

Pearson Edexcel
International Advanced Level

Accounting

Paper 1: The Accounting System and Costing

Monday 9 January 2017 – Morning
Source Booklet

Paper Reference
WAC11/01

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SECTION A**Answer BOTH questions in this section.**

1 Elodie and Harsha are partners in a transport delivery business. Their partnership agreement states that:

- profits and losses will be shared equally
- salaries will be paid £8 000 per annum to Elodie and £12 000 per annum to Harsha
- interest on capital is allowed at the rate of 5% per annum
- interest on drawings is charged at the rate of 10% per annum.

The following balances were available at 31 December 2016:

| | £ |
|--|----------|
| Revenue | 525 000 |
| Commission receivable | 16 500 |
| Trade receivables | 38 000 |
| Allowance for doubtful debts | 1 400 |
| Trade payables | 26 000 |
| Bank overdraft | 9 200 |
| Driver's wages | 185 000 |
| General expenses | 67 000 |
| Management salaries | 56 000 |
| Non-current assets (cost): | |
| Delivery vehicles | 140 000 |
| Computers and equipment | 50 000 |
| Provisions for depreciation: | |
| Delivery vehicles | 50 000 |
| Computers and equipment | 20 000 |
| Capital accounts: | |
| Elodie | 40 000 |
| Harsha | 50 000 |
| Current accounts: | |
| Elodie | 4 000 Cr |
| Harsha | 8 300 Dr |
| Drawings (excluding partners' salaries): | |
| Elodie | 23 000 |
| Harsha | 28 500 |
| Rent and insurance | 15 800 |
| Premises repairs | 24 000 |
| Delivery vehicle fuel | 106 500 |

Additional information at 31 December 2016

- (1) Rent £500 was prepaid and insurance £1 250 was owing.
- (2) Management salaries include the salaries paid in full to both partners.

- (3) On 15 December 2016 Delivery Vehicle B was traded in and replaced by Delivery Vehicle F. The balance of the purchase price for Delivery Vehicle F was on credit from Speed Garage.

No entries had been made in the books.

The details for Delivery Vehicle B and Delivery Vehicle F were:

| | Cost | Accumulated depreciation to 1 January 2016 | Total purchase price | Trade-in value |
|--|-------------|---|-----------------------------|-----------------------|
| | £ | £ | £ | £ |
| Sold Delivery Vehicle B | 14 000 | 5 000 | – | 4 000 |
| Purchased Delivery Vehicle F | – | – | 25 000 | – |

- (4) Depreciation is to be charged as follows:

- delivery vehicles at the rate of 20% per annum reducing balance
- computers and equipment at the rate of 20% per annum straight line
- no depreciation is charged on non-current assets in the year of purchase
- a full year's depreciation is charged on non-current assets in the year of sale.

- (5) The allowance for doubtful debts is to be maintained at 5% of trade receivables.

Required

- (a) Prepare for the year ended 31 December 2016 the:

- (i) Delivery Vehicles Account (4)
- (ii) Delivery Vehicles Disposal Account. (4)

- (b) Prepare for the partnership the:

- (i) Statement of Profit or Loss and Other Comprehensive Income (including an appropriation section) for the year ended 31 December 2016 (17)
- (ii) Current Accounts of the partners for the year ended 31 December 2016 (6)
- (iii) Statement of Financial Position at 31 December 2016. (12)

Elodie and Harsha are considering admitting Aja as a partner.

- (c) Evaluate the possible admission of Aja as a partner. (12)

(Total for Question 1 = 55 marks)

2 Wright Household, a retailer, has three departments:

- Furniture
- Carpets
- Café.

The following balances were extracted from the books at 31 December 2016:

| | £ |
|------------------------------|---------|
| Revenue: | |
| Furniture | 450 000 |
| Carpets | 300 000 |
| Café | 50 000 |
| Cost of sales: | |
| Furniture | 190 000 |
| Carpets | 140 000 |
| Café | 30 000 |
| Wages: | |
| Furniture | 80 000 |
| Carpets | 50 000 |
| Café | 20 000 |
| Management salaries | 65 000 |
| Delivery vehicle expenses | 26 000 |
| Heat and light | 10 800 |
| Redecoration of building | 13 500 |
| Rates for building | 18 900 |
| General expenses | 64 000 |
| Non-current assets (cost): | |
| Land and building | 260 000 |
| Delivery vehicle | 25 000 |
| Fixtures and equipment | 40 000 |
| Provisions for depreciation: | |
| Land and building | 52 000 |
| Delivery vehicle | 5 000 |
| Fixtures and equipment | 21 000 |

