| Centre No. | | | | | | Paper Reference | Surname | Initial(s) |
|---|---|---|---|---|---|---|---|---|
| Candidate No. | | | | | | W A C 0 1 / 0 1 | Signature | |

Paper Reference(s)

# WAC01/01

## Pearson Edexcel

# International Advanced Level

## Accounting (Modular Syllabus)

Unit 1: The Accounting System and Costing

Friday 10 January 2014 – Morning

Time: 3 hours

Examiner's use only

Team Leader's use only

| Question Number | Leave Blank |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |
| 6 | |
| 7 | |
| Total | |

| Materials required for examination | Items included with question papers |
|---|---|
| Nil | Source booklet |

### Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.
Check that you have the correct question paper.
Answer FIVE questions, choosing TWO from Section A and THREE from Section B.
Indicate which question you are answering by marking the box (☒).
If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).
All calculations must be shown.
Write your answers in the spaces provided in this question paper.
Do not return the insert with the question paper.

### Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. **(2)**.
There are 7 questions in this question paper. The total mark for this paper is 200.
There are 40 pages in this question paper. Any blank pages are indicated.
Calculators may be used.
**The source material for use with questions 1 to 7 is in the enclosed source booklet.**

### Advice to Candidates

Write your answers neatly and in good English.



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***Turn over***

PEARSON

## SECTION A

## SOURCE MATERIAL FOR USE WITH QUESTION 1

**1.** Anthi and Keri started a partnership on 1 January 2013. On that date the partners placed the following assets and liabilities into the business:

**Anthi**

| | |
|---|---|
| Goodwill | £75 000 |
| Delivery vehicle | £9 000 |
| Inventory | £16 000 |
| Trade receivables | £7 000 |
| Trade payables | £15 000 |

**Keri**

| | |
|---|---|
| Land and building | £80 000 |

**Additional information:**

(1) The partnership agreement stated that:
- Goodwill would **not** be maintained in the books of the partnership
- Interest on capital would be paid at the rate of 5% per annum
- Anthi would receive a salary of £15 000 per annum
- Profits and losses would be shared three fifths Anthi, two fifths Keri
- All appropriations would be recorded in a current account for each partner.

(2) On 1 July 2013, Keri paid an additional £20 000 capital into the business bank account.

(3) The partnership received a £50 000, 8% bank loan on 1 April 2013. The loan is repayable in five equal annual instalments on the 1 April of each year. The first repayment will be made on 1 April 2014.

(4) Balances, other than partners' capital and current accounts, at 31 December 2013 were:

| | £ |
|---|---|
| Inventory | 63 000 |
| Gross profit | 103 350 |
| Land and buildings (at cost) | 80 000 |
| Delivery vehicles (at cost) | 19 000 |
| Fixtures and fittings (at cost) | 14 000 |
| Trade payables | 25 900 |
| Trade receivables | 18 300 |
| 8% Bank loan | 50 000 |
| Cash and bank | 7 800 |
| Wages and salaries | 47 000 |
| Bank loan interest | 2 000 |
| Delivery vehicle expenses | 12 250 |
| Carriage inwards | 500 Cr |
| Sundry expenses | 21 900 |
| Drawings: Anthi | 5 500 |
| Keri | 6 000 |

(5) At 31 December 2013:
- Wages and salaries includes the £15 000 salary paid to Anthi
- Delivery vehicle expenses of £650 were prepaid
- No depreciation is to be charged on land and buildings
- An additional delivery vehicle was purchased on 1 July 2013. Depreciation is to be charged at the rate of 20% per annum using the reducing balance method. Depreciation is charged pro rata to the months of ownership in the year of purchase.
- Fixtures are to be depreciated at the rate of 10% per annum using the straight-line method. The fixtures and fittings were purchased on 1 January 2013 and the residual value will be £2 000
- A bad debt of £800 was to be written off as irrecoverable. A provision for doubtful debts is to be created at 4% of remaining debts.

**Required:**

(a) Prepare the Journal at 1 January 2013, including narratives, to:

(i) open the books of the partnership
**(3)**

(ii) remove goodwill from the books of the partnership.
**(3)**

(b) Prepare for the year ended 31 December 2013, the:

(i) Statement of Comprehensive Income and Appropriation Account
**(15)**

(ii) Capital accounts of the partners
**(4)**

(iii) Current accounts of the partners.
**(4)**

(c) Prepare the Statement of Financial Position at 31 December 2013.
**(15)**

(d) Evaluate the decision of the partners to **not** charge depreciation for land and buildings.
**(8)**

**(Total 52 marks)**

**Answer space for question 1 is on pages 2 to 8 of the question paper.**

**SECTION A**

1(a)(ii)

Journal

| | Dr | CR |
|---|---|---|
| | £ | £ |
| Goodwill | 75 000 | |
| Delivery vehicle | 9 000 | |
| Inventory | 16 000 | |
| Trade receivables | 7 000 | |
| Trade payables | | 15 000 |
| Capital Anthi | | 92 000 √ |
| Land and buildings | 80 000 | |
| Capital Keri | | 80 000 √ |
| Opening assets and liabilities of the partnership √ | | |

**(3)**

| | Dr | CR |
|---|---|---|
| Capital Anthi | 45 000 | √ |
| Capital Keri | 30 000 | √ |
| Goodwill | | 75 000 |
| Goodwill of the partnership written off √ | | |

