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Surname

Other names

Pearson Edexcel
International
Advanced Level

Centre Number

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Candidate Number

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Accounting

International Advanced Subsidiary

Paper 1: The Accounting System and Costing

Monday 8 January 2018 – Morning

Time: 3 hours

Paper Reference

WAC11/01

You must have:

Source Booklet (enclosed)

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **both** questions in Section A and **three** questions from Section B.
- All calculations must be shown.
- Answer the questions in the spaces provided
– *there may be more space than you need.*
- Do not return the insert with the question paper.

Information

- The total mark for this paper is 200.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.
- The source material for use with Questions 1 to 6 is in the enclosed source booklet.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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(4) Depreciation is charged as follows:

- leasehold on building at an appropriate rate
- manufacturing equipment at the rate of 20% per annum using the reducing balance method
- computing equipment at the rate of 25% per annum using the reducing balance method
- fixtures and fittings at the rate of 10% on cost.

(5) The following costs and expenses are to be apportioned to manufacturing.

Cost	Manufacturing
Leasehold on building – depreciation	60%
Manufacturing equipment – depreciation	100%
Management salaries	35%
Power and heating	70%
General expenses	25%

(6) Manufactured goods are transferred to the warehouse at cost plus 10% profit.

Required

(a) Prepare, for the year ended 31 December 2017, the:

- (i) Manufacturing Account (13)
- (ii) Provision for Unrealised Profit Account (4)
- (iii) Statement of Profit or Loss and Other Comprehensive Income. (14)

(b) Prepare the Statement of Financial Position at 31 December 2017. (12)

The owner of Wooden Gifts is planning his business strategy for the next year. He is considering closing the manufacturing plant and purchasing all finished goods from an outside supplier.

(c) Evaluate the effects of a possible closure of the manufacturing plant. (12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark
1 (a) (i)	<p>AO1:(2), AO2(8), AO3(3)</p> <p>AO1: One mark for transferring balances to the manufacturing account.</p> <p>AO2: Eight marks for balances requiring adjustment.</p> <p>AO3: Three marks for balances requiring adjustment and then apportionment.</p>	(13)

Wooden Gifts			
Manufacturing Account for the year ended 31 December 2017			
	£	£	
Opening inventory of raw materials	20 000		
Purchases of raw materials	<u>85 000</u>		
	105 000		
Closing inventory of raw materials	<u>(21 500)</u>		
Cost of raw materials consumed		83 500 (1) AO2	
Direct factory wages		57 000 (1) AO3	
Direct packaging costs		<u>23 300 (1) AO1</u>	
Prime cost		163 800 (1of) AO2 + w no aliens	
Overheads:			
Indirect factory wages	19 000 (1) AO3		
Depreciation - Leasehold on building	3 600 (1) AO3		
Manufacturing equipment	9 000 (1) AO2		
Management salaries	23 800 (1) AO2		
Power and heating	9 800 (1) AO2		
General expenses	<u>4 700 (1) AO2</u>		
		<u>69 900</u>	
		233 700	
Work in progress – 1 January 2017	32 300		
31 December 2017	<u>(26 000)</u>		
		<u>6 300 (1) AO2</u>	
Cost of production		240 000	
Manufacturing profit 10%		<u>24 000 (1of) AO2 + w</u>	
Transferred to Trading Account		<u>264 000 (1of) AO1 + w no aliens</u>	

Question Number	Answer	Mark
1 (a) (ii)	<p>AO1(3), AO3(1)</p> <p>AO1: Three marks for correctly naming the transfer and balancing.</p> <p>AO3: One mark for calculating the closing balance of unrealised profit.</p>	(4)

Provision for Unrealised Profit Account

Date	Details	£	Date	Details	£
2017			2017		
			Jan 1	Balance b/d	8 000 (1) AO1
Dec 31	Balance c/d	10 000	Dec 31	Income statement (1) AO1	2 000 (1) AO1
		10 000			10 000
			2018		
			Jan 1	Balance b/d	10 000 (1 of) AO3

On credit side

Question Number	Answer	Mark
1 (a)(iii)	AO1(4), AO2(8), AO3 (2) AO1: Four marks for transferring balances to the income statement. AO2: Eight marks for balances requiring adjustment. AO3: Two marks for balances requiring adjustment and then apportionment.	(14)

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017

	£	£
Revenue		510 000
Opening inventory of finished goods	88 000	
Goods transferred from manufacture	<u>264 000</u> (1of) AO4	
	352 000	
Closing inventory of finished goods	(110 000)	
Cost of sales		<u>(242 000)</u> (1of) AO2+w
Gross profit		268 000
Manufactured goods profit 10%		<u>24 000</u> (1of) AO2
		292 000
Less Depreciation:		
Leasehold on building	2 400 (1) AO3	
Computing equipment	10 000 (1) AO2	
Fixtures and fittings	1 500 (1) AO2	
Distribution wages	59 000 (1) AO1	
Management salaries	44 200 (1) AO2	
Power and heating	4 200 (1) AO2	
Website consultancy expenses	16 200 (1) AO1	
Advertising expenses 43 000–5 500	37 500 (1) AO2	
Postage on sales	37 000 (1) AO1	
General expenses	14 100 (1) AO2	
Provision for unrealised profit	<u>2 000</u> (1of) AO3	
		<u>(228 100)</u>
Profit for the year		<u><u>63 900</u></u>

