance | 12 000 |
| Management salaries | 18 000 |

There are three departments, two production departments, Assembly and Finishing and one service department, Administration

**Additional information**

| | Assembly | Finishing | Administration |
|---|---|---|---|
| Floor area occupied (sq m) | 4 000 | 2 400 | 1 600 |
| Direct labour hours (per annum) | 9 200 | 5 600 | 3 200 |

Administration costs are reapportioned to the production departments on the basis of 50% to Assembly and 50% to Finishing.

Overheads are recovered on the basis of direct labour hours

- Mark-up

  Hiruni adds 15% to production cost for her profit.

**Required**

(a) Explain the terms:

(i) semi-fixed cost

**(2)**

(ii) semi-variable cost.

**(2)**

(b) Explain the difference between **allocated overheads** and **apportioned overheads**.

**(4)**

(c) Calculate the:

(i) total overhead for **each** of the three departments

(7)

(i) overhead recovery rate to be used in **each** of the Assembly and Finishing Departments.

(2)

(d) Calculate the selling price of **one** part PNC3.

(7)

Hiruni has been requested by Wash the World to reduce the price of part PNC3 from the existing £5 per part to £4 per part.

(e) Evaluate whether Hiruni should meet Wash the World's request to reduce her selling price for part PNC3.

(6)

**(Total for Question 5 = 30 marks)**

**6** Dula prepared draft financial statements that showed a profit of £72 000 for the year ended 30 April 2016. On further inspection the following errors were discovered:

(1) The entries for a credit sale of goods to Ruwan, £750, had been reversed in the books.

(2) Some goods had been shown in the closing inventory count at their retail value of £1 350. All goods are marked-up by 50%.

(3) Motor vehicle expenses of £400 had been recorded in the Motor Vehicles Account. Depreciation of £80 had been charged wrongly in the draft financial statements.

(4) Rent receivable of £2 300 had been correctly entered in the Bank Account and debited to the Rent Receivable Account.

(5) Dula had paid herself a salary of £6 100, which had been recorded in the Wages Account.

**Required**

(a) State **four** types of error that will **not affect** the balancing of the books. **(4)**

(b) Prepare the journal entries to correct the errors (1) to (5). Narratives are **not** required. **(12)**

(c) Complete the table, in the question paper, showing the revised profit for the year **after** the correction of all errors.

**(8)**

| | | | | £ |
|---|---|---|---|---|
| Draft profit for the year | | | | 72 000 |
| | | **Increase Profit** | **Decrease Profit** | |
| Error | | **£** | **£** | |
| (1) | The entries for a sale of goods to Ruwan, £750, had been reversed in the books | | | |
| (2) | Some goods had been shown in the closing inventory count at their retail value of £1 350. All goods are marked-up by 50% | | | |
| (3) | Motor vehicle expenses of £400 had been recorded in the Motor Vehicles Account. Depreciation of £80 had been charged wrongly in the draft financial statements | | | |
| (4) | Rent receivable of £2 300 had been correctly entered in the Bank Account and debited to the Rent Receivable Account | | | |
| (5) | Dula had paid herself a salary of £6 100, which had been recorded in the Wages Account. | | | |
| | Total increase profit and decrease profit | | | |
| Revised profit for the year | | | | |

A friend of Dula has advised her that the use of an information and communications technology (ICT) accounting software package would avoid errors and provide many other benefits.

(d) Evaluate the use of information and communications technology (ICT) accounting software packages.

**(6)**

**(Total for Question 6 = 30 marks)**

**TOTAL FOR SECTION B = 90 MARKS**
**TOTAL FOR PAPER = 200 MARKS**