**(3)**

(b)(i)

Anthi and Keri – Statement of Comprehensive Income and Appropriation Account for the year ended 31 December 2013

| | £ | £ |
|---|---|---|
| Gross profit | | 103 350 |
| Less expenses: | | |
| Wages and salaries (47 000 – 15 000) | 32 000 | √ |
| Loan interest (2 000 + 1 000) | 3 000 | √ |
| Delivery vehicle expenses (12 250 – 650) | 11 600 | √ |
| Sundry expenses | 21 900 | √ |
| Depreciation – Delivery vehicles | 2 800 | √ |
| Fixtures and fittings | 1 200 | √ |
| Bad debts | 800 | √ |
| Provision for Doubtful Debts | 700 | √ |
| | | 74 000 |
| Profit for the year | | 29 350 |

| | | | |
|---|---|---|---|
| Interest on capital: | | | |
| Anthi | 2 350 | | √√( √of) |
| Keri (2 500 + 500) | 3 000 | | √√ (√of) |
| | 5 350 | | |
| Salary Anthi | 15 000 | | √ |
| | | | |
| Share of profit: | | | |
| Anthi | 5 400 | | √of if in correct ratio |
| Keri | 3 600 | | √of if in correct ratio |
| | 9 000 | | |
| | | 29 350 | |

**(15)**

(ii)

Capital Accounts

| | Anthi | Keri | | Anthi | Keri |
|---|---|---|---|---|---|
| | £ | £ | | £ | £ |
| Goodwill | 45 000 | 30 000 √ | Journal | 92 000 | 80 000 √ |
| Balance c/d | 47 000 | 70 000 | Bank | | 20 000 √ |
| | 92 000 | 100 000 | | 92 000 | 100 000 |
| | | | Balance b/d | 47 000 | 70 000 √of |

**(4)**

(iii)

Current Accounts

| | Anthi | Keri | | Anthi | Keri |
|---|---|---|---|---|---|
| | £ | £ | | £ | £ |
| Salary paid | 15 000 √ | - | Interest | 2 350 | 3 000 √ of |
| Drawings | 5 500 | 6 000 √ | Salary | 15 000 | - |
| Balance c/d | 2 250 | 600 | Share of profit | 5 400 | 3 600 |
| | 22 750 | 6 600 | | 22 750 | 6 600 |
| | | | Balance b/d | 2 250 | 600 √of |

**(4)**

(c)

Statement of Financial Position at 31 December 2013

| | | Cost | Accumulated Depreciation | Carry over | |
|---|---|---|---|---|---|
| | | £ | £ | £ | |
| Non-current assets | | | | | |
| Land and buildings | | | | 80 000 | |
| Delivery vehicles | | 19 000 | 2 800 | 16 200 | √of if <19 000 |
| Fixtures and fittings | | 14 000 | 1 200 | 12 800 | √of if <14 000 |
| | | | | 109 000 √ | |
| Current assets | | | | | |
| Inventory | | 63 000 | | | √ |
| Trade receivables | 17 500 | | | | √ |
| Less PDD | 700 | 16 800 | | | √of |
| Other receivables | | 650 | | | √ |
| Cash and Bank | | 7 800 | | | √ |
| | | | | 88 250 | |
| | | | | 197 250 | |
| Capital and equity: | | | | | |
| Capital accounts: | | | | | |
| Anthi | | 47 000 | | | |
| Keri | | 70 000 | | | |
| | | 117 000 | | | √of |
| Current accounts: | | | | | |
| Anthi | | 2 250 | | | |
| Keri | | 600 | | | |
| | | 2 850 | | | √of |
| | | | | 119 850 | |
| Creditors: due in less than one year | | | | | |
| Trade payables | | 25 900 | | | √ |
| 8% Bank loan repayment | | 10 000 | | | √ |
| Other payables | (1 000 + 500) | 1 500 | | | √√ |
| | | | | 37 400 | |
| Creditors: due in more than one year | | | | | |
| 8% Bank loan | | 40 000 | | | √ (√of £50,000) |
| | | | | 40 000 | |
| | | | | 197 250 | |

**(15)**

(d) ) Valid points may include:

Positive

- Land generally does not decrease in value through deterioration
- Historically land and buildings have appreciated in value
- Annual depreciation charge would be very small due to the long life of the asset

Negative

- Buildings will deteriorate with the passage of time
- Does not comply with concept of prudence, matching or going concern
- Unrealistic not to charge
- Non current assets not overstated

**Do not accept** higher profit, save time, make it easier

√√ per point x 4 - MAX 2 points positive and 2 points negative

**(8)**

**(Total 52 marks)**

2 (a)

| | | £ Plus | £ Minus | £ Balance | |
|---|---|---|---|---|---|
| Inventory count | | | | 15 600 | |
| | (1) | 900 | | | √√ |
| | (2) | | (750) | | √√ |
| | (3) | | (500) | | √√ |
| | (4) | 800 | | | √√ |
| | (5) | 350 | | | √√ |
| | | 2 050 | 1 250 | | |
| Adjusted inventory balance | | | | 16 400 | |

**(10)**

**SOURCE MATERIAL FOR USE WITH QUESTION 2**

**2.** Gary is a sole trader. He rents a shop at Easton Golf Course where he is also a golf instructor. His inventory count (stock take) at 31 December 2013 was valued at £15 600. On inspection of his inventory records he discovered that:

(1) Golf equipment costing £900 had been omitted from the inventory count.

