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Accounting Unit 1
WAC01 or WAC11

Write your name here

Surname	Other names

Pearson Edexcel
International
Advanced Level

Centre Number

Candidate Number

Accounting

Paper 1: The Accounting System and Costing

Wednesday 12 October 2016 – 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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SECTION A

Answer BOTH questions in this section.

1 Weston Airways operates an airline service between cities using two 15-seater aircraft.

The following balances were recorded in the books on 30 September 2016:

	£
Revenue from passenger sales	1 500 000
Salaries: Aircrew	275 000
Administration	82 000
Landing charge expenses	90 000
Fuel	140 000
Ground services expenses	210 000
Non-current assets (cost):	
Aircraft	600 000
Computers and fixtures	58 000
Provisions for depreciation:	
Aircraft	500 000
Computers and fixtures	18 000
Aircraft maintenance	315 000
Marketing	70 000
Administration expenses	145 000
Rent	50 000
6% Bank loan (repayable 30 June 2020)	200 000
Bank loan interest	9 000
Trade receivables	47 000
Trade payables	59 000
Cash and bank	486 000 Dr
Capital	300 000

Additional information at 30 September 2016

(1) Accruals:

- aircrew salaries £13 000
- fuel £20 000

(2) Marketing includes £20 000 for a campaign to run from 1 July 2016 to 31 December 2016.

(3) Some bank loan interest was outstanding. The bank loan commenced 1 October 2015.

(4) Depreciation is charged as follows:

- aircraft at the rate of 8% per annum using the straight line method
- computers and fixtures at the rate of 20% per annum using the reducing balance method.

Required

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

(14)

(b) Prepare the Statement of Financial Position at 30 September 2016.

(14)

The owner of Weston Airways is aware that its two existing aircraft are old and need replacing.

The owner proposes to replace the two existing aircraft with two larger 20-seater aircraft for the year ended 30 September 2017.

The projections for the replacements are as follows:

· passenger numbers will increase by 10%. Market research shows that each passenger will also pay 8% more to fly in the new aircraft
· the aircraft will use 30% less fuel
· aircraft maintenance will be 40% less
· ground services expenses will rise by 20%
· all other expenses will remain unchanged
· the two existing aircraft will be sold for £100 000 each.

There are two proposals for financing the two replacement aircraft.

Proposal 1

Purchase the two aircraft at a cost of £900 000 each. The aircraft will depreciate at 8% per annum using the straight line method. Weston Airways would take out an additional £1 500 000 8% bank loan to finance the aircraft.

Proposal 2

Hire the two aircraft for a period of 12 years at a charge of £125 000 per annum for each aircraft. Weston Airways would not have to charge annual depreciation or take out an additional bank loan.

Required

(c) Complete the table in your Question Paper showing the **changes** to the profit or loss for the year ended 30 September 2017 using:

(i) Proposal 1

(8)

(ii) Proposal 2.

(7)

(d) Evaluate the two proposals and make a recommendation to the owner of Weston Airways.

(12)

(Total for Question 1 = 55 marks)

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(c) Complete the table below showing the **changes** to the profit or loss for the year ended 30 September 2017 using:

(i) Proposal 1

(8)

(ii) Proposal 2.

(7)

Effect on profit or loss

Proposal 1 – Aircraft are purchased				Proposal 2 – Aircraft are hired			
			£				£
Profit for the year ended 30 September 2016 (from part (a))				Profit for the year ended 30 September 2016 (from part (a))			
	Increase in profit	Decrease in profit			Increase in profit	Decrease in profit	
	£	£			£	£	
Revenue				Revenue			
Fuel				Fuel			
Aircraft maintenance				Aircraft maintenance			
Ground services expenses				Ground services expenses			
Depreciation				Depreciation			
Additional bank loan interest				Additional bank loan interest	Nil	Nil	
Hire of aircraft	Nil	Nil		Hire of aircraft			
Subtotals				Subtotals			
Projected profit or loss for the year ended 30 September 2017				Projected profit or loss for the year ended 30 September 2017			
Workings				**Workings**			

P 4 8 2 5 0 A 0 4 2 8

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Question Number	Answer	Mark

1(a)	**AO1 (7), AO2 (7)**
	AO1: Seven marks for recording the given expense in the trial balance.
	AO2: Seven marks for adjustment.
	