Additional information at 31 December 2016

- (1) A purchase of carpets, £11 000, had been recorded in error as a purchase of furniture for resale.
- (2) Wages accrued: Furniture £3 000, Carpets £5 000
- (3) Rates for building of £900 were prepaid.
- (4) Depreciation is to be charged as follows:
- no depreciation is charged on the land cost of £80 000. Depreciation is charged on the buildings at the rate of 2% straight line
 - delivery vehicle at the rate of 25% per annum reducing balance
 - fixtures and equipment at the rate of 15% per annum straight line.
- (5) Provide for a:
- doubtful debt of £4 000 for carpets supplied to a customer
 - legal claim of £600 for an injury to a customer in the café.
- (6) Departmental data:

| | Furniture | Carpets | Café |
|---------------------------------|------------------|----------------|-------------|
| Staff employed (number) | 10 | 7 | 3 |
| Delivery vehicle use (%) | 70 | 30 | Nil |
| Floor area occupied (sq m) | 1 000 | 600 | 200 |
| Fixtures and equipment cost (£) | 8 000 | 10 000 | 22 000 |

Required

- (a) Prepare the Departmental Statement of Profit or Loss and Other Comprehensive Income, in **columnar format**, for the year ended 31 December 2016. (35)

The owner of Wright Household is considering closing the café as he believes that the department makes a loss.

- (b) Evaluate the closure of the café. (12)

Wright Household remunerates its staff on a day work basis. It is considering changing this method of remuneration to a group bonus scheme for each department.

(c) Explain the terms:

(i) day work

(2)

(ii) group bonus scheme.

(2)

(d) State **two** advantages for Wright Household of remunerating staff by day work.

(2)

(e) Advise whether a group bonus scheme would be appropriate for the café staff.

(2)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B**Answer THREE questions from this section.**

- 3 Protea Venture Capital is considering the purchase of Zollar Power. The following information is available:

Zollar Power
Summary Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 November 2016

| | £ | £ |
|---------------------|---------------|----------------------|
| Revenue | | 750 000 |
| Cost of sales | 300 000 | |
| Wages and salaries | 240 000 | |
| Bank loan interest | 25 000 | |
| Marketing | 40 000 | |
| Depreciation | 40 000 | |
| Rent | 15 000 | |
| General expenses | <u>75 000</u> | |
| | | <u>735 000</u> |
| Profit for the year | | <u><u>15 000</u></u> |

Additional information at 30 November 2016

- (1) Bank loan £250 000
 (2) Capital £550 000

Required

- (a) Calculate for Zollar Power the:
- (i) gross profit as a percentage of revenue (2)
- (ii) profit for the year as a percentage of revenue (2)
- (iii) percentage return on capital employed. (2)

If Protea Venture Capital purchased Zollar Power it would:

- invest an additional £250 000 in the business at the start of the year and repay the bank loan in full
- increase marketing expenditure by £31 000 per annum, which will increase sales volume by 20%
- increase the volume of purchases in line with sales, however lower quality goods will be purchased for resale, saving 10% on **all** purchases made
- make 15 staff redundant saving £90 000
- reduce general expenses by £15 000

Required

- (b) Prepare the Projected Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 November 2017. (10)
- (c) Calculate for the year ended 30 November 2017 the projected:
- (i) profit for the year as a percentage of revenue (2)
 - (ii) percentage return on capital employed. (2)
- (d) Explain the term social and ethical accounting. (4)
- (e) Evaluate the proposal of Protea Venture Capital for the purchase of Zollar Power. (6)

(Total for Question 3 = 30 marks)

- 4 Sanith prepared a trial balance on 30 November 2016 that failed to agree. In checking his transactions for the month of November, he found that the account of one of his suppliers, Kamila, contained errors. The account was recorded as follows:

| Kamila Account | | | | | |
|-----------------------|-------------|--------------|-------------|-------------|--------------|
| 2016 | | £ | 2016 | | £ |
| 8 November | Purchases | 1 400 | 1 November | Balance b/d | 8 000 |
| 15 November | Bank | 5 600 | 15 November | Discount | 400 |
| 30 November | Balance c/d | <u>1 930</u> | 20 November | Returns | <u>530</u> |
| | | <u>8 930</u> | | | <u>8 930</u> |
| | | | 1 December | Balance b/d | 1 930 |

On inspection of the books Sanith found the following errors:

- (1) Purchases of £1 400 had been correctly entered in the Purchases Account but debited to the account of Kamila.
- (2) Discount received of £400 on 15 November had been credited to the account of Kamila. Other entries for this transaction were correct.
- (3) A credit purchase of goods from Kamila on 18 November, £2 100, had been posted to the account of Robson.
- (4) A return of goods, £350, to Kamila on 20 November had been correctly recorded in the book of prime entry. This had been recorded in Kamila's account as £530
- (5) A payment of £1 500 made by cheque to Kamila on 25 November was omitted from the books.