(2) An inventory sheet had been over cast by £750.

(3) Golf clothing costing £1 000 had been damaged and could now only be sold at half of the cost price.

(4) Golf equipment with a selling price of £1 200, on sale or return to a member, had **not** been included in the inventory count. The member had not stated an intention to buy or return the goods.

(5) Golf equipment with a selling price of £525 had **not** been included in the inventory count.

Gary marks up all golf clothing and golf equipment by 50%.

**Required:**

(a) Calculate the corrected value of the inventory at 31 December 2013 after the above adjustments (1) to (5) are made.

**(10)**

The Cash Book (Summary) for Gary for the year ended 31 December 2013 was as follows:

Cash Book (Summary)

| | £ | | £ |
|---|---|---|---|
| Balance b/d | 1 680 | Payments to suppliers | 38 900 |
| Receipts from customers | 52 960 | Playing fees paid to the Course | 25 000 |
| Playing fees collected | 28 800 | Fixtures and fittings | 400 |
| Course salary received | 4 500 | Rent | 1 900 |
| Golf tuition fees | 8 250 | Heat and light | 1 760 |
| | | Drawings | 29 500 |
| Balance c/d | 5 690 | Sundry expenses | 4 420 |
| | 101 880 | | 101 880 |
| | | Balance b/d | 5 690 |

**Additional information:**

(1) Gary collects playing fees on behalf of the Course and keeps 5% of all playing fees collected. The balance of 95% has to be paid to the Course.

(2) Easton Golf Course pays Gary a salary of £5 000 per annum.

(3) Gary keeps all the profit from the sale of golf clothing and golf equipment.

(4) Easton Golf Course charges Gary a rent of £2 150 per annum for the shop.

(5) Balances at:

| | 1 January 2013 | 31 December 2013 |
|---|---|---|
| | £ | £ |
| Fixtures and fittings (at valuation) | 1 700 | 1 650 |
| Inventory | 12 850 | ? |
| Trade receivables | 6 170 | 6 330 |
| Trade payables | 6 700 | 9 350 |
| Prepaid heat and light | 300 | - |
| Accrued heat and light | - | 460 |

**Required:**

(b) Calculate the capital of Gary at 1 January 2013.
**(3)**

(c) Prepare the:

(i) Statement of Comprehensive Income for the year ended 31 December 2013
**(13)**

(ii) Statement of Financial Position at 31 December 2013.
**(12)**

(d) Calculate for Gary, the current ratio at:

(i) 1 January 2013
**(3)**

(ii) 31 December 2013.
**(3)**

(e) Evaluate the liquidity of Gary's business.
**(8)**

**(Total 52 marks)**

**Answer space for question 2 is on pages 9 to 16 of the question paper.**

(d) ) Valid points may include:

Positive

- Land generally does not decrease in value through deterioration
- Historically land and buildings have appreciated in value
- Annual depreciation charge would be very small due to the long life of the asset

Negative

- Buildings will deteriorate with the passage of time
- Does not comply with concept of prudence, matching or going concern
- Unrealistic not to charge
- Non current assets not overstated

**Do not accept** higher profit, save time, make it easier

√√ per point x 4 - MAX 2 points positive and 2 points negative

**(8)**

**(Total 52 marks)**

2 (a)

| | | £ Plus | £ Minus | £ Balance | |
|---|---|---|---|---|---|
| Inventory count | | | | 15 600 | |
| | (1) | 900 | | | √√ |
| | (2) | | (750) | | √√ |
| | (3) | | (500) | | √√ |
| | (4) | 800 | | | √√ |
| | (5) | 350 | | | √√ |
| | | 2 050 | 1 250 | | |
| Adjusted inventory balance | | | | 16 400 | |

**(10)**

(b)

| | £ |
|---|---|
| **Assets** | |
| Bank | 1 680 |
| Fixtures | 1 700 |
| Inventory | 12 850 |
| Trade receivables | 6 170 |
| Prepaid | 300 |
| | 22 700 √ |
| Less | |
| **Liabilities** | |
| Trade payables | (6 700) √ |
| | |
| **Capital** | 16 000 √of |

**(3)**

(c)(i)

Gary - Statement of Comprehensive Income for the year ended 31 December 2013

| | | £ | £ | |
|---|---|---|---|---|
| Revenue | 52 960 – 6 170 + 6 330 | | 53 120 √√ | |
| Less | | | | |
| **Cost of sales:** | | | | |
| Opening inventory | | 12 850 | | |
| Purchases | 38 900 – 6 700 +9 350 | 41 550 | | √√ |
| | | 54 400 | | |
| Closing inventory | | (16 400) | | √of |
| Cost of sales | | | 38 000 | |
| **Gross profit** | | | 15 120 | |
| Plus Other income | | | | |
| Playing fees | 28 800 x 5% | 1 440 | | √ |
| Club salary | 4 500 + 500 | 5 000 | | √ |
| Golf tuition fees | | 8 250 | | √ |
| | | | 14 690 | |
| | | | 29 810 | |
| Less Expenses | | | | |
| Rent | | 2 150 | | √ |
| Heat and light | 1 760 + 300 + 460 | 2 520 | | √√ |
| Sundry expenses | | 4 420 | | √ |
| Depreciation – Fixtures and fittings | | 450 | | √ |
| | | | 9 540 | |
| Profit for the year | | | 20 270 | |