	Weston Airways
	Statement of Profit or Loss and Other Comprehensive Income
	for the year ended 30 September 2016
	
	                  £ £
	Revenue 1 500 000 **(1)** AO1
	Less
	Salaries-Aircrew (275 000 + 13 000) 288 000 **(1)** AO2
	Administration 82 000 **(1)** AO1
	Landing charge expenses 90 000 **(1)** AO1
	Fuel (140 000 + 20 000) 160 000 **(1)** AO2
	Ground services 210 000 **(1)** AO1
	Aircraft maintenance 315 000 **(1)** AO1
	Marketing (70 000 – 10 000) 60 000 **(1)** AO2
	Administration expenses 145 000 **(1)** AO1
	Rent 50 000 **(1)** AO1
	Depreciation – Aircraft 48 000 **(1)** AO2
	        Computers and fixtures 8 000 **(1)** AO2
	Bank loan interest 9 000 **(1)** + 3 000**(1)** 12 000 AO2
	                         (1 468 000)
	Profit for the year 32 000
		(14)

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Question Number	Answer	Mark
1(b)	**AO1 (7), AO2 (7)** **AO1: Seven marks for recording the given entry.** **AO2: Seven marks for adjustment.** Statement of Financial Position at 30 September 2016 | Non-current assets	Cost	Accumulated Depreciation	Carrying value
	£	£	£
Aircraft	600 000	(548 000)	52 000 **(1)** AO2
Computers and fixtures	58 000	(26 000)	32 000 **(1)** AO2

	658 000	(574 000)	84 000 |
			
			Current assets
			Trade receivables 47 000 **(1)** AO1
			Other receivables 10 000 **(1)** AO2
			Cash and bank 486 000 **(1)** AO1
			                                        543 000
			Total assets **(1)** AO1 627 000
			
			Capital 300 000 **(1)** AO1
			Profit for the year 32 000 **(1 of)** AO1
			                                        332 000
			Non-current liabilities **(1)** AO1
			6% Bank Loan (repayable 30 June 2020) 200 000 **(1)** AO2
			
			Current liabilities
			Trade payables 59 000 **(1)** AO1
			Other payables (13 000 **(1)** AO2+20 000 **(1)** AO2
			          3 000 **(1)** AO2) 36 000
			                                      95 000
			Total capital and liabilities 627 000
				(14)

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Question Number	Answer	Mark
1(c)	**AO1 (2), AO2 (9), AO3 (4)** **A01: Two marks for transferring balance and calculating new balance.** **AO2: Nine marks for calculations.** **AO3: Four marks for two stage calculations.**	**(15)**

Effect on Profit or Loss

Proposal 1 - Aircraft are purchased				Proposal 2 - Aircraft are hired.			
			£				£
Profit for the year ended 30 September 2016 (from part (a))			32 000	Profit for the year ended 30 September 2016 (from part (a))			32 000 **(1 of)** **AO1**
	Increase to profit	Decrease to profit			Increase to profit	Decrease to profit	
	£	£			£	£	
Revenue	282 000 **(2)**			Revenue	282 000		
Fuel	48 000 **(1)**			Fuel	48 000 **(1 of)**		
Aircraft maintenance	126 000 **(1)**			Aircraft maintenance	126 000 **(1 of)**		
Ground services expenses		42 000 **(1)**		Ground services expenses		42 000 **(1 of)**	
Depreciation		96 000 **(2)**		Depreciation	48 000 **(1 of)**		
Additional bank loan interest		120 000 **(1)**		Additional bank loan interest	Nil	Nil	
Hire of aircraft	Nil	Nil		Hire of aircraft		250 000 **(1)**	
Sub totals	456 000	258 000	198000	Sub totals	504 000	292 000	212 000
Projected profit or loss for the year ended 30 September 2017			230 000	Projected profit or loss for the year ended 30 September 2017			244 000 **(1 of)** **AO1**