Question Number	Answer	Mark
1 (b)	AO1(3), AO2(8), AO3 (1) AO1: Three marks for transferring balances to the financial position statement. AO2: Eight marks for balances requiring adjustment. AO3: One mark for adjusting the inventory of finished goods for unrealised profit.	(12)

Statement of Financial Position at 31 December 2017

Non-current assets

	Cost £	Accumulated depreciation £	Carrying value £
Leasehold on building – 10 years	60 000	54 000	6 000 (1of) AO2
Manufacturing equipment	90 000	54 000	36 000 (1of) AO2
Computing equipment	75 000	45 000	30 000 (1of) AO2
Fixtures and fittings	15 000	7 500	7 500 (1of) AO2
	240 000	160 500	79 500

Current assets

Inventory – Raw materials		21 500	
Work in progress		26 000 (1) AO2 for 3 inventories	
Finished goods	110 000		
Less Provision for unrealised profit	(10 000) (1of) AO3		
		100 000	
		147 500	
Trade receivables		8 600 (1) AO1	
Other receivables		5 500 (1) AO2	
Cash and bank		37 900 (1) AO1	
		199 500	
Total assets		<u>279 000</u>	

Capital	200 000	
Profit for the year	<u>63 900</u>	
	263 900	
Drawings	<u>(30 000)</u>	
	233 900 (1of) AO2	
Current liabilities		
Trade payables	41 100 (1) AO1	
Other payables	<u>4 000 (1) AO2</u>	
	45 100	
Total Capital and liabilities	<u>279 000</u>	

Question Number	Indicative Content	Mark
1 (c)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Points for continuing manufacturing</p> <p>The control of the production process will remain with Wooden Gifts. The quality of the product being produced can be assured by Wooden Gifts. Social accounting considerations should be considered. Discontinuing manufacturing could result in redundancy and an impact on the local community and other local businesses. Ensuing the continuity of supply of finished goods. If manufacture is retained the control to deliver the finished products on time is not passed to the supplier. The fixed costs are currently shared between production and administration if production was ceased costs such as rent would have to be borne by the administration alone.</p> <p>Points for discontinuing manufacturing</p> <p>The problems of manufacturing goods will be passed to the supplier. Obtaining materials of the required quality and labour issues will become the responsibility of the supplier. If the business is growing, the space requirement for manufacturing will increase. The majority of the existing space is occupied by manufacturing. If manufacturing is discontinued the space could be used for distribution or the excess space could be sub-let, costs reduced and income increased. Time and effort of paying and managing staff and maintaining non-current assets would be removed. Manufacturing non-current assets could be sold to release cash.</p> <p>Decision Candidates may conclude that Wooden Gifts should continue or discontinue manufacture. Candidates should support that decision with an appropriate rationale.</p>	(12)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

- 2 Alung is in business buying and selling goods on credit. The following were recorded in the books for October 2017.

Trade Receivables Ledger Control Account		£
Balances 1 October 2017:	Debit	40 500
	Credit	1 500

Totals for October 2017:

	£
Credit sales	56 000
Receipts from credit customers	50 220
Interest charged on overdue account	320
Refund to credit customer	900
Bad debts	1 650
Discount allowed	2 050
Returns inwards	4 300

Trade Receivables Ledger Control Account		£
Balances 31 October 2017:	Debit	To be calculated
	Credit	Nil

Required

- (a) Prepare the Trade Receivables Ledger Control Account for October 2017. (10)
- (b) State **two** possible reasons why Alung had a credit balance on his Trade Receivables Ledger Control Account on 1 October 2017. (2)

On 31 October 2017 Alung compared his Trade Receivables Ledger Control Account balance with the total balances in his Trade Receivables Ledger and found the following errors:

- (1) a sale of goods to Raj, £1 530, had been recorded in the books as £1 350
- (2) discount allowed, £23, was entered in the discount column on the credit side of the Cash Book and debited to the account of Copra
- (3) a sale to Ng, £850, had been debited in the account of Nah
- (4) an invoice recording the sale of goods to Shen, £650, had not been recorded in the books
- (5) a sale of office fixtures, £2 400, had been recorded in the Sales Account.

Required

- (c) (i) Identify **each** type of error in (1) to (5). (5)
- (ii) Prepare the Journal entries to correct all the errors. Narratives are **not** required. (10)

(d) Explain why a compensating error would **not** be revealed by the trial balance.

(2)

On 1 November 2016 the balance of the Allowance for Doubtful Debts Account was £2 300

At 31 October 2017, Alung had the following schedule of trade receivables.

Age of debt	Trade receivables	Percentage irrecoverable
0 – 1 month	£20 000	2%
1 – 3 months	£12 000	5%
3 months plus	£6 000	10%

Required

(e) (i) Calculate the allowance for doubtful debts at 31 October 2017.

(3)

(ii) Prepare the Allowance for Doubtful Debts Account for the year ended 31 October 2017.

(3)

(iii) Prepare the Statement of Financial Position (Extract) showing the trade receivables at 31 October 2017.

(3)

The following information relates to a customer, Weston Supplies, in November 2017.