(13)

(ii)

Statement of Financial Position at 31 December 2013

| | | £ | £ | |
|---|---|---|---|---|
| Non-current assets | | | | |
| Fixtures and fittings | | | 1 650 | √ |
| | | | | |
| Current assets | | | | |
| Inventory | | 16 400 | | √of |
| Trade receivables | | 6 330 | | √ |
| Other receivables | | 500 | | √ |
| | | | 23 230 | |
| | | | 24 880 | |
| | | £ | £ | |
| Capital and equity: | | | | |
| Capital | | 16 000 | | √of |
| Profit for the year | | 20 270 | | √of |
| | | 36 270 | | |
| Drawings | | (29 500) | | √ |
| | | | 6 770 | |
| Current liabilities | | | | |
| Trade payables | | 9 350 | | √ |
| Other payables | 2 360 + 250 + 460 | 3 070 | | √√√ |
| Bank overdraft | | 5 690 | | √ |
| | | | 18 110 | |
| | | | 24 880 | |
| | | | | **(12)** |

(d)(i)(ii)

1 January

Current ratio – Current assets / Current liabilities = (12 850 + 6 170 + 300 + 1 680) / 6 700 = 21 000 / 6 700 √ = 3.13:1 √of

**(3)**

31 December

Current assets / Current liabilities = (16 400 of + 6 330 + 500) / (9 350 + 2 360 of + 250 of +460 +5 690) = 23 230 of / 18 110 of √ √ = 1.28:1√of

**(3)**

(e) Valid points may include:

**Note : OF Rule applies**

Positive

- Although current ratio is low, it is still just sufficient but not 2:1
- A significant profit is still being made if drawings can be reduced liquidity will rise

Negative

- Current ratio has deteriorated significantly during the year
- A positive bank balance has now become an overdraft
- Most of the current assets are in inventory
- Drawings are greater than profit for the year, draining cash
- Trade payables have increased significantly due to lack of cash to pay them

√√ per point x 4 - MAX 2 points positive and 2 points negative

**(8)**

**(Total 52 marks)**

## SOURCE MATERIAL FOR USE WITH QUESTION 3

**3.** Vaso Technology manufactures components for the electronics industry. The following balances are available from the books on 31 December 2013:

| | £ |
|---|---|
| Inventory 1 January 2013: | |
| Raw materials | 30 000 |
| Work in progress | 52 000 |
| Finished goods | 78 000 |
| Purchases of raw materials | 195 000 |
| Production wages | 134 000 |
| Packaging | 25 000 |
| Management salaries: | |
| Production | 85 000 |
| Office | 106 000 |
| Production equipment (at cost) | 110 000 |
| Production equipment provision for depreciation | 46 000 |
| Premises rent | 30 000 |
| Sundry expenses | 24 000 |
| Revenue (sales) | 650 000 |
| Office computers (at cost) | ? |
| Office computers provision for depreciation | ? |

**Additional information at 31 December 2013:**

(1) Vaso Technology values the inventory on the First In First Out (FIFO) basis.

The following summary relates to the raw materials:

| | | |
|---|---|---|
| 1 January 2013 | Inventory | 15 000 items @ £2 each |
| January – June | Purchases | 30 000 items @ £2.50 each |
| July – December | Purchases | 40 000 items @ £3 each |
| January – December | Issues | 60 000 items |

Work in progress was valued at £49 000

Finished goods were valued at £63 000

(2) Production wages accrued £6 500.

(3) Packaging is 70% direct and 30% indirect.

(4) Premises rent and sundry expenses are to be apportioned 75% to production and 25% to the office.

(5) Depreciation is charged on production equipment at the rate of 25% per annum reducing balance method.

(6) Vaso Technology transfers production to finished goods at £5 per item. During the year 96 000 items were completed and transferred.

**Required:**

(a) Prepare the Manufacturing Account for the year ended 31 December 2013.
**(18)**

The following information relates to the office computers:

| | |
|---|---|
| 1 January 2011 | Purchased office computers for £20 000 |
| 30 June 2013 | Sold office computers costing £6 000 for £2 500 |
| 1 October 2013 | Purchased office computers for £8 000 paying by cheque |

Vaso Technology has the following depreciation policy:
- Office computers are depreciated at the rate of 20% per annum using the straight-line method
- Depreciation is charged pro rata to the months of ownership in the year of purchase or sale
- Vaso Technology uses a disposal account for the sale of office computers.

(b) Prepare the following ledger accounts for the year ended 31 December 2013:

(i) Office Computers Account
**(6)**

(ii) Office Computers Provision for Depreciation Account.
**(8)**

(c) Prepare the Statement of Comprehensive Income for the year ended 31 December 2013, showing clearly the gross profit and the profit for the year.
**(12)**

(d) Evaluate the use of the straight-line method of depreciation for office computers.
**(8)**