Workings
Revenue
1 500 000 x 10% = + 150 000 **(1)** AO3
1 650 000 x 8% = + <u>132 000</u> **(1)** AO3
                 + 282 000
Fuel
160 000 x 70% = - 48 000 **(1)** AO2

Aircraft maintenance
315 000 x 40 % = - 126 000 **(1)** AO2

Ground services expenses
210 000 x 20% = + 42 000 **(1)** AO2

Depreciation
1 800 000 x 8% =144 000 **(1)** AO3
-48 000 **(1 of)** AO3 = + 96 000

Additional loan interest
1 500 000 x 8% = + 120 000 **(1)** AO2

Workings
Aircraft hire
125 000 x 2 = 250 000 **(1)** AO2

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Question Number	Indicative content	Mark
1(d)	**AO1 (1), AO2 (1), AO3 (5), AO4 (5)** Potential arguments to lease • No requirement for major loan and the risk attached to borrowing such a large sum. Inability to repay loan if there is a down turn in the market • No interest charge to impact upon profit. Removal of risk of interest rate rises • Lower or no repair costs to aircraft. These costs may be factored into the annual lease charge and borne by the lessor • Cash flow 'smoothed' as annual cost of lease matched to annual revenue • Cash inflow from sale of existing planes. Although relatively small this will be a valuable source of cash • More projected profit (own figure) using this model. Potential arguments to buy • Long term commitment to lease for 12 years. Weston Airways will be required to commit to a long term contract which may be difficult to vary from at a later date. Perhaps more flexible to buy • Aircraft would be owned by Weston Airways. This would enable them to modify the aircraft as required without seeking the permission of the lessor • Hire total costs are higher than purchasing. The debate is whether to incur a major loan at the start or to make regular annual payments for the lease. The total cost of purchase including loan repayment and interest is less than the total lease charge over 12 years • Cash flow more difficult to manage as there is considerable expenditure at the start of the project. The lease option smooths the cash flow over the life of the project. Conclusion • Candidates may argue for lease or purchase. Candidate's decision should be supported by key arguments in arriving at that decision.	**(12)**

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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.

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2 The following balances remained in the books of Bani on 30 September 2016. Bani knows that there are some errors in the books and that she will need to open a suspense account.

	£
Revenue (credit sales)	62 300
Returns inwards	1 150
Inventory	5 350
Purchases	25 100
Trade receivables	6 750
Trade payables	8 200
Non-current assets (cost)	25 000
Provision for depreciation	7 500
General expenses	9 300
Bad debts	450
Rent receivable	1 400
Bank overdraft	600
Drawings	6 460

Required

(a) Prepare the trial balance of Bani at 30 September 2016 including the Suspense Account.

(15)

On inspection of the books Bani found the following errors:

(1) Goods purchased for £950 had been recorded as £590 in the Purchases Account.

(2) Rent receivable, £400, had been correctly recorded in the Rent Receivable Account, but no entry had been made in the Bank Account.

(3) General expenses of £65 had been credited to the General Expenses Account.

(4) Drawings of £50 had been recorded in the Drawings Account as £500

Required

(b) Prepare the:

(i) Journal entries to correct the errors (1) to (4) (narratives are **not** required)

(8)

(ii) Suspense Account after completion of the Journal entries.

(5)

Bani has been advised that there may still be some errors in her books that will not be revealed by the trial balance.

(c) Name and explain **three** types of error that will not be revealed by the trial balance.

(9)

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Bani prepared a Trade Receivables Control Account to check the closing balance of her trade receivables.

Using relevant balances from the trial balance, together with the following information:

	£
Trade receivables 1 October 2015	5 630
Receipts from credit customers by cheque	59 580

Required

(d) Prepare the Trade Receivables Control Account.

(6)

Bani does not have an allowance for doubtful debts in her books. She records bad debts when they occur.

