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Candidate surname					Other names									
Pearson Edexcel					Centre Number					Candidate Number				
International					<input type="text"/>					<input type="text"/>				
Advanced Level					<input type="text"/>					<input type="text"/>				
Friday 2 November 2018														
Morning (Time: 3 hours)							Paper Reference WAC11/01							
Accounting														
International Advanced Subsidiary														
Paper 1: The Accounting System and Costing														
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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SECTION A

Answer BOTH questions in this section.

- 1** Pence Stores is a grocery retailer. The following balances were extracted from the books on 30 September 2018.

	£
Non-current assets (cost)	
Premises	150 000
Equipment	24 000
Fixtures and fittings	20 000
Provisions for depreciation	
Premises	47 000
Equipment	8 000
Fixtures and fittings	12 000
Trade payables	36 800
Revenue	430 000
Purchases	285 000
Trade receivables	6 150
Wages	82 000
Rates	12 000
Carriage inwards	1 500
Carriage outwards	9 650
Inventory – 1 October 2017	22 000
Insurance	7 200
Equipment repairs	2 450
Capital	120 000
Drawings	16 350
Bank	5 900 Dr
General expenses	14 300
Commission receivable	4 700

Additional information at 30 September 2018:

- (1) Inventory £17 100
- (2) The owner had taken £400 of goods for his own use. This had not been recorded in the books.
- (3) Rates of £900 were prepaid.
- (4) Commission receivable of £1 300 was outstanding.
- (5) Depreciation is charged on all non-current assets owned at the **end of the year**, as follows:
 - premises at the rate of 2% per annum on cost
 - equipment at the rate of 25% per annum using the reducing balance method
 - fixtures and fittings at the rate of 10% using the straight line method.

Required

- (a) Prepare the:
 - (i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2018 (13)
 - (ii) Statement of Financial Position at 30 September 2018. (12)

The annual profit made by Pence Stores has been declining over recent years as competition increases from larger retailers. As a result, the owner of Pence Stores has decided to convert his store into a coffee shop, the details are as follows:

- The grocery store will close on 30 September 2018. The new coffee shop will open, after the premises have been altered, on 1 November 2018
- The premises alterations will cost £20 000. Half will be paid by cheque in October and half in November
- All equipment will be sold for £7 800, and a cheque will be received in October
- Half of the fixtures and fittings will be sold for £800, payment will be received by cheque in October. The remaining half will be used in the new coffee shop
- New fixtures and fittings, costing £8 500, will be purchased and paid for by cheque in October
- The grocery inventory will be sold at cost, payment will be received by cheque in October
- Half of the trade payables on 30 September 2018 will be paid by cheque in October and half in November
- All the money owing to the business for trade receivables on 30 September 2018 will be received by cheque during October
- Four staff members will be made redundant at a total cost of £9 000. Payment will be made by cheque in October
- Running costs of £8 000 for October (wages, rates, etc.) will be paid by cheque in October
- The owner of Pence Stores has agreed an overdraft with the bank of £20 000

Required

(b) Prepare the Bank Account of Pence Stores for the month of October 2018.

(9)

The new coffee shop will open on 1 November 2018. The owner has made the following estimates for the year ended 30 September 2019.

- Revenue – 1 500 customers per week will use the coffee shop for the remaining 47 weeks of the year. Each customer will spend £5 per week.
- The gross profit margin will be 80%.
- Total running costs for the year (**excluding** depreciation/loss on sale of non-current assets and redundancy costs) will be £90 000
- The premises alterations for the coffee shop will be treated as capital expenditure.

Required

(c) Prepare the Forecast Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2019.

(9)

(d) Evaluate the decision of the owner to change the nature of the business from a grocery retailer to a coffee shop.

(12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark
1 (a) (i)	AO1 (6), AO2 (7) AO1: Six marks for transferring balances to the income statement. AO2: Seven marks for adjusting balances and transferring to the income statement.	(13)

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 September 2018

	£	£
Revenue		430 000
Opening inventory	22 000	
Purchases	285 000	
Carriage inwards	<u>1 500</u> (1)AO1	
	308 500	
Goods taken by owner (drawings)	<u>(400)</u> (1)AO1	
	308 100	
Closing inventory	<u>(17 100)</u>	
Cost of sales		<u>(291 000)</u> (1of)AO2
Gross profit		139 000
Commission receivable (4 700+1 300)		<u>6 000</u> (1)AO2
		145 000
Less		
Depreciation –Premises	3 000 (1)AO2	
Equipment	4 000 (1)AO2	
Fixtures and fittings	2 000 (1)AO2	
Wages	82 000 (1)AO1	
Rates (12 000 – 900)	11 100 (1)AO2	
Carriage outwards	9 650 (1)AO1	
Insurance	7 200 (1)AO1	
Equipment repairs	2 450 (1)AO1	
General expenses	<u>14 300</u> (1)AO1	
		<u>(135 700)</u>
Profit for the year		<u><u>9 300</u></u>

Question Number	Answer	Mark
1 (a)(ii)	<p>AO1 (5), AO2 (7)</p> <p>AO1: Five marks for transferring balances to the financial position statement.</p> <p>AO2: Seven marks for balances requiring adjustment/ or correct treatment in the financial position statement.</p>	(12)