Required

- (a) Prepare the journal entries to correct the errors (1) to (5) in the books.
Narratives are **not** required. (10)
- (b) Complete the account of Kamila in your question paper, showing the additional entries required to correct the errors. (10)
- (c) Explain the difference between an:
 - (i) error of compensation and an error of reversal (2)
 - (ii) error of principle and an error of commission. (2)
- (d) Evaluate the use of the trial balance. (6)

(Total for Question 4 = 30 marks)

5 Falgu commenced business as a builder on 1 December 2015. The following information is available for the year ended 30 November 2016:

- raw materials costing £80 000 were purchased and used
- Falgu marks up all raw materials by 15%
- Falgu worked 50 hours per week for 50 weeks of the year
- 80% of the hours worked by Falgu were charged to customers
- overhead costs were:

| | |
|-----------------------------|------------------|
| Rent of premises | £1 000 per month |
| General expenses | £13 500 per year |
| Motor vehicle running costs | £8 500 per year |
- Falgu charged a rate to customers of £25 per hour to cover his labour and overheads.

Required

(a) Explain the difference between mark-up and margin. (2)

(b) State whether the following costs would be fixed, semi-fixed, semi-variable or variable, giving your reason for each:

(i) raw materials (2)

(ii) rent of premises (2)

(iii) telephone costs (included in general expenses). (2)

(c) Calculate Falgu's profit or loss for the year ended 30 November 2016. (8)

Falgu has decided to charge a rate to customers in the future that will provide him with a profit for the year of £40 000.

(d) Calculate the hourly rate that Falgu would need to charge to customers. (4)

(e) Prepare a quotation for a customer where:

| | | |
|------------------------------|----------|-----|
| Raw materials purchase price | £1 100 | |
| Falgu's hours worked | 35 hours | (4) |

Falgu is considering the use of information and communications technology (ICT) to operate his business.

(f) Evaluate the use of information and communications technology (ICT) to operate Falgu's business. (6)

(Total for Question 5 = 30 marks)

- 6 Raegan buys and sells clothing on credit. She does not maintain a full set of books but the following information is available for the year ended 31 December 2016.

(1)

Cash Book (summary)

| | £ | | £ |
|--------------------------------|---------------|------------------------------|---------------|
| Receipts from credit customers | 47 200 | Balance b/d | 750 |
| Cash sales banked | 8 300 | Payments to credit suppliers | 35 000 |
| Commission receivable | 5 000 | Purchase of computers | 7 400 |
| Balance c/d | 280 | Wages by cheque | 9 000 |
| | | General expenses | 8 630 |
| | <u>60 780</u> | | <u>60 780</u> |
| | | Balance b/d | 280 |

(2) Balances at:

| | 1 January 2016 | 31 December 2016 |
|---|----------------|------------------|
| | £ | £ |
| Trade receivables | 5 750 | 4 400 |
| Trade payables | 2 750 | 6 100 |
| Inventory | 10 920 | 9 350 |
| Computers and fixtures (carrying value) | 15 000 | 17 500 |
| General expenses | 450 Accrued | 920 Prepaid |
| Commission receivable | – | 600 Accrued |

(3) Cash sales were banked after payment of the following:

| | £ |
|----------------------|--------|
| Wages | 10 350 |
| Drawings | 10 500 |
| Purchase of fixtures | 6 000 |
| Purchase of goods | 2 000 |

(4) Fixtures were sold, on credit, in December for £1 300 at carrying value.

Required

- (a) Explain the difference between:
- (i) capital expenditure and revenue expenditure (2)
 - (ii) capital and capital employed. (2)
- (b) Calculate for the year ended 31 December 2016 the:
- (i) revenue (4)
 - (ii) purchases (3)
 - (iii) depreciation on computers and fixtures. (4)
- (c) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016. (9)
- (d) Evaluate the need to maintain double entry records in a business. (6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 200 MARKS