(e) Evaluate Bani's policy of recording bad debts when they occur.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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Question Number	Answer	Mark
2(a)	**AO1 (14), AO2 (1)** **A01: Fourteen marks for recording the given entries in the trial balance.** **A02: One mark for determining the balancing figure.** Trial Balance at 30 September 2016 		Dr £	Cr £
Revenue		62 300 (1)AO1
Returns inwards	1 150	(1)AO1
Inventory	5 350	(1)AO1
Purchases	25 100	(1)AO1
Trade receivables	6 750	(1)AO1
Trade payables		8 200 (1)AO1
Non-current assets (cost)	25 000	(1)AO1
Provision for depreciation		7 500 (1)AO1
General expenses	9 300	(1)AO1
Bad debts	450	(1)AO1
Rent receivable		1 400 (1)AO1
Bank overdraft		600 (1)AO1
Drawings	6 460	(1)AO1
Suspense	440	(1)AO2
	80 000	80 000 (1 of) AO1
Both totals				**(15)**

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Question Number	Answer	Mark

2(b)	**AO1 (5), AO2 (8)**
	A01: Five marks for recording the journalised entry in the suspense account.
	AO2: Eight marks for determining the correction entry.
	
	(b) (i)
	
	                              Journal
	                         Dr Cr
	                         £ £
	
	(1) Purchases 360 (1) AO2
	     Suspense 360 (1) AO2
	
	(2) Bank 400 (1) AO2
	     Suspense 400 (1) AO2
	
	(3) General expenses 130 (1) AO2
	     Suspense 130 (1) AO2
	
	(4) Suspense 450 (1) AO2
	     Drawings 450 (1) AO2
	
	(8)
	(b) (ii)
	                  Suspense Account
	           £ £
	Balance 440 (1)AO1 Purchases 360 (1) AO1
	Drawings 450 (1)AO1 Bank 400 (1) AO1
	                  General expenses 130 (1) AO1
	          890 890
	
	(5)
	
	Accept own figures from (a) and (b) (i)
		(13)

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Question Number	Answer	Mark
2(c)	**AO1 (3), AO2 (6)** **A01: Three marks for naming errors not revealed by the trial balance.** **AO2: Six marks for explaining how the three errors occur.** Three from the following: Error of original entry (1) AO1 + (2) AO2 for explanation Error of omission (1) AO1+ (2) AO2 for explanation Error of commission (1) AO1 + (2) AO2 for explanation Error of principle (1) AO1 + (2) AO2 for explanation Error of reversal (1) AO1 + (2) AO2 for explanation Compensating error (1) AO1 + (2) AO2 for explanation	**(9)**

Question Number	Answer	Mark

2(d)	**AO1 (2), AO2 (4)**
	A01: Two marks for placing the opening balance on the debit and bringing the closing balance down on the debit.
	AO2: Four marks for correctly selecting and placing in the control account.
	
	 Trade Receivables Control Account
	          £ £
	Balance b/d 5 630 (1) AO1 Returns inwards 1 150 (1)AO2
	Revenue 62 300 (1) AO2 Bank: Receipts 59 580 (1)AO2
	                      Bad debts 450 (1) AO2
	                      Balance c/d 6 750
	          67 930 67 930
	Balance b/d 6 750 (1of) AO1 No aliens
		(6)

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Question Number	Indicative content	Mark
2(e)	**AO1 (1), AO2 (1), AO3 (5), AO4 (5)** Potential arguments for the policy of recording bad debts when they occur - It is simple to apply entries need only be made when the bad debts occur. There are therefore fewer entries as there is no maintenance of an allowance for doubtful debts account - Actual bad debts known will be known with precision and recorded when they occur - No estimates or judgements will need to be made of potential debts. The recording of bad debts will be based upon actual figures. Potential arguments against the policy of recording bad debts when they occur - Accrual principle/prudence principle not applied. There is a requirement when preparing accounts to match expenditure with income. It would therefore be prudent to allow for doubtful debts which we know will occur, but the extent of which is uncertain - Profit for the year could be overstated because we are making the assumption that all debts will be realised through payment. This is probably unrealistic to assume that all credit debts will be paid - Business could be destabilised by a significant bad debt in the future. A significant actual bad debt could destabilise the business, although the impact could still be great, advanced action could be taken if there was a process of reviewing and projecting potential non payment - Cannot predict future bad debts with accuracy. Events will largely be out of our control for when a bad debt occurs. Conclusion - Candidates may argue for or against an allowance for doubtful debts. Candidate's decision should be supported by key arguments in arriving at that decision. Arguments **NOT** accepted Time consuming Need to employ an accountant	**(12)**

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SECTION B

Answer THREE questions from this section.