Statement of Financial Position at 30 September 2018

Non-current assets

	Cost	Accumulated depreciation	Carrying value
	£	£	£
Premises	150 000	50 000	100 000 (1of)AO2
Equipment	24 000	12 000	12 000 (1of)AO2
Fixtures and fittings	<u>20 000</u>	<u>14 000</u>	<u>6 000</u> (1of)AO2
	<u>194 000</u>	<u>76 000</u>	118 000

Current assets

Inventory	17 100 (1of)AO1	
Trade receivables	6 150 (1)AO1	
Other receivables (900 (1)AO2 +1 300 (1)AO2)	2 200	
Cash and bank	<u>5 900</u> (1)AO1	<u>31 350</u>
Total assets		<u>149 350</u>
Capital	120 000	
Profit for the year	<u>9 300</u>	
	129 300	
Drawings (16 350 (1)AO1 +400 (1)AO2)	<u>(16 750)</u>	
		112 550 (1of)AO2
Current liabilities		
Trade payables	<u>36 800</u> (1)AO1	<u>36 800</u>
Capital and liabilities		<u>149 350</u>

Question Number	Answer	Mark
1 (b)	<p>AO1 (4), AO2 (5) AO1: Four marks for transferring given balances to the bank account. AO2: Five marks for deriving and transferring balances to the bank account.</p>	(9)

Bank Account

Date	Details	£	Date	Details	£
2017			2017		
1 October	Balance b/d	5 900	October	Trade payables	18 400 (1)AO2
October	Equipment sale	7 800 (1)AO1		Staff redundancy	9 000 (1)AO2
	Fixtures sale	800 (1)AO2		New fixtures	8 500 (1)AO1
	Inventory sale	17 100 (1of)AO2		Refurbishment	10 000 (1)AO2
	Trade receivables	6 150 (1)AO1		Running costs	<u>8 000</u> (1)AO1
31 October	Balance c/d	<u>16 150</u>			
		<u>53 900</u>			<u>53 900</u>
			1 November	Balance b/d	16 150

Question Number	Answer	Mark
1 (c)	<p>AO1 (2), AO2 (3), AO3(4)</p> <p>AO1: Two marks for transferring given balances.</p> <p>AO2: Three marks for balances requiring adjustment or calculation.</p> <p>AO3: Four marks for balances requiring two stage calculation.</p>	(9)

Forecast Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 September 2019

	£	£
Revenue (1 500 x 47 x£5)		352 500 (1)AO3
Cost of sales		<u>(70 500)</u> (1of)AO3 if 20%
Gross profit		282 000 (1of)AO2 if 80%
less		
Running costs	90 000 (1)AO1	
Depreciation- premises	3 400 (1)AO2	
fixtures	1 850 (1)AO2	
Loss on sale of equipment	4 200 (1)AO3	
Loss on sale of fixtures	2 200 (1)AO3	
Redundancy costs	<u>9 000</u> (1)AO1	
		<u>(110 650)</u>
Forecast profit for the year		<u>171 350</u>

Question Number	Indicative Content	Mark
1 (d)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Points in favour of the change</p> <p>The coffee shop is more profitable a projected £171 350 against £9 300 Gross profit margins are high at 80%. Far higher than the grocery business. Profit has been steadily falling in recent years as competition rises. The coffee shop will reverse the trend of profit. Better use of premises and the capital of Pence. Cash is released by selling the equipment. Attract new/more business. Less operating expenses in the coffee shop. Growing demand for coffee shops.</p> <p>Points against the change</p> <p>The forecast is only an estimate therefore there is always the possibility that this could be wrong/the risk that the estimates may be incorrect. Projected customer numbers are high which may not be achievable. Social accounting aspects need consideration. Four staff have been made redundant. Also consider loss of the grocery shop on the local community To carry out the change a £16 150 overdraft is required in October. This will increase substantially in November when the second payment for trade payables and refurbishment are required. It will reduce the problems that retailing brings to the owner. The coffee business has no reputation.</p> <p>Decision Candidates may be in favour or against the change of business type. The decision should be supported by 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 Padma buys and sells leather bags. She does not maintain a set of double entry books. The following information was available for the year ended 30 September 2018.

(1) Balances at

	1 October 2017	30 September 2018
	£	£
Inventory	3 600	4 400
Non-current assets	7 000	14 500
Trade payables	3 900	6 100
5% bank loan (repayable 2020)	-	10 000
Bank	7 045 Dr	1 500 Cr
Trade receivables	5 250	8 700
Wages accrued	570	-
Insurance prepaid	600	200
Rent receivable prepaid	75	-

(2) Bank summary

	£
Receipts from trade receivables	48 750
Payments to trade payables	15 300
Wages paid	19 420
Cash purchases	3 200
Rent, rates and insurance paid	9 900
Rent received	900
Commission received	2 450
General expenses paid	1 900
Non-current asset purchase	11 000

- (3) The 5% bank loan (repayable 2020) was taken out on 1 January 2018. No interest had been paid on the bank loan at 30 September 2018.
- (4) Wages included £6 000 paid to Padma.