November 1 Weston Supplies owed Alung £800

5 Alung sold goods, list price £400, to Weston Supplies less 25% trade discount.

6 Weston Supplies returned goods purchased on 5 November with a list price of £80

20 Weston Supplies informed Alung that it had ceased trading. Weston Supplies paid £0.50 in the £1 on all outstanding debts. Alung considers the remainder of the balance as irrecoverable.

Required

(f) Prepare the ledger account of Weston Supplies for November 2017 in the books of Alung.

(5)

(g) Evaluate the use of accounting concepts and conventions in the preparation of financial statements.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Question Number	Answer	Mark
2 (a)	AO1 (7), AO2(3) AO1: Seven marks for posting entries into account. AO2: Three marks for recording interest charges and refunds correctly and balancing without alien items.	(10)

Trade Receivables Control Account

Date	Details	£	Date	Details	£
2017			2017		
Oct 1	Balance b/d	40 500 (1) AO1	Oct 1	Balance b/d	1 500
Oct 31	Sales	56 000 (1) AO1	Oct 31	Bank	50 220 (1) AO1
	Interest charged	320 (1) AO2		Bad debt	1 650 (1) AO1
	Bank (Refund)	900 (1) AO2		Discount allowed	2 050 (1) AO1
				Returns inwards	4 300 (1) AO1
		_____		Balance c/d	<u>38 000</u> (1) AO2
		<u>97 720</u>			<u>97 720</u>
Nov 1	Balance b/d	38 000 (1of) AO1			
		On debit side			

Question Number	Answer	Mark
2 (b)	A01 (2) A01: Two marks for identifying possible reasons. Customer over payment Customer prepayment Goods returned after payment Incorrect discount allowed calculated by customer 2 x (1) A01 NOT Errors in posting Discount allowed	(2)

Question Number	Answer	Mark
2 (c) (i)	A02 (5) A02: Five marks for applying the principle to the scenario to determine the type of error. (1) Original entry (1) A02 (2) Reversal (1) A02 (3) Commission (1) A02 (4) Omission (1) A02 (5) Principle (1) A02 NOT (1) Transposition (2) Compensation	(5)

Question Number	Answer	Mark
2 (c) (ii)	AO2 (8), AO3(2) AO2: Eight marks for recording the correct journal entry. AO3: Two marks for entries requiring identification of ledger accounts and adjustment of financial entries made.	(10)

Journal

	Dr	Cr
	£	£
Raj	180 (1) AO2	
Revenue/sales		180 (1) AO2
Discount allowed	46 (1) AO3	
Copra		46 (1) AO3
Ng	850 (1) AO2	
Nah		850 (1) AO2
Shen	650 (1) AO2	
Revenue/sales		650 (1) AO2
Revenue/sales	2 400 (1) AO2	
Office furniture/fixtures		2 400 (1) AO2

NOT

Sales day book instead of revenue/sales

Question Number	Answer	Mark
2 (d)	AO1(2) AO1: Two marks for explaining why the error is not revealed by the trial balance. There is a debit entry and a credit entry of equal value/at least two different errors which cancel each other out (1) AO1 therefore both sides of the trial balance will agree. (1) AO1	(2)

Question Number	Answer	Mark
2 (e)(i)	AO1(3) AO1: Three marks for calculating the allowance. <div style="text-align: right; margin-right: 50px;">£</div> <div style="margin-left: 100px;"> 0 – 1 month 400 (1) AO1 1 – 3 months 600 (1) AO1 3 months plus <u>600</u> (1) AO1 1 600 </div>	(3)

Question Number	Answer	Mark
2 (e) (ii)	AO1(2), AO2(1) AO1: Two marks for recording the balances correctly. AO2: One mark for calculating and recording the transfer to the income statement.	(3)

Allowance for Doubtful Debts Account

Date	Details	£	Date	Details	£
2017			2016		
Oct 31	Income statement	700 (1of) AO2	Nov 1	Balance b/d	2 300 (1) AO1
	Balance c/d	<u>1 600</u>			<u> </u>
		<u>2 300</u>			<u>2 300</u>
			Oct 31	Balance b/d	1 600 (1of) AO1
					On credit side

Question Number	Answer	Mark
2 (e) (iii)	AO1(2), AO2(1) AO1: Two marks for recording the correct heading and allowance. AO2: One mark for recording the net value of trade receivables. Statement of Financial Position (Extract) at 31 October 2017 Current assets (1) AO1 Trade receivables 38 000 of Less Allowance for doubtful debts <u>(1 600)</u> (1of) AO1 36 400 (1of) AO2	(3)

Question Number	Answer	Mark
2 (f)	A01(1), A02(4) A01: One mark for recording the opening balance. A02: Four marks for calculating and recording the remaining entries.	(5)

Weston Supplies Account

Date	Details	£	Date	Details	£
2017			2017		
Oct 1	Balance b/d	800 (1) A01	Oct 6	Returns in	60 (1) A02
Oct 5	Sales	300 (1) A02	Oct 20	Bank	520 (1) A02
				Bad debt	<u>520</u> (1) A02
		<u>1 100</u>			<u>1 100</u>