**(Total 52 marks)**

**Answer space for question 3 is on pages 17 to 22 of the question paper.**

3(a) Vaso Technology

Manufacturing Account for the year ended 31 December 2013

| | £ | £ | |
|---|---|---|---|
| Opening inventory of raw materials | 30 000 | | √ |
| Purchases of raw materials | 195 000 | | √ |
| | 225 000 | | |
| Less Closing inventory of raw materials | (75 000) | | √√ |
| Cost of raw materials consumed | | 150 000 | √ |
| Production wages (134 000 + 6 500) | | 140 500 | √ |
| Packaging (25 000 x 70%) | | 17 500 | √ |
| **Prime cost** | | 308 00 | √ of+w |
| Plus overheads: | | | |
| Packaging (25 000 x 30%) | 7 500 | | √ |
| Production salaries | 85 000 | | √ |
| Depreciation – Production equipment | 16 000 | | √ |
| Premises rent | 22 500 | | √ |
| Sundry expenses | 18 000 | | √ |
| | | 149 000 | |
| | | 457 000 | |
| Work in progress at start | 52 000 | | √ |
| at end | (49 000) | | √ |
| | | 3 000 | |
| **Production cost** | | 460 000 | √ of+w |
| Profit on manufacture | | 20 000 | √ (of) |
| **Transfer to trading account** | | 480 000 | √ of+w |

**(18)**

(b) Office Computers Account

| | | £ | | £ |
|---|---|---|---|---|
| 1 Jan | Balance b/d | 20 000 √ | 30 June Disposal √ | 6 000 √ |
| 1 Oct | Bank | 8 000 √ | 31 Dec Balance c/d | 22 000 √ |
| | | 28 000 | | 28 000 |
| 1 Jan | Balance b/d | 22 000 √of | | |

**(6)**

Office Computers – Provision for Depreciation Account

| | | £ | | | £ |
|---|---|---|---|---|---|
| 30 June | Disposal √ | 3 000 √ | 1 Jan | Balance b/d | 8 000 √ |
| 31 Dec | Balance c/d | 8 800 √ | 31 Dec | Income statement/deprec. (600 +400+2 800) | 3 800 √√√ (√of) |
| | | 11 800 | | | 11 800 |
| | | | 1 Jan | Balance b/d | 8 800 √of |

**(8)**

(c)

Statement of Comprehensive Income for the year ended 31 December 2013

| | £ | £ | |
|---|---|---|---|
| Sales | | 650 000 | √ |
| Opening inventory of finished goods | 78 000 | | √ |
| Goods transferred from manufacturing | 480 000 | | √ of |
| | 558 000 | | |
| Less Closing inventory of finished goods | (63 000) | | √ |
| Cost of sales | | 495 000 | |
| Gross profit | | 155 000 | √ of |
| Less | | | |
| Office salaries | 106 000 | | √ |
| Premises rent | 7 500 | | √ |
| Sundry expenses | 6 000 | | √ |
| Depreciation office computers | 3 800 | | √of |
| Loss on sale of office computers | 500 | | √of |
| | | (123 800) | |
| | | 31 200 | |
| Plus Profit on manufacture | | 20 000 | √of |
| Profit for the year | | 51 200 | √ w + of |
| | | | **(12)** |

(d) Valid points may include:

Positive

- Office computers will give equal benefit to the business in each year
- Profit will not be distorted over the early years

Negative

- Office computers will lose most of their value in the early years
- Office computers will not be accurately valued in the Financial Position Statement
- The cost of the office computers will increase as repairs are required
- Straight line is not accepted by the tax authorities.

**DO NOT ACCEPT easy to calculate or consistency.**

√√ per point x 4 - MAX 2 points positive and 2 points negative

**(8)**

**(Total 52 marks)**

## SECTION B

## SOURCE MATERIAL FOR USE WITH QUESTION 4

**4.** Ranatunga maintains double-entry records and also control accounts.

(1) On 1 January 2013 he had the following balances on his Purchases Ledger Control Account:

£430 Dr
£78 000 Cr

(2) Ranatunga extracted the following balances from his Ledger on 31 December 2013:

| | £ |
|---|---|
| Cheques paid to suppliers | 497 000 |
| Refund from supplier | 4 000 |
| Discount received | 8 200 |
| Cash purchases | 24 600 |
| Sales ledger contra/Purchases ledger contra | 2 150 |
| Credit purchases | 505 000 |
| Returns outwards | 15 600 |

(3) After extracting the balances in (2) above, the following errors were discovered:

- A discount received of £200 had been debited to the Discount Received Account
- A purchase of goods from Archana, £750, had been correctly entered in the Purchases Day Book but had been recorded in Archana's account at £570
- The Purchases Day Book had been undercast by £2 500
- A purchase from C. Vissing, £300, had been entered into the account of B. Vincent.

(4) On 1 January 2014 the Purchases Ledger Control Account had the following balances:

£650 Dr
? Cr

**Required:**

(a) Prepare the Journal correcting the errors in (3) above. Narratives are **not** required.
**(8)**

(b) Prepare the Purchases Ledger Control Account for the year ended 31 December 2013, following the correction of all errors.
**(16)**

(c) Suggest **two** possible reasons for a debit balance in the Purchases Ledger Control Account.
**(4)**

(d) Evaluate the use of control accounts.
**(4)**

**(Total 32 marks)**

**Answer space for question 4 is on pages 23 to 25 of the question paper.**

**SECTION B**

4 (a)

Journal

| | Dr | Cr | |
|---|---|---|---|
| | £ | £ | |
| Suspense | 400 | | √ |
| Discount received | | 400 | √ |
| Suspense | 180 | | √ |
| Archana | | 180 | √ |
| Purchases | 2 500 | | √ |
| Suspense | | 2 500 | √ |
| B Vincent | 300 | | √ |
| C Vissing | | 300 | √ |