Required

(a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2018. (15)

(b) Calculate the following ratios at 30 September 2018:

- current ratio
- liquid ratio (acid test)
- trade receivables collection period (in days)
- trade payables payment period (in days). (8)

(c) Comment briefly on **each** of the ratios calculated in question 2 (b). (4)

Padma is worried that her bank balance has fallen from £7 045 to an overdraft of £1 500 during the year.

(d) State **three** possible reasons why Padma's bank balance has fallen during the year. (3)

Padma is considering manufacturing bags instead of buying them. She has found suitable premises for manufacturing and is considering two options.

Option 1 Manufacture 1 000 bags per year selling them to her customers.

Option 2 Manufacture 3 000 bags per year selling 1 000 to her customers and selling the remainder to other retailers.

Forecast costs of manufacture:

- (1) Raw material will be £4 per bag.
- (2) Labour will be £5 000 per annum plus £5 per bag.
- (3) Supervision and quality control will be £9 000 up to production of 2 000 bags at which point a second supervisor will be required costing a further £9 000
- (4) Production overheads will be £8 000 per annum at a production of 1 500 bags and £10 000 at 2 500 bags.

Required

(e) Complete the table showing the total production cost **and** the production cost per bag at the two production levels. (10)

(f) Identify whether the following costs incurred by Padma are variable, semi-variable, semi-fixed or fixed costs.

- Raw material
- Labour
- Supervision and quality control

(3)

Padma currently purchases bags for £35 each.

(g) Evaluate whether Padma should continue purchasing bags or start manufacturing bags.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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(e) Complete the table showing the total production cost **and** the production cost per bag at the two production levels.

(10)

	Option 1	Option 2
	Production	
	1 000 bags	3 000 bags
	£	£
Raw materials		
Labour		
Supervision and quality control		
Production overheads		
Total production cost		
Cost per bag (£)		
Workings		



Question Number	Answer	Mark
2 (a)	<p>AO1 (6), AO2 (8), AO3 (1) AO1: Six marks for transferring balances. AO2: Eight marks for balances requiring Adjustment. AO3: One mark for calculation of depreciation.</p>	(15)

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 September 2018

	£	£
Revenue	48 750(1)AO1 + 8 700 – 5 250	52 200 (1of)AO2
Less		
Opening inventory	3 600	
Purchases	15 300 + 3 200(1)AO1 + 6 100 – 3 900	<u>20 700(1of)AO2</u>
		24 300
Closing inventory		<u>(4 400) (1)AO1</u>
Cost of sales		<u>(19 900) (1of)AO2</u>
Gross profit		32 300
plus		
Rent receivable	900 + 75	975 (1)AO2
Commission receivable		<u>2 450 (1)AO1</u>
		35 725
Less		
Wages	19 420 – 570(1)AO2 – 6000 (1)AO2	12 850
Rent, rates and insurance	600 +9 900 – 200	10 300 (1)AO2
Depreciation non-current assets		3 500 (1)AO3
General expenses		1 900 (1)AO1
Interest on bank loan		<u>375 (1)AO2</u>
		<u>(28 925)</u>
Profit for the year		<u><u>6 800 (1of)</u></u> AO1

Question Number	Answer	Mark
2 (b)	<p>AO2 (7), AO3 (1)</p> <p>AO2: Seven marks for correct figures in formula and calculation.</p> <p>AO3: One mark for establishing correct credit purchases.</p>	(8)

Current ratio	$\frac{4\,400 + 8\,700 + 200}{6\,100 + 1\,500 + 375} \text{ (1)AO2} = 1.67:1 \text{ (1)AO2}$
Liquid ratio(acid test)	$\frac{8\,700 + 200}{6\,100 + 1\,500 + 375} = 1.11:1 \text{ (1)AO2}$ (1)AO2
Trade receivables collection period (in days)	$\frac{8\,700 \times 365}{52\,200} \text{ (1)AO2} = 60.8 \text{ days (1)AO2}$
Trade payables payment period (in days)	$\frac{6\,100 \times 365}{17\,500} = 127.2 \text{ days (1)AO2}$ (1)AO3

Question Number	Answer	Mark
2 (c)	<p>AO2 (2), AO3(2)</p> <p>AO2: Two marks for comparing with benchmarks.</p> <p>AO3: Two marks for comments of valid comments on length of collection and payment periods.</p> <p>Own figure rule applies.</p> <p>Valid comments may include: The current ratio is within the 'benchmark' level of 1.5-2:1/the liquidity of the business is sufficient. (1)AO2</p> <p>The liquid ratio is above the benchmark level of 0.7-1:1/there is a small element of idle funds. (1)AO2</p> <p>Trade receivables collection period is too long at 60.8 days/effective credit control needs to be introduced. (1)AO3</p> <p>Trade payments payment period is very long when it is taking 127 days or 4 months to pay suppliers/this is a risk to the supply of goods. (1)AO3</p> <p>NOT A non-qualitative description e.g. up, down, higher, lower</p>	(4)

Question Number	Answer	Mark
2 (d)	<p>AO1 (3) AO1: Three marks for stating possible reasons.</p> <p>Possible reasons: More money tied up in inventory Non-current assets purchased More money tied up in trade receivables/payment too slow Higher expenses/drawings (1)AO1 x 3</p>	<p>(3)</p>