Question Number	Indicative Content	Mark
2 (g)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Positive points for concepts and conventions</p> <p>Ensures consistency of approach when different businesses use the same concepts in preparing their financial statements.</p> <p>Ensures greater accuracy in the calculation of profit for a period when the expenses and incomes have been calculated using accounting concepts and conventions.</p> <p>Stakeholders can have trust and faith in the published financial statements of the business to be used for their assessment of the business</p> <p>Financial statements can be compared from business to business as the financial statements are prepared using the same concepts and conventions.</p> <p>Negative points for concepts and conventions</p> <p>Concepts and conventions are often open to interpretations and different business may take different interpretations when preparing their accounts.</p> <p>Concepts and conventions can on occasions be contradictory e.g. it may be consistent to use straight line depreciation but not prudent in the early years of a non-current assets life when depreciation is high.</p> <p>The application of concepts and conventions requires those preparing the financial statements to be skilled in accounting approaches therefore there is a cost implication.</p> <p>Do not incorporate non-financial factors.</p> <p>Decision</p> <p>Candidates may conclude that the application of concepts and conventions is on balance a positive development in that it provides a consistent approach to the preparation of financial statements. Candidates should support that decision with an appropriate rationale.</p> <p>NOT</p> <p>Description of concepts and conventions.</p>	(12)

Level	Mark	Descriptor
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SECTION B

Answer THREE questions in this section.

- 3** Mathy prepared the following summarised financial statements for the three months ended 31 December 2017.

Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 December 2017

	£
Revenue	66 000
Cost of sales	(28 000)
Expenses	<u>(16 500)</u>
Profit for the three months	<u>21 500</u>

Statement of Financial Position at 31 December 2017

	£
Non-current assets (at carrying value)	2 500
Inventory	6 000
Trade receivables	12 000
Bank	<u>-</u>
Total assets	<u>20 500</u>
Capital	6 000
Plus profit	<u>21 500</u>
	27 500
Less drawings	<u>(15 000)</u>
	12 500
Trade payables	2 400
Bank overdraft	<u>5 600</u>
Total capital and liabilities	<u>20 500</u>

Additional information for the three months ended 31 December 2017

- (1) All sales and purchases were on credit.
 (2) Purchases were £30 000
 (3) All expenses and drawings were paid by cheque.

Required

- (a) Calculate the:
- (i) trade payables payment period (in days) (2)
 - (ii) trade receivables collection period (in days) (2)
 - (iii) current ratio (2)
 - (iv) liquid ratio (acid test). (2)

- (b) State **four** possible reasons why Mathy has an overdraft.

(4)

The following forecasts have been made for the next three months ended 31 March 2018.

- (1) Sales revenue on credit will be £7 000 higher.
- (2) Purchases on credit will be 5% higher.
- (3) Inventory at 31 March 2018 will be £4 400
- (4) Expenses will be reduced by 20%
- (5) Drawings will be halved.
- (6) Non-current assets will not be depreciated.
- (7) Trade payables of £27 600 will be paid by cheque.
- (8) Trade receivables collection period will be 60 days.

Required

- (c) Complete, in your Question Paper, the Forecast Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2018.

(5)

- (d) Calculate, at 31 March 2018, the forecast:

- (i) trade payables

(2)

- (ii) trade receivables

(2)

- (iii) bank.

(3)

- (e) Evaluate the liquidity of Mathy's business at 31 March 2018.
Calculations of the current ratio and liquid ratio (acid test) are **not** required.

(6)

(Total for Question 3 = 30 marks)

- (c) Complete the Forecast Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2018.

(5)

**Forecast Statement of Profit or Loss and Other Comprehensive Income
for the three months ended 31 March 2018**

	£	£
Revenue		
Opening inventory		
Purchases		
Closing inventory		
Cost of sales		
Gross profit		
Expenses		
Profit for the three months		

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Question Number	Answer	Mark
3 (a)	AO1 (4), AO2(4) AO1: Four marks for using the correct formula. AO2: Four marks for calculating the ratio/days with correct description.	(8)

$$(i) \frac{\text{Trade payables} \times 365}{\text{Credit purchases}} = \frac{2\,400 \times 365}{30\,000} \text{ (1) AO1} = 29.2 \text{ days (1) AO2}$$

$$(ii) \frac{\text{Trade receivables} \times 365}{\text{Credit sales}} = \frac{12\,000 \times 365}{66\,000} \text{ (1) AO1} = 66.4 \text{ days (1) AO2}$$

$$(iii) \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{6\,000 + 12\,000}{2\,400 + 5\,600} \text{ (1) AO1} = 2.25:1 \text{ (1) AO2}$$

$$(iv) \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}} = \frac{12\,000}{2\,400 + 5\,600} \text{ (1) AO1} = 1.5:1 \text{ (1) AO2}$$

Reasonable rounding accepted

Question Number	Answer	Mark
3 (b)	AO1 (4) AO1: Four marks for identifying factors which have would limit the funds in the bank. Allowing too many days credit to trade receivables Paying trade payables too quickly High drawings Inadequate capital for business growth Expenses too high Selling price too low Inventory too high Purchase non-current assets	(4)

Question Number	Answer	Mark
3 (c)	AO1 (1), AO2(4) AO1: One mark for recording the correct opening inventory. AO2: Four marks for calculating the forecast revenue and costs for the following three month period.	(5)

Forecast Statement of Profit or Loss and Other Comprehensive Income
for the three months ended 30 March 2017