**(8)**

(b)

Purchases Ledger Control Account

| | £ | | £ |
|---|---|---|---|
| Balance b/d | 430 | Balance b/d | 78 000 |
| Payments to creditors | 497 000 √√ | Refund | 4 000 √√ |
| Discount rec'd (8 200√+400√) | 8 600 √ | Credit purchases | |
| Sales ledger contra | 2 150 √√ | (505 000√+2 500√) | 507 500 √ |
| Returns outwards | 15 600 √√ | | |
| Balance c/d | 66 370 | Balance c/d | 650 |
| | 590 150 | | 590 150 |
| Balance b/d | 650 √ | Balance b/d | 66 370 √of |

**(16)**

(c)

- Goods returned after payment made
- Discount received not posted
- Overpayment to creditor
- Contra from sales ledger

2 marks x 2 points **(4)**

(d)Valid points may include:

Positive

- Tests arithmetical accuracy
- Helps to identify areas where errors exist
- Through separation of duties protects against fraud
- Provides total of trade payables or trade receivables.

Negative

- Time consuming
- Requires double entry accounting and a high level of staff skill
- Some errors are not discovered by control accounts e.g errors of omission.

√√ per point x 2 - MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**

5 (a)

Allocation occurs where a cost is wholly identifiable with one cost centre √√

Apportionment occurs where costs are shared and must be apportioned across the cost centres on some equitable basis √√

**(4)**

(b) (i)

| | East Town | Weststead | Northerton | |
|---|---|---|---|---|
| | £000's | £000's | £000's | |
| Marketing | 90 | 36 | 54 | √√√√ |
| Premises running costs | 70 | 50 | 60 | √√√√ |
| Management salaries | 550 | 125 | 225 | √√√√ |
| Depreciation | 36 | 12 | 24 | √√√√ |
| | 746 | 223 | 363 | |

**(16)**

(ii)

| | | | | |
|---|---|---|---|---|
| Profit for the year | 750 | 260 | 500 | √√ |
| Less revised overheads | 746 | 223 | 363 | √√ of |
| Revised profit for the year | 4 | 37 | 137 | √√√√(√√of) |

**(8)**

**SOURCE MATERIAL FOR USE WITH QUESTION 5**

**5.** Simply Luxury is a business with a Head Office and three stores: East Town, Weststead and Northerton. For many years the cost of operating the Head Office has been allocated to the three stores on a set basis.

**The following information is available for the year ended 30 November 2013:**

(1) Draft financial statement:

| | East Town £000's | Weststead £000's | Northerton £000's | Head Office £000's |
|---|---|---|---|---|
| Profit before Head Office costs | 750 | 260 | 500 | - |
| Less Set Head Office costs | (500) | (350) | (482) | (1 332) |
| Profit/(loss) after Head Office costs | 250 profit | (90) loss | 18 profit | |

(2) Head Office overheads costs were:

| | |
|---|---|
| Marketing | £180 000 |
| Premises running costs | £180 000 |
| Management salaries | £900 000 |
| Depreciation | £72 000 |
| | £1 332 000 |

(3) Other information:

| | East Town | Weststead | Northerton |
|---|---|---|---|
| Staff (number) | 22 | 5 | 9 |
| Floor area (sq m) | 700 | 500 | 600 |
| Computers & fixtures (£000's) | 18 | 6 | 12 |
| Sales revenue (£000's) | 1 500 | 600 | 900 |

**Required:**

(a) Distinguish between **allocation** and **apportionment** as used in overhead recovery.
**(4)**

Simply Luxury is considering allocating Head Office overheads for each store on the most appropriate basis.

(b) (i) Using the most appropriate basis, calculate the Head Office overheads for each store.
**(16)**

(ii) Calculate the revised profit/loss for each store for the year.
**(8)**

It has been suggested that the profit for the year of Simply Luxury would increase if the Weststead store is closed.

(c) Evaluate this statement.
**(4)**

**(Total 32 marks)**

**Answer space for question 5 is on pages 26 to 30 of the question paper.**

(d)Valid points may include:

Positive

- Tests arithmetical accuracy
- Helps to identify areas where errors exist
- Through separation of duties protects against fraud
- Provides total of trade payables or trade receivables.

Negative

- Time consuming
- Requires double entry accounting and a high level of staff skill
- Some errors are not discovered by control accounts e.g errors of omission.

√√ per point x 2 - MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**

5 (a)

Allocation occurs where a cost is wholly identifiable with one cost centre √√

Apportionment occurs where costs are shared and must be apportioned across the cost centres on some equitable basis √√

**(4)**

(b) (i)

| | East Town | Weststead | Northerton | |
|---|---|---|---|---|
| | £000's | £000's | £000's | |
| Marketing | 90 | 36 | 54 | √√√√ |
| Premises running costs | 70 | 50 | 60 | √√√√ |
| Management salaries | 550 | 125 | 225 | √√√√ |
| Depreciation | 36 | 12 | 24 | √√√√ |
| | 746 | 223 | 363 | |

**(16)**

(ii)

| | | | | |
|---|---|---|---|---|
| Profit for the year | 750 | 260 | 500 | √√ |
| Less revised overheads | 746 | 223 | 363 | √√ of |
| Revised profit for the year | 4 | 37 | 137 | √√√√(√√of) |

**(8)**

(c)Valid points may include:

Positive

- Weststead is carrying the least overhead which may be able to be saved
- Less overall management control required

Negative

- Weststead is making the second highest profit
- Some of the costs will be fixed and will need to be charged to other stores if Weststead is closed
- Loses profit
- Reduce their customer base

√√ per point x 2 - MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**

6 (a)(i) Mark up $\frac{\text{Gross profit}}{\text{Cost of sales}}$ $\frac{75\ 000\ √}{250\ 000\ √}$ x 100 √ = 30% √

**(4)**

(ii)Profit for the year as a Percentage of Revenue (Sales) $\frac{\text{Profit for the year}}{\text{Revenue (Sales)}}$ $\frac{10\ 000\ √}{325\ 000\ √}$ x 100 √ = 3.1 % √

**(4)**

(b) Prices are higher than last year
Cost of sales is lower due to market conditions or more efficient buying
Change in selling mix
2 x √√ per point **(4)**

(c)(i) Owners capital refers to the <u>personal investment/equity</u> of the owner(s) in the business √√
Capital employed refers to the <u>total long term capital</u> used by the owner(s) to generate profit. This may include owners' capital, plus long term loans √√ (4)

(ii) $\frac{\text{Profit for the year √ before interest √}}{\text{Owners capital + Long term liabilities √}}$ x 100 = %
(Capital employed)

**(3)**

(iii) Return on capital employed

$\frac{\text{Profit for the year(working 1)}}{\text{Capital employed}}$ $\frac{23\ 000 \times 100\ √}{100\ 000 + 100\ 000\ √√}$ = 11.5% √of

Working 1: £75 000 - £60 000 = 15 000 + 8 000 = 23 000 **(4)**

**SOURCE MATERIAL FOR USE WITH QUESTION 6**

**6.** Nemesh is considering the purchase of the Value Store. The following information relates to the Value Store for the last financial year:

| | £ |
|---|---|
| Inventory 1 December 2012 | 30 000 |
| Inventory 30 November 2013 | 25 000 |
| Revenue (sales) | 325 000 |
| Purchases | 245 000 |
| Expenses (including depreciation) | 65 000 |

**Required:**

(a) Calculate, for the year ended 30 November 2013, the:

(i) Percentage mark-up

**(4)**

(ii) Profit for the year as a percentage of Revenue (Sales).

**(4)**

The owner of the Value Store had stated that he planned to use a mark-up of 25% for the year.

(b) Suggest **two** possible reasons for any variance in the mark-up between planned and actual.

**(4)**

The purchase price of the business is £200 000. Nemesh would fund the purchase by using his £100 000 personal savings plus a £100 000 8% bank loan. He estimates that his expenses for the first year of trading would be £60 000 (including depreciation and bank loan interest).

(c) (i) Distinguish between **owner's capital** and **capital employed**.

**(4)**

(ii) State the formula used when calculating return on capital employed.

**(3)**

(iii) Calculate the return on capital employed if Nemesh purchases the Value Store.

**(4)**

Nemesh finds that the net tangible assets of the business are £150 000.

(d) (i) Name the term used to describe the £50 000 that Nemesh must pay above the value of the net tangible assets.

**(1)**

(ii) Explain **two** reasons why Nemesh might make this payment to the seller.

**(4)**

(e) Evaluate whether Nemesh should purchase the Value Store.

**(4)**

**(Total 32 marks)**

**Answer space for question 6 is on pages 32 to 35 of the question paper.**

(c)Valid points may include:

Positive

- Weststead is carrying the least overhead which may be able to be saved
- Less overall management control required

Negative

- Weststead is making the second highest profit
- Some of the costs will be fixed and will need to be charged to other stores if Weststead is closed
- Loses profit
- Reduce their customer base

√√ per point x 2 - MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**

6 (a)(i) Mark up $\frac{\text{Gross profit}}{\text{Cost of sales}}$ $\frac{75\ 000\ √}{250\ 000\ √}$ x 100 √ = 30% √

**(4)**

(ii)Profit for the year as a Percentage of Revenue (Sales) $\frac{\text{Profit for the year}}{\text{Revenue (Sales)}}$ $\frac{10\ 000\ √}{325\ 000\ √}$ x 100 √ = 3.1 % √

**(4)**

(b) Prices are higher than last year
Cost of sales is lower due to market conditions or more efficient buying
Change in selling mix
2 x √√ per point **(4)**

(c)(i) Owners capital refers to the <u>personal investment/equity</u> of the owner(s) in the business √√
Capital employed refers to the <u>total long term capital</u> used by the owner(s) to generate profit. This may include owners' capital, plus long term loans √√ (4)

(ii) $\frac{\text{Profit for the year √ before interest √}}{\text{Owners capital + Long term liabilities √ (Capital employed)}}$ x 100 = %

**(3)**

(iii) Return on capital employed

Profit for the year(working 1) / Capital employed = $\frac{23\ 000 \times 100\ √}{100\ 000 + 100\ 000\ √√}$ = 11.5% √of

Working 1: £75 000 - £60 000 = 15 000 + 8 000 = 23 000 **(4)** (d)(i) Goodwill √ **(1)**

(ii) Location
Customer base
Reputation
√√ x 2 points

**(4)**

(e) Valid points may include:

**OF Rule applies**

Positive

- Established business with good mark-up
- Return on capital employed high
- Goodwill/reputation