Question Number	Answer	Mark
2 (e)	<p>AO1 (2), AO2 (8) AO1: Two marks for recording cost per bag. AO2: Eight marks for calculating correct costs under each category.</p>	(10)

	Option 1	Option 2
	Production	Production
	1 000 leather bags	3 000 leather bags
	£	£
Raw materials	4 000 (1) AO2	12 000 (1) AO2
Labour	10 000 (1) AO2	20 000 (1) AO2
Supervision and quality control	9 000 (1) AO2	18 000 (1) AO2
Production overheads	7 000 (1) AO2	11 000 (1) AO2
Total Production Cost	30 000	61 000
Cost per leather bag (£)	30 (1of) AO1	20.33(1of) AO1

Question Number	Answer	Mark
2 (f)	<p>AO2 (3) AO2: Three marks for applying characteristics to establish cost category.</p> <p>Raw material Variable (1)AO2 Labour Semi-variable (1)AO2 Supervision and quality control Semi-fixed(1)AO2</p>	<p>(3)</p>

Question Number	Indicative Content		Mark
2 (g)	<p>AO1 (1), AO2 (1), AO3 (5), AO4 (5)</p> <p>Points in favour of Padma manufacturing</p> <p>It is cheaper on the face of it to manufacture her own leather bags, £30 compared to £35 per bag. This will increase profitability. Profitability can be further increased if Padma manufactures leather bags for other retailers as the average cost of all bags will fall to £19</p> <p>Manufacture and supply will be under her control</p> <p>Quality can be guaranteed.</p> <p>Issues with non-supply of bags will be removed.</p> <p>Points against Padma manufacturing</p> <p>The saving by manufacturing is marginal £30 compared to £35. Padma will have to deal with all production issues such as labour disputes and supply of materials.</p> <p>If she expands into production the lack of a proper double entry set of books will limit her ability to make management decisions.</p> <p>Does Padma have the cash/finance in place to embark on this development?/cost of setting up the manufacturing process.</p> <p>The estimates may turn out to be understated and she may be unable to resolve production difficulties.</p> <p>Without manufacturing can concentrate on other aspects of the business such as selling.</p> <p>Decision</p> <p>Candidates may conclude that this is a good/ or not a good development for Padma. The decision should be supported by 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	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>Chains of reasoning are present, but may be incomplete or invalid.</p> <p>A generic or superficial assessment is present.</p>
Level 3	7 - 9	<p>Accurate and thorough understanding, supported throughout by relevant application to the scenario.</p> <p>Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects.</p> <p>An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.</p>
Level 4	10 - 12	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario.</p> <p>A coherent and logical chain of reasoning, showing causes and effects.</p> <p>Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.</p>

SECTION B

Answer three questions from this section.

- 3 Argit extracted a trial balance on 31 August 2018 and prepared a **draft** Statement of Profit or Loss and Other Comprehensive Income that showed a profit for the year of £7 100

On the 31 August 2018 **after** completion of the draft Statement of Profit or Loss and Other Comprehensive Income, the following balances remained in the ledger.

	£
Inventory	3 800
Wages and salaries	1 900 Dr
Rent and rates	1 100 Dr
Bank interest and charges	500 Cr
Non-current assets (cost)	30 000
Provision for depreciation	
Non-current assets	8 000
General expenses	200 Cr
Trade receivables	9 800
Allowance for doubtful debts	400

Argit was aware that the trial balance contained several errors and the **draft** Statement of Profit or Loss and Other Comprehensive Income required adjustments.

The following errors were found:

- (1) Cash sales of £3 600 had **not** been recorded in the books.
- (2) Cash sales of £4 500 had been posted to the ledger as £5 400
- (3) Inventory at 31 August was valued incorrectly. The value should have been £4 350
- (4) Wages at 31 August 2018 of £1 900 were recorded incorrectly as they were accrued not prepaid.
- (5) A salary bonus payment of £250 had not been recorded in the books.
- (6) Rent and rates had been calculated incorrectly. The rent was prepaid £800 and the rates were accrued £300 at the 31 August 2018.
- (7) A provision of £3 000 for bank interest and charges had been made in the financial statements. The actual sums were bank charges £1 750 and bank charges £90
- (8) Depreciation on non-current assets had been calculated at the rate of 25% using the straight line method instead of 25% using the reducing balance method.
- (9) General expenses included a payment of £600 interest on a loan for Argit's personal use. Business expenses of £75 paid by Argit, had not been recorded in the books.
- (10) The allowance for doubtful debts was to be maintained at 5% of trade receivables.

Required

- (a) Complete the table showing adjustments and the corrected Statement of Profit or Loss and Other Comprehensive Income. (20)
- (b) Explain the use of the following in correcting errors in the ledger:
- Suspense Account
 - the Journal. (4)
- (c) Evaluate the preparation of a draft Statement of Profit or Loss and Other Comprehensive Income when it is known that there are errors in the ledger. (6)

(Total for Question 3 = 30 marks)

SECTION B

Answer THREE questions in this section.

Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

If you answer Question 3 put a cross in the box .

Source material for Question 3 is on pages 10 and 11 of the source booklet.

- 3 (a) Complete the table showing adjustments and the corrected Statement of Profit or Loss and Other Comprehensive Income.