	£	£
Revenue		73 000 (1) AO2
Opening inventory	6 000 (1) AO1	
Purchases	<u>31 500 (1) AO2</u>	
	37 500	
Closing Inventory	<u>(4 400)</u>	
Cost of sales		<u>33 100</u>
Gross profit		<u>39 900</u>
Expenses		(13 200) (1) AO2
Profit for the three months		<u>26 700 (1 of)</u> AO2

Question Number	Answer	Mark
3 (d)	AO2 (4), AO3 (3) AO2: Four marks for inclusion of correct working figures in calculation. AO3: Three marks for calculating correct closing balances.	(7)

(i) Trade payables

$$2\,400 + 31\,500 \text{ (1of) AO2} - 27\,600 = 6\,300 \text{ (1of) AO3 (2)}$$

(ii) Trade receivables

$$12\,000 + 73\,000 \text{ (1of) AO3} - 73\,000 = 12\,000 \text{ (1of) AO2 (2)}$$

(iii) Bank (overdraft)

$$(5\,600) + 73\,000 \text{ (1of) AO2} - 27\,600 - 13\,200 - 7\,500 \text{ (1) AO2} \\ = 19\,100 \text{ (1of) AO3 (3)}$$

Working: Trade receivable 30 March 2017

$$\frac{12\,000 \text{ (Answer)} \times 365}{73\,000 \text{ (Given)}} = 60 \text{ days (Given)}$$

Question Number	Indicative Content	Mark
3 (e)	<p>AO2 (1), AO3 (2), AO4 (3) Own figure rule applies.</p> <p>Potential positive movements in liquidity</p> <p>The bank balance is now positive, moving from an overdraft at the start of the period. The amount owed to trade payables has risen from £2 400 to £6 300. Mathy is obtaining better credit terms but must be cautious to ensure that goods will continue to be supplied to him on credit The inventory level has fallen from £6 000 to £4 400. Inventory is showing signs of being better controlled. Expenses and drawings have been reduced improving cash flow for the business and retaining cash in the business. Profits are being generated at a high rate with gross profit to sales being over 50%. This will not only improve profitability but also liquidity. The trade receivables collection period has fallen from 66 days to 60 days. This is not a major movement and action still needs to be taken to speed up the collection of debts.</p> <p>Potential negative points about liquidity</p> <p>At the start of the period the liquid ratio was showing signs of some idle funds, with the improvements made this may become a greater problem. Action needs to be taken particularly on trade receivables. The trade receivables collection period 60 days is still high.</p> <p>Decision (Own figure rule to apply) Candidates may conclude that the liquidity at the start of the period, as measured by the two ratios, was satisfactory, although there was a bank overdraft. If the forecasts are correct, the liquidity of Mathy's business will improve and the bank will become a positive balance.</p>	(6)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
4 (a)	<p>AO1 (4) AO1: Four marks for explaining the term allocation and its limitation.</p> <p>(i) Costs which are wholly identifiable with one cost centre (1) AO1 are charged direct to that cost centre. (1) AO1</p> <p>(ii) For some costs the benefit of the expenditure are felt by several cost centres. (1) AO1 The total has to be shared or apportioned on some equitable basis. (1) AO1</p>	(4)

- 4 Highclass Garages repairs accident damaged cars. It has two production departments: body repair shop and paint shop, and two service departments: stores and administration.

The following information is available for the year ended 31 December 2018.

- (1) Total overheads for each department will be:

	£
Body repair shop	62 000
Paint shop	43 000
Stores	16 000
Administration	12 000

- (2) The use of the two service departments has been estimated to be:

	Body repair shop	Paint shop	Stores	Administration
Stores	50%	25%	-	25%
Administration	60%	30%	10%	-

- (3) Annual hours for each department that can be charged to customers' jobs will be:

Body repair shop 6 400 labour hours per year

Paint shop 3 400 labour hours per year.

Required

- (a) (i) Define the term **allocation** of overheads. (2)
- (ii) Explain why some overheads cannot be allocated. (2)
- (b) Reapportion the total overheads of the service departments to the production departments using the **continuous allotment method**. (12)
- (c) Calculate the hourly overhead recovery rate, to the nearest pence, for the:
- (i) body repair shop (2)
- (ii) paint shop. (2)

In the previous year, ended 31 December 2017, the overhead recovery for the paint shop was under absorbed by £3 800

- (d) (i) Explain the meaning of the term **under absorbed** (2)
- (ii) Identify **two** possible reasons for the paint shop's overhead recovery being under absorbed. (2)
- (e) Evaluate the use of apportionment in determining the cost of operating a department. (6)

(Total for Question 4 = 30 marks)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
4 (a)	<p>AO1 (4) AO1: Four marks for explaining the term allocation and its limitation.</p> <p>(i) Costs which are wholly identifiable with one cost centre (1) AO1 are charged direct to that cost centre. (1) AO1</p> <p>(ii) For some costs the benefit of the expenditure are felt by several cost centres. (1) AO1 The total has to be shared or apportioned on some equitable basis. (1) AO1</p>	(4)

Question Number	Answer	Mark
4 (b)	AO1(1), AO2(8), AO3 (3) AO1: One mark for totalling both the body repair shop and paint shop. AO2: Eight marks for calculating the re-apportionment. AO3: Three marks for calculating the effect on the service departments.	(12)

Body repair shop £	Paint shop £	Stores £	Administration £
62 000	43 000	16 000	12 000
8 000 (1) AO2	4 000 (1) AO2	(16 000) (1) AO3	4 000
9 600 (1) AO2	4 800 (1) AO2	1 600 (1) AO2	(16 000)
800 (1) AO2	400	(1 600) (1) AO3	400
240	120 (1) AO2	40	(400) (1) AO3
25 (1of) AO2	15	(40)	
80 665	52 335 (1) AO1 Both		

Accept reasonable rounding.