Negative

- Raising the capital from a bank
- Risk of using all his savings
- Profit to revenue is low at 3.1%

√√ per point x 2 - MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**

7(a)

Bourne Cricket Club – Trial Balance at 31 December 2013

| | Dr | Cr | |
|---|---|---|---|
| | £ | £ | |
| Accumulated fund | | 30 200 | √ |
| Subscriptions (8 850 – 250) | | 8 600 | √√ |
| Competition fees | | 1 000 | √ |
| Donations | | 250 | √ |
| Purchases of refreshments | 14 650 | | √ |
| Sales of refreshments | | 30 250 | √ |
| Clubhouse (at cost) | 35 000 | | √ |
| Equipment (at cost) (4 800 – 1 800) | 3 000 | | √ |
| Provision for depreciation – Equipment (3 200 – 1 100) | | 2 100 | √ |
| Profit on sale of equipment | | 100 | √ |
| Wages and salaries | 18 950 | | √ |
| Other expenses | 10 550 | | √ |
| Trade payables | | 9 850 | √ |
| Bank (-600 + 800) | 200 | | √√ |
| | 82 350 | 82 350 | |

**(16)**

## SOURCE MATERIAL FOR USE WITH QUESTION 7

**7.** The Treasurer of the Bourne Cricket Club extracted the following balances from the Club's books on the 31 December 2013, before completing the Income and Expenditure Account:

| | £ |
|---|---|
| Accumulated fund | 30 200 |
| Subscriptions | 8 850 |
| Competition fees received | 1 000 |
| Purchases of refreshments | 14 650 |
| Sales of refreshments | 30 250 |
| Clubhouse (at cost) | 35 000 |
| Equipment (at cost) | 4 800 |
| Provision for depreciation – equipment | 3 200 |
| Wages and salaries | 18 950 |
| Other expenses | 10 550 |
| Trade payables | 9 850 |
| Bank overdraft | 600 |

**Additional information:**

1. The books contained the following errors and omissions:

   (i) Donations received of £250 had been recorded as subscriptions

   (ii) Equipment costing £1 800 with a carry over (net book value) of £700 was sold in December for £800. The receipt was by cheque. No entries had been made in the books to record this transaction.

**Required:**

(a) Prepare the Trial Balance of Bourne Cricket Club at 31 December 2013, after all adjustments have been made.

**(16)**

**Additional information:**

Subscriptions paid in advance and in arrears at 31 December 2013:

Paid in advance £1 410 In arrears £1 360

(b) (i) Prepare the Subscriptions Account for the year ended 31 December 2013.

**(8)**

(ii) Explain why subscriptions require adjustment for sums paid in advance and in arrears.

**(4)**

The Committee of the Bourne Cricket Club has been considering offering a five-year membership at a discount as an alternative to the current annual membership. The Treasurer informed members at the Annual General Meeting that in his opinion the five-year discounted membership would bring no benefits to the Club.

(c) Evaluate the Treasurer's statement.

**(4)**

**(Total 32 marks)**

**Answer space for question 7 is on pages 36 to 39 of the question paper.**

(d)(i) Goodwill √ **(1)**

(ii) Location
Customer base
Reputation
√√ x 2 points

**(4)**

(e) Valid points may include:

**OF Rule applies**

Positive

- Established business with good mark-up
- Return on capital employed high
- Goodwill/reputation

Negative

- Raising the capital from a bank
- Risk of using all his savings
- Profit to revenue is low at 3.1%

√√ per point x 2 - MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**

7(a)

Bourne Cricket Club – Trial Balance at 31 December 2013

| | Dr | Cr | |
|---|---|---|---|
| | £ | £ | |
| Accumulated fund | | 30 200 | √ |
| Subscriptions (8 850 – 250) | | 8 600 | √√ |
| Competition fees | | 1 000 | √ |
| Donations | | 250 | √ |
| Purchases of refreshments | 14 650 | | √ |
| Sales of refreshments | | 30 250 | √ |
| Clubhouse (at cost) | 35 000 | | √ |
| Equipment (at cost) (4 800 – 1 800) | 3 000 | | √ |
| Provision for depreciation – Equipment (3 200 – 1 100) | | 2 100 | √ |
| Profit on sale of equipment | | 100 | √ |
| Wages and salaries | 18 950 | | √ |
| Other expenses | 10 550 | | √ |
| Trade payables | | 9 850 | √ |
| Bank (-600 + 800) | 200 | | √√ |
| | 82 350 | 82 350 | |

**(16)**

(b) (i)

Subscriptions Account

| | £ | | | £ | |
|---|---|---|---|---|---|
| Donations | 250 | √ | Bank/Balance/ | 8 850 | √ |
| Income and expenditure √ | 8 550 | √of | Subscriptions | | |
| Balance c/d | 1 410 | √ | Balance c/d | 1 360 | √ |
| | 10 210 | | | 10 210 | |
| Balance b/d | 1 360 | √ | Balance b/d | 1 410 | √ |

**(8)**

(ii) The matching concept √√ must apply to ensure that the income for the period is matched against the expenditure of the period.√√

**(4)**

(c)

Valid points may include:

Positive

- Five year membership would increase short term cash flow
- Tie members into the club long term
- Save annual collection fees
- Reduce bad debts
- May attract more members

Negative

- The discount will reduce the overall income
- Commitment to providing services long term

√√ per point x 2 - MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**