(20)

	Draft	Adjustment	Corrected
	£		£
Revenue	85 000		
Cost of sales	<u>39 000</u>		
Gross profit	46 000		
Less			
Wages and salaries	18 400		
Rent and rates	4 000		
Bank interest and charges	3 000		
Depreciation	7 500		
General expenses	5 900		
Allowance for doubtful debts increase	<u>100</u>		
	<u>38 900</u>		
Profit for the year	<u>7 100</u>		

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Question Number	Answer	Mark
3 (a)	<p>AO1 (5), AO2 (12), AO3(3)</p> <p>AO1: Five marks for calculating balances.</p> <p>AO2: Twelve marks for correct adjustment figure or final balance.</p> <p>AO3: Three marks for depreciation and allowance for doubtful debts.</p>	(20)

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 August 2018

	Draft	Adjustment	Corrected
	£		£
Revenue	85 000	+3 600 (1) AO2 -900 (1) AO2	87 700 (1of) AO3
Cost of sales	<u>(39 000)</u>	-550 (1) AO2	<u>(38 450) (1of) AO1</u>
Gross profit	46 000		49 250
Less			
Wages and salaries	18 400	+3 800 (1) AO2 +250 (1) AO2	22 450 (1of) AO2
Rent and rates	4 000	+600 (1) AO2	4 600 (1of) AO1
Bank interest and charges	3 000	-1 160 (1) AO2	1 840(1of) AO1
Depreciation	7 500	-2 000 (1) AO3	5 500 (1of) AO1
General expenses	5 900	-600 (1) AO2 +75 (1) AO2	5 375 (1of) AO2
Allowance for doubtful debts increase	<u>100</u>	-10 (1) AO3	<u>90 (1of) AO2</u>
	<u>38 900</u>		<u>39 855</u>
Profit for the year	<u>7 100</u>		<u>9 395 (1) AO1</u>

Adjustment (1) mark for correct figure

Corrected balance (1of) mark for correct adjustment, figure and orientation.

Question Number	Answer	Mark
3 (b)	<p>AO1 (4) AO1: Four marks for explaining the terms.</p> <p>The Suspense Account will be opened with the difference in the value of the debits and credits in the trial balance/because not all transactions have a debit and credit entry of equal value (1) AO1 as errors are located the Suspense Account will be debited or credited with the individual differences found. (1) AO1</p> <p>The Journal is a book of prime entry (1) AO1 which will be used for the authorisation of the entries to be made to correct the double entry/record the correction. (1) AO1</p>	(4)

Question Number	Indicative Content	Mark
3 (c)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Points in favour of preparation with errors</p> <p>Gives an indication of the profit that has been achieved.</p> <p>This may assist decision making, but there is the danger that important decisions may be made on incorrect information.</p> <p>Points against preparation with errors</p> <p>The results will not be accurate which may impact upon decision making.</p> <p>The work will need to be repeated when the errors are located which will be expensive in time and cost.</p> <p>Decision</p> <p>Candidates may be in favour or against the preparation of the income statement with known errors. Candidate's conclusion should be supported with an appropriate rationale.</p> <p>NOT</p> <p>A discussion about errors.</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 financial and perhaps non-financial information, with a decision.</p>
Level 3	5-6	<p>Accurate and thorough knowledge and understanding.</p> <p>Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>

4 Lohit is in business buying and selling goods on credit. The following information relates to his bad and doubtful debts for the year ended 31 August 2018.

(1) Balance of Allowance for Doubtful Debts Account on 1 September 2017 was £1 100

(2) Bad debts

	Customer	Balance owed	Payment received
4 January 2018	Jegan	£800	£300
30 March 2018	Smith and Sons	£3 000	£0.60 in the £
19 May 2018	Nuri	£500	£0.30 in the £
3 June 2018	Ng	£250	Nil

(3) Bad debts recovered

The balance of £400 owed by Arca had been written off on 20 July 2016. A cheque for part payment of the debt was received for £250 on 15 June 2018.

(4) Schedule of trade receivables 31 August 2018

Age of debt	Amount	Allowance for doubtful debts
Up to 30 days	£12 500	2%
31 – 60 days	£6 000	5%
Over 60 days	£1 500	20%

Required

- (a) Prepare the following at 31 August 2018, including year-end transfers where appropriate.
- (i) Journal entries, **including** narratives and bank entries:
- bad debt of Smith and Sons
 - recovery of part of the debt written off from Arca. (8)
- (ii) Bad Debts Account (5)
- (iii) Bad Debts Recovered Account (3)
- (iv) Allowance for Doubtful Debts Account. (4)
- (b) Explain **four** elements of good credit control. (4)
- A friend of Lohit stated, 'I do not know why you use an allowance for doubtful debts account. It is better to write off the bad debts when they actually occur.'
- (c) Evaluate the friend's statement. (6)

(Total for Question 4 = 30 marks)

Question Number	Answer	Mark
4 (a) (i)	<p>AO1 (2), AO2 (5), AO3(1) AO1: Two marks for narratives and balances without calculation. AO2: Five marks for calculated balances and correct posting. AO3: One mark for calculated balances with correct posting.</p>	(8)