Question Number	Answer	Mark
4 (c)	<p>AO2(4) AO2: Four marks for calculating the re-apportionment.</p> <p>(i) Body repair shop $\frac{\pounds 80\,665}{6\,400 \text{ hrs}}$ = £12.6 per hour (1) of AO2 (1) AO2 (2)</p> <p>(ii) Paint shop $\frac{\pounds 52\,335}{3\,400 \text{ hrs}}$ = £15.39 per hour (1) of AO2 (1) AO2 (2)</p>	(4)

Question Number	Answer	Mark
4 (d)	<p>AO1 (4) AO1: Four marks for explaining the term under absorbed and identifying two possible reasons.</p> <p>(i) The total of the overhead recovered is less (1) AO1 than the actual overhead expenditure. (1) AO1</p> <p>OR Actual overhead costs is greater (1) AO1 than budget. (1) AO1 (2)</p> <p>(ii) The original calculation of rate per hour was based upon incorrect figures. The projection of hours of recovery was overstated. Expenditure was greater than projected The time of painters finishing jobs improved. 2 x (1) AO1 (2)</p>	(4)

Question Number	Indicative Content	Mark
4 (e)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for apportionment</p> <p>The cost must be recovered in the price charged to the customer and therefore to do this the cost must be charged to a specific productive cost centre. Apportionment is just a means of charging the cost.</p> <p>The cost driver will be used to ensure a reasonable match between the usage of the cost and the sum apportioned to the cost centre.</p> <p>Potential negative points against apportionment</p> <p>Because the cost is used across many cost centres the sum apportioned to a specific cost centre is only an estimate of the usage.</p> <p>With some costs it may be difficult to establish a strong cost driver. Therefore, any apportionment will largely be arbitrary. Continuous allotment when used to re-apportion overheads may be an example of that arbitrary apportionment.</p> <p>The need for an experienced practitioner to carry out the calculations and the time required to do so.</p> <p>Decision</p> <p>Candidates may conclude that it is a satisfactory or unsatisfactory way of determining the cost of operating. The candidate's decision should be supported by reference to positive and negative points.</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid.

		An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
5 (a)	AO2(4) AO2 Four marks for calculating the depreciation to be charged on each vehicle.	(4)

Year ended	motor vehicle A £	motor vehicle B £	motor vehicle C £	motor vehicle D £	Total £
31 December 2017	1 500 (1) AO2	3 200 (1) AO2	2 700 (1) AO2	2 000 (1) AO2	9 400

- 5 Fast Response is a business delivering goods to customers. The following information is available:

- (1) Extract from the Statement of Financial Position at 31 December 2016.

Non-current assets

	Cost £	Accumulated depreciation £	Carrying value £
Delivery vehicles	31 000	4 600	26 400

- (2) History of delivery vehicle purchases and sales.

1 January 2016	Purchased vehicle A	£15 000
1 July 2016	Purchased vehicle B	£16 000
1 April 2017	Purchased vehicle C	£18 000
1 July 2017	Purchased vehicle D	£20 000
1 July 2017	Sold vehicle A	£11 000

- (3) Fast Response has the following depreciation policy:

- delivery vehicles are depreciated at the rate of 20% per annum using the straight line method
- depreciation is charged on delivery vehicle purchases and sales on a pro rata basis to the months of ownership
- all sales of delivery vehicles are recorded through a disposal account.

- (4) All purchases and sales of delivery vehicles were by cheque.

Required

- (a) Complete the table in your Question Paper showing the depreciation charged on **each** delivery vehicle for the year ended 31 December 2017. (4)
- (b) Prepare the Journal entries to record the sale of delivery vehicle A on 1 July 2017. (4)
- (c) Prepare, for the year ending 31 December 2017, the:
- (i) Delivery Vehicles Account (4)
- (ii) Delivery Vehicles Disposal Account. (4)
- (d) Explain the difference between the accounting concepts of **going concern** and **consistency** when applied to the depreciation of non-current assets. (4)

(e) Identify whether **each** of the following costs is a **capital expenditure** or a **revenue expenditure** for a new delivery vehicle purchased.

- (1) Delivery cost of vehicle
- (2) Road licence
- (3) Insurance
- (4) Sign writing of business name on delivery vehicle

(4)

(f) Evaluate the suitability of the straight line method for depreciating delivery vehicles.

(6)

(Total for Question 5 = 30 marks)

If you answer Question 5 put a cross in the box ☐ .

Source material for Question 5 is on pages 10 and 11 of the source booklet.

- 5 (a) Complete the table showing the depreciation charged on **each** delivery vehicle for the year ended 31 December 2017.

(4)

Year ended	Delivery vehicle A £	Delivery vehicle B £	Delivery vehicle C £	Delivery vehicle D £	Total £
31 December 2017					

- (b) Prepare the Journal entries to record the sale of delivery vehicle A on 1 July 2017.