Journal

Date	Details	Dr	Cr
2018		£	£
30 March	Bank	1 800 (1) AO3	
	Bad debts	1 200 (1) AO2	
	Smith and sons		3 000 (1) AO2
Received part payment of debt, balance written off as irrecoverable. (1) AO1			
15 June	Bank	250 (1) AO2	
	Arca		250
	Arca	250 (1) AO2	
	Bad debts recovered		250 (1) AO2
Recovered part of debt from Arca written off as irrecoverable in previous year. (1) AO1			

(8)

Question Number	Answer	Mark
4 (a)(ii)	A02 (4), A03(1) A02: Four marks for calculated balances and correct posting to account. A03: One mark for transfer to income statement.	(5)

Bad Debts Account

Date	Details	£	Date	Details	£
2018			2018		
4 January	Jegun	500 (1) A02	31 August	Income statement	2 300 (1of) A03
30 March	Smith and sons	1 200 (1) A02			
19 May	Nuri	350 (1) A02			
3 June	Ng	250 (1) A02			
		<u>2 300</u>			<u>2 300</u>

Question Number	Answer	Mark
4 (a)(iii)	A01 (1), A02 (2), A01: One mark for narratives and balances without calculation. A02: Two marks for calculated balances and correct posting.	(3)

Bad Debts Recovered Account

Date	Details	£	Date	Details	£
2018			2018		
31 August	Income statement	250 (1) A02	15 June	Bank/Arca (1) A01	250 (1) A02
		<u>250</u>			<u>250</u>

Question Number	Answer	Mark
4 (a) (iv)	<p>AO1 (2), AO2 (1), AO3(1) AO1: Two marks for narratives and balances without calculation. AO2: One mark for calculated closing balance and correct posting. AO3: One mark for calculated income statement transfer with correct use.</p>	(4)

Allowance for Doubtful Debts Account

Date	Details	£	Date	Details	£
2018			2017		
31 August	Income statement	250 (1of) AO3	1 September	Balance b/d	1 100 (1) AO1
	Balance c/d	<u>850</u> (1) AO2			—
		<u>1 100</u>			<u>1 100</u>
			2018		
			1 September	Balance b/d	850 (1of) AO1

Question Number	Answer	Mark
4 (b)	<p>AO1 (4) AO1: Four marks for valid points about credit control.</p> <p>Valid points may include:</p> <ul style="list-style-type: none">• Before supplying goods on credit a credit worthiness check should be made of the buyer• A credit limit should be set based upon the buyer's credit worthiness• Goods should be promptly invoiced• Statements provided to the buyer on a monthly basis• Unpaid debts 'followed up' after one month outstanding• Constant monitoring of aged debts with personal contact (telephone call) where debts are up to two months old• Restriction of further credit where debts remain unpaid for well over one month• Legal intervention only if debt is circa three months old and no movement towards payment. <p>(1) AO1 x 4 valid points</p> <p>NOT Give cash discount. Give trade discount.</p>	<p>(4)</p>

Question Number	Indicative Content	Mark
4 (c)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Points in favour of allowance for doubtful debts</p> <p>Ensures that profits are more realistic, because an allowance will be made of possible bad debts from the sales of the current period.</p> <p>Complies with the prudence concept in not overstating profits.</p> <p>Points in favour of writing off bad debts as they occur</p> <p>Will not be based upon estimates, as the allowance will be.</p> <p>Based upon actual bad debts if they occur.</p> <p>Decision</p> <p>Candidates may be in favour or against the allowance for doubtful debts. Candidate's conclusion should be supported with an appropriate rationale.</p> <p>NOT</p> <p>Time consuming.</p> <p>Easier.</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 financial and perhaps non-financial information, with a decision.</p>
Level 3	5-6	<p>Accurate and thorough knowledge and understanding.</p> <p>Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p>

- 5 Lee Manufacturing makes two products, chairs and tables. Each product is made on a separate production line. The following information is available for the month of July 2018.

(1) Raw materials

The tables and chairs are made using the same type of wood raw material. Different sets of fittings are added to the tables and chairs to make the finished product.

	Wood for table and chairs	Table fittings	Chair fittings
Inventory 1 July 2018	200 metres @ £100 per metre	90 sets @ £25 each	400 sets @ £10 each
Receipts	200 metres @ £120 per metre	150 sets @ £30 each	200 sets @ £12 each
Issues	250 metres	200 sets	300 sets

- Lee Manufacturing uses the First In First Out (FIFO) method of **periodic** inventory valuation.
- In July, 150 metres of wood were used in the manufacture of tables and the remainder was used in the manufacture of chairs.

(2) Labour

- Five workers on the table production line worked 160 hours **each** in the month. Workers were each paid £6 per hour of which 90% was recorded as direct and 10% was recorded as indirect.
- Eight workers on the chair production line worked 175 hours **each** in the month. Workers were each paid £6 per hour for 160 hours and time and a third for 15 hours. 75% was recorded as direct and 25% recorded as indirect.

(3) Overheads

- Production supervisors salary was £3 900 and is to be apportioned on the numbers of workers supervised.
- Depreciation for the month was £6 600 of which £2 400 was apportioned to the production of tables.
- Other overheads totalled £7 500 and were apportioned 40% tables, 60% chairs.

(4) Work in progress

	Tables	Chairs
1 July 2018	£4 000	£5 200
31 July 2018	£3 850	£6 160

Required

(a) Prepare the Manufacturing Account, in **columnar format**, for the month of July 2018, showing the cost of production of tables and the cost of production of chairs. (A total column is not required). (20)

(b) Explain the difference between **inventory valuation** and **inventory rotation**. (4)

The accountant has advised Lee Manufacturing to use **perpetual** inventory valuation instead of **periodic** inventory valuation for its raw materials.

(c) Evaluate the accountant's advice. (6)

(Total for Question 5 = 30 marks)

		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)	AO1 (5), AO2 (12), AO3 (3) AO1: Five marks for headings or posting given balances. AO2: Twelve marks for adjusting and posting balances. AO3: Three marks for applying inventory valuation to derive balances.	(20)

Manufacturing Account for the month of July 2018

	Tables		Chairs	
	£	£	£	£
Raw materials				
Wood	15 600 (2)AO3		10 400 (1)AO2	
Fittings	<u>5 550</u> (1)AO3		<u>3 000</u> (1)AO2	
Cost of raw materials		21 150		13 400
Direct labour		<u>4 320</u> (1)AO2		<u>6 480</u> (2)AO2
Prime costs (1)AO1		25 470		19 880
Factory Overheads:				
Indirect labour	480 (1)AO1		2 160 (1of)AO2	
Production supervisor	1 500 (1)AO2		2 400 (1)AO2	
Depreciation	2 400 (1)AO2		4 200 (1)AO2	
Other overheads	<u>3 000</u> (1)AO1		<u>4 500</u> (1)AO1	
		7 380		13 260
Work in progress:				
1 July 2018	4 000		5 200	
31 July 2018	<u>(3 850)</u>		<u>(6 160)</u>	
		150 (1)AO2		(960) (1)AO2
Production cost (1)AO1		<u>33 000</u>		<u>32 180</u>

Workings

Wood for table

$$\text{Wood } (200@£100 + 50@£120) = 26\,000 \text{ (1)AO3} \times \frac{150}{250} = 15\,600 \text{ (1)AO3}$$

$$\text{Wood for chairs } 26\,000 - 15\,600 = 10\,400$$

Table fittings

$$(90 @ £25 + 110@£30) = £5\,550$$

Chair fittings

$$300@£10 = 3\,000$$

Labour

Table

$$5 \times 160 \text{ hrs} \times £6 = £4\,800 \times 90\% = £4\,320$$

Chair

$$8 \times (160@£6 + 15@£8) = 8\,640 \text{ (1)AO2} \times 75\% = 6\,480 \text{ (1)AO2}$$

Depreciation

$$\text{Tables } 160 \times 5 = 800 \times £3 = £2\,400$$

$$\text{Chairs } 175 \times 8 = \frac{1\,400}{2\,200} \times £3 = \frac{£4\,200}{£6\,600}$$

Question Number	Answer	Mark
5 (b)	<p>AO1 (4) AO1: Four marks for distinguishing valuation from rotation.</p> <p>Inventory valuation – inventory must be valued at cost. (1)AO1 The valuation of the inventory may depend upon the assumptions made about the value of the receipts and issues made in an accounting period/it is a theoretical value e.g. FIFO/LIFO. (1)AO1</p> <p>Inventory rotation – rotation relates to the physical movement of inventory being received and issued from the stores. (1)AO1 In this respect a business will generally issue its oldest inventory first to avoid deterioration/obsolescence. (1)AO1</p>	(4)

Question Number	Indicative Content		Mark
5 (c)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Points in favour of perpetual</p> <p>The approach will allow the valuation method to issue inventory at prices which will vary to each issue made in line with the method chosen.</p> <p>Periodic could result in issue prices which do not reflect replacement cost when prices are rising or falling rapidly.</p> <p>Points in favour of periodic</p> <p>It is a simpler approach because issue prices will probably be constant for the period.</p> <p>Issue costs will not be changing every day.</p> <p>Decision</p> <p>Candidates may be in favour or against the use of perpetual inventory valuation. Candidate's conclusion should be supported with an appropriate rationale.</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 financial and perhaps non-financial information, with a decision.</p>	
Level 3	5-6	<p>Accurate and thorough knowledge and understanding.</p> <p>Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>	

- 6 Ameer purchased a business that buys and sells electrical household goods. When taking over the business, Ameer realised that the existing inventory was obsolete. He therefore decided to have a clearance sale of the existing inventory and replace it with a new, up-to-date inventory.

The following information is available for July 2018.

- (1) Inventory on 1 July 2018

	Cost £	Clearance sale price £
5 Cookers	180 each	190 each
8 Fridges	90 each	60 each
10 Washing machines	160 each	170 each

- (2) Purchases of new inventory during July

	Cost £
12 Cookers	200 each
10 Fridges	100 each
15 Washing machines	200 each

Ameer will 'mark-up' all **new inventory** for resale by 20%.

- (3) Sales for July 2018

	Clearance inventory	New inventory
	Number sold	Number sold
Cookers	3	8
Fridges	5	6
Washing machines	4	12

Required

- (a) Explain the following as they relate to inventory:
- net realisable value
 - the accounting concept of historic cost
 - the accounting concept of realisation.
- (6)
- (b) Calculate the total value of the inventory on 1 July 2018.
- (3)
- (c) Complete the table showing the calculation of the total value of the inventory on 31 July 2018.
- (7)
- (d) Prepare the trading section of the Statement of Profit or Loss and Other Comprehensive Income for the month ended 31 July 2018.
- (8)

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

(6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 200 MARKS

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(b) Calculate the total value of the inventory on 1 July 2018.