(4)

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DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



		An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
5 (a)	AO2(4) AO2 Four marks for calculating the depreciation to be charged on each vehicle.	(4)

Year ended	motor vehicle A £	motor vehicle B £	motor vehicle C £	motor vehicle D £	Total £
31 December 2017	1 500 (1) AO2	3 200 (1) AO2	2 700 (1) AO2	2 000 (1) AO2	9 400

Question Number	Answer	Mark
5 (b)	AO1(1), AO2(2), AO3(1) AO1 One mark for appropriate narrative. AO2 Two marks for journalising motor vehicle and bank entries. AO3 One mark for correct journalising and value of provision for depreciation.	(4)

Journal

	Dr	Cr
	£	£
Provision for depreciation- motor vehicle	4 500	
Disposal		4 500 (1) AO3
		Both
Disposal	15 000	
Motor vehicle		15 000 (1) AO2
		Both
Bank	11 000	
Disposal		11 000 (1) AO2
		Both
Sale of motor vehicle A on 1 July 2017 for £11 000 (1) AO1		

Question Number	Answer	Mark
5 (c)(i)	AO2(4) AO2 Four marks for posting to delivery vehicle account.	(4)

Delivery Vehicles Account

Date	Details	£	Date	Details	£
2017			2017		
1 Jan	Balance b/d	31 000 (1) AO2	1 July	Disposal	15 000 (1) AO2
1 April	Bank	18 000			
1 July	Bank	<u>20 000 (1) AO2</u>	31 Dec	Balance c/d	<u>54 000 of</u>
		<u>69 000</u>			<u>69 000</u>
2018					
1 Jan	Balance b/d	54 000 (1) AO2			

On debit side

Question Number	Answer	Mark
5 (c)(ii)	AO2(2), AO3(2) AO2 Two marks for posting to delivery vehicle account. AO3 Two marks for calculating depreciation to 1 July 2017 and correct insertion in disposal account. Correct calculation of loss.	(4)

Disposal Account

Date	Details	£	Date	Details	£
2017			2017		
1 July	Motor vehicle	15 000 (1) AO2	1 July	Prov for Deprec	4 500 (1of) AO3
31 Dec	Profit on disposal/Income statement	<u>500 (1of) AO3</u>		Bank	<u>11 000 (1) AO2</u>
		<u>15 000</u>			<u>15 000</u>

Question Number	Answer	Mark
5 (d)	<p>AO2(4) AO2 Four marks for explaining the difference between the two accounting concepts.</p> <p>Going concern Assumes business life will continue for the foreseeable future unless the contrary is known All non-current assets to be depreciated over their economic life</p> <p>Consistency Assumes same treatment in the accounts over time e.g. using the same method of depreciation Seeks to avoid distortion in the preparation of the accounts</p> <p>Candidates to distinguish a point for going concern and a point for consistency. 2 x (2) AO2</p>	(4)

Question Number	Answer	Mark
5 (e)	<p>AO1(4) AO1 Four marks for identification of capital expenditure or revenue expenditure.</p> <ul style="list-style-type: none"> Motor vehicle delivery cost Capital expenditure (1) AO1 Road licence Revenue expenditure (1) AO1 Insurance Revenue expenditure (1) AO1 Sign writing of business name Capital expenditure (1) AO1 	(4)

Question Number	Indicative Content	Mark
5 (f)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Potential positive arguments for straight line</p> <p>Fast Response will obtain many years usage from each motor vehicle. The usage will probably be of equal value over the years. Therefore it seems appropriate to charge equal depreciation to each year.</p> <p>Potential negative points against straight line</p> <p>As the motor vehicle becomes older it will require more maintenance and repair therefore the total cost of operating the motor vehicle in depreciation and repairs will rise distorting profits later in the life of the non-current asset.</p> <p>Motor vehicles tend to lose a greater proportion of their value in the early years. Therefore with the straight line method the carrying value will be in excess of the true market value.</p> <p>It would be prudent to charge higher depreciation in the early years.</p> <p>Decision</p> <p>Candidates may conclude that it is a suitable or not suitable in the depreciation of motor vehicles. The candidate's decision should be supported by reference to positive and negative points.</p> <p>NOT</p> <p>Simple to calculate</p> <p>Easy to calculate</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	<p>Isolated elements of knowledge and understanding which are recall based.</p> <p>Generic assertions may be present.</p> <p>Weak or no relevant application to the scenario set.</p>
Level 2	3-4	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid.</p> <p>An attempt at an evaluation is presented, using</p>

		financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
6 (a)	<p>AO1 (4) AO1: Four marks for recommending the basis of apportionment and providing a reason.</p> <p>Rent and rates – Floor area (1) AO1 the expense will be incurred in relation to the area occupied by the respective departments. (1) AO1 Marketing expenses – Revenue (1) AO1 marketing will raise awareness of the goods and services that PC Sales and Repairs has to offer which should increase the sales revenue of the respective departments. (1) AO1</p>	(4)

Question Number	Answer	Mark
6 (b)	<p>AO1 (5), AO2(12), AO3 (3) AO1: Five marks for recording the figure correctly from the data given. AO2: Twelve marks for calculating the figure and then recording this correctly. AO3: Three marks for calculating the correct figure using two calculations and then recording the figure correctly.</p>	(20)

- 6 PC Support has two departments, a shop selling computer accessories and a workshop used for repairing computers.

The following information relates to the year ended 31 December 2017:

	£
Revenue:	
Shop accessories sales	75 000
Workshop repairs	45 000
Purchases:	
Shop accessories	28 000
Parts for workshop repairs	6 400
Inventory at 1 January 2017:	
Shop accessories	25 500
Parts for workshop repairs	1 800
Wages	65 000
Rent and rates	12 000
General expenses	5 100
Marketing expenses	600
Bad debts to be written off – workshop repairs	500
Allowance for doubtful debts at 1 January 2017:	
Shop accessories sales	50
Workshop repairs	90
Fixtures and equipment (cost)	7 000
Trade receivables:	
Shop accessories sales	6 000
Workshop repairs	4 000

Additional information at 31 December 2017

- (1) Inventory – shop accessories £29 000. Parts for workshop repairs £2 000
- (2) During the year computer accessories valued at £3 400 were taken from the shop and used in workshop repairs.
- (3) Wages of £2 500 were accrued.
- (4) Five staff were employed, three in the shop and two in the workshop.
- (5) The floor area occupied is: shop 150 sqm: workshop 90 sqm.
- (6) General expenses are allocated, £3 150 shop: £1 950 workshop.
- (7) The allowance for doubtful debts is to be maintained at: 2% shop and 4% workshop.
- (8) Depreciation on fixtures and equipment is to be charged at 10% per annum on cost and apportioned to the shop and workshop in the ratio 4:3

Required

(a) Recommend, giving a reason, the basis on which the following expenses should be apportioned between the shop and the workshop.

- Rent and rates
- Marketing expenses

(4)

(b) Prepare the Departmental Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017, showing the profit (loss) for **each** department. A totals column is **not** required.

(20)

The owner of PC Support has been advised by his accountant that he should specialise by expanding **one** of the two departments.

(c) Evaluate whether the owner should expand **one** of the departments.

(6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 200 MARKS

		financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
6 (a)	<p>AO1 (4) AO1: Four marks for recommending the basis of apportionment and providing a reason.</p> <p>Rent and rates – Floor area (1) AO1 the expense will be incurred in relation to the area occupied by the respective departments. (1) AO1 Marketing expenses – Revenue (1) AO1 marketing will raise awareness of the goods and services that PC Sales and Repairs has to offer which should increase the sales revenue of the respective departments. (1) AO1</p>	(4)

Question Number	Answer	Mark
6 (b)	<p>AO1 (5), AO2(12), AO3 (3) AO1: Five marks for recording the figure correctly from the data given. AO2: Twelve marks for calculating the figure and then recording this correctly. AO3: Three marks for calculating the correct figure using two calculations and then recording the figure correctly.</p>	(20)

PC Support
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017

	Shop		Workshop	
	£	£	£	£
Revenue		75 000 (1) AO1		45 000
Opening inventory	25 500		1 800 (1) AO1	
Purchases	28 000		6 400 (1) AO1	
Transfers	(3 400) (1) AO2		<u>3 400</u>	
	50 100		11 600	
Closing inventory	<u>(29 000)</u>		<u>(2 000)</u> (1) AO1	
Cost of sales		<u>21 100</u> (1of) AO2		<u>9 600</u>
Gross profit		53 900		35 400 (1of) AO1
Wages	40 500 (1) AO3		27 000 (1) AO3	
Rent and rates	7 500 (1) AO2		4 500 (1) AO2	
General expenses	3 150 (1) AO2		1 950 (1) AO2	
Marketing expenses	375 (1) AO2		225 (1) AO2	
Bad debts	-		500 (1) AO2	
Allowance for doubtful debts	70 (1) AO2		70 (1) AO3	
Depreciation – Fixtures and equipment	<u>400</u> (1) AO2		<u>300</u> (1) AO2	
		<u>51 995</u>		<u>34 545</u>
Departmental profit for the year		1 905		855

Question Number	Indicative Content	Mark
6 (c)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Own figure applies</p> <p>Potential positive arguments</p> <p>The owner will be required to concentrate more on developing one of the activities. The expanded activity will result in the owner devoting more of his time. He may need to employ a manager for the other department.</p> <p>More floor space will be required to expand whichever department the owner chooses to expand. Additional floor space will cost more and may involve the business moving to new premises.</p> <p>The goods for sale in the shop or the services of the workshop could be expanded.</p> <p>Potential negative arguments</p> <p>Further materials and labour resources will need to be acquired. This will require additional capital from the owner or in the form of a loan.</p> <p>The provision of a complementary service may need to be retained. Customers who have computers repaired may buy the accessories available within the shop. It may not be possible to expand one department without putting additional demand on the other department.</p> <p>The cost of marketing is very low, more concentration on marketing activities may increase the overall demand for both services increasing the profitability of the business. Both departments might naturally expand if the services that are on offer are presented to the public.</p> <p>If you close one department all the fixed costs must be borne by the other department.</p> <p>Decision</p> <p>Candidates may conclude that the owner should/ should not concentrate on a single activity. The candidate's decision should be supported by reference to positive and negative points.</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	<p>Isolated elements of knowledge and understanding which are recall based.</p> <p>Generic assertions may be present.</p> <p>Weak or no relevant application to the scenario set.</p>

Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.