(3)

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(c) Complete the table showing the calculation of the total value of the inventory on 31 July 2018.

(7)

		Inventory	Purchases	Sales	Inventory	Total value
		1 July			31 July	31 July
		Quantity	Quantity	Quantity	Quantity	£
Cookers	Clearance	5	---			
	New	---				
Fridges	Clearance	8	---			
	New	---				
Washing machines	Clearance	10	---			
	New	---				



Question Number	Answer	Mark
6 (a)	<p>AO1 (6) AO1: Six marks for explaining terms.</p> <p>Net realisable value- The estimated receipt/selling price from the sales of the inventory. (1)AO1 Less any costs of completing the goods or costs of selling the goods. (1)AO1</p> <p>Historic cost – All assets and expenses are recorded in the ledger accounts at their actual cost not at market value. (1)AO1 The cost of the inventory is a known fact and can be verified. (1)AO1</p> <p>Realisation- Not recording a profit/revenue (1)AO1 on goods until it has actually been earned by selling the goods. (1)AO1</p>	(6)

Question Number	Answer	Mark																		
6 (b)	<p>AO2 (3) AO2: Three marks for valuing individual elements of inventory.</p> <p style="text-align: center;">1 July</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;">Value</th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>5 Cookers</td> <td style="text-align: center;">180 each =</td> <td style="text-align: center;">900 (1)AO2</td> </tr> <tr> <td>8 Fridges</td> <td style="text-align: center;">60 each =</td> <td style="text-align: center;">480 (1)AO2</td> </tr> <tr> <td>10 Washing machines</td> <td style="text-align: center;">160 each =</td> <td style="text-align: center;"><u>1 600</u> (1)AO2</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">2 980</td> </tr> </tbody> </table>		Value			£	£	5 Cookers	180 each =	900 (1)AO2	8 Fridges	60 each =	480 (1)AO2	10 Washing machines	160 each =	<u>1 600</u> (1)AO2			2 980	(3)
	Value																			
	£	£																		
5 Cookers	180 each =	900 (1)AO2																		
8 Fridges	60 each =	480 (1)AO2																		
10 Washing machines	160 each =	<u>1 600</u> (1)AO2																		
		2 980																		

Question Number	Answer	Mark
6 (c)	<p>AO2 (6), AO3 (1) AO2: Six marks for valuing individual elements of inventory. AO3: One mark for valuing total closing inventory.</p>	(7)

31 July

		Inventory 1 July Number	Purchases Number	Sales Number	Inventory 31 July Number	Value (£)
Cookers	Clearance	5		(3)	2	@180 = 360 (1)AO2
	New		12	(8)	4	@200 = 800 (1)AO2
Fridges	Clearance	8		(5)	3	@60 = 180 (1)AO2
	New		10	(6)	4	@100 = 400 (1)AO2
Washing machines	Clearance	10		(4)	6	@160 = 960 (1) AO2
	New		15	(12)	3	@200 = 600 (1)AO2
						Total = 3 300 (1of) AO3

Question Number	Answer	Mark
6 (d)	<p>AO1 (3), AO2(3), AO3(2) AO1: Three marks for transferring previously calculated figures. AO2: Three marks for revenue and cost of sales calculations. AO3: Two marks for purchases and revenue calculations.</p>	(8)

Statement of Profit or Loss and Other Comprehensive Income
for the month ending 31 July 2018

	£	£
Revenue		7 070 (3)AO2/3
Less		
Inventory -1 July	2 980 (1of)AO1	
Purchases	<u>6 400</u> (1)AO3	
	9 380	
Inventory 31 July	<u>(3 300)</u> (1of)AO1	
Cost of sales		<u>6 080</u> (1of)AO2+w
Gross profit		<u>990</u> (1of)AO1+w

Workings

		Revenue		Purchases	
		£	Total £	£	Total £
Cookers	Clearance	3@190	570 (1)AO2		
	New	8@240	1 920	12@200	2 400
Fridges	Clearance	5@60	300 (1)AO3		
	New	6@120	720	10@100	1 000
Washing	Clearance	4@170	680 (1)AO2		
machines	New	12@240	<u>2 880</u>	15@200	<u>3 000</u>
			7 070		6 400 (1)AO3

Note: Revenue allow **(1of)AO2** for **any three** correct in own figure

Question Number	Indicative Content		Mark
6 (e)	<p>AO2 (1), AO3 (2), AO4 (3)</p> <p>Points in favour of accounting concepts</p> <p>The use ensures consistency of approach of different organisations. The financial statements can be relied upon by various stakeholders. Comparisons can be drawn between different businesses.</p> <p>Points against accounting concepts</p> <p>The concepts can be contradictory on occasions. There is a cost implication of employing the skills to prepare the statements complying with the concepts. Does not consider non-financial factors.</p> <p>Decision</p> <p>Candidates should generally be positive towards the use of accounting concepts and conventions. Candidate's conclusion should be supported with an appropriate rationale.</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.