3   Agara is considering the purchase of a retail clothing business, Every Day Wear.

The following were the summarised financial statements of Every Day Wear for the year ended 30 September 2016.

**Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 September 2016**

	£
Revenue	150 000
Cost of sales	90 000
Expenses	53 000
Depreciation	5 000
Bank loan interest	4 000
Loss for the year	(2 000)

Statement of Financial Position at 30 September 2016

	£
Non-current assets (carrying value)	40 000
Inventory	63 000
Trade receivables	27 000
Total assets	130 000
Capital	60 000
Bank loan (repayable 2020)	40 000
Trade payables	25 000
Bank overdraft	5 000
Total capital and liabilities	130 000

Required

(a) Calculate the following ratios:

- gross profit as a percentage of revenue
- percentage return on capital employed
- current ratio
- liquid (acid test) ratio.

(8)

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Additional information

Industry average for the year ending 30 September 2016:

- gross profit as a percentage of revenue   30%
- percentage return on capital employed   8%
- current ratio   1.80:1
- liquid (acid test) ratio   0.85:1

Required

(b) Explain **one** possible reason for the difference between **each** of the ratios calculated in (a) and the industry average.

- Gross profit as a percentage of revenue
- Percentage return on capital employed
- Current ratio
- Liquid (acid test) ratio

(8)

(c) State **four** non-financial factors that Agara should consider in the possible purchase of Every Day Wear.

(4)

The current owner of Every Day Wear has stated that he will sell the business to Agara for £85 000

(d) (i) Define the accounting term goodwill.

(2)

(ii) Calculate the value of the goodwill that Agara would pay if he agreed the asking price of £85 000 for Every Day Wear.

(2)

(e) Evaluate whether Agara should purchase Every Day Wear.

(6)

(Total for Question 3 = 30 marks)

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Question Number	Answer	Mark
3(a)	**AO2 (8)** **AO2: Eight marks for carrying out the calculation.** Gross profit as a percentage of revenue $\dfrac{60\ 000\ (1)AO2 \times 100}{150\ 000} = 40\%\ (1)\ AO2$ Percentage return on capital employed $\dfrac{(2000) + 4\ 000}{60\ 000 + 40\ 000\ (1)\ AO2} = 2\%\ (1)\ AO2$ Current ratio $\dfrac{63\ 000 + 27\ 000}{25\ 000 + 5\ 000\ (1)\ AO2} = 3:1\ (1)\ AO2$ Liquid (acid test) ratio $\dfrac{27\ 000\ \ (1)\ AO2}{25\ 000 + 5\ 000} = 0.9:1\ (1)\ AO2$	
		(8)

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Question Number	Answer	Mark
3(b)	**AO2 (4), AO3 (4)** **AO2: Four marks for giving a qualitative statement of how the ratio calculated compares to the industry average.** **AO3: Four marks analysing a possible reason for that variance.** Gross profit as a percentage of revenue Is better than the industry average. (1) AO2 This may be due to higher prices or lower purchasing costs. (1) AO3 Percentage return on capital employed This is worse than the industry average. (1) AO2 This may be due to higher expenses or high bank loans. (1) AO3 Current ratio This is much higher than the industry average, but there are idle funds. (1) AO2 This may be due to an excessive inventory holding. (1) AO3 Liquid (acid test) ratio This is at the industry average and close to the 1:1 benchmark. (1) AO2 This is at the appropriate level because the current liabilities can be met by the liquid assets of the business. (1) AO3	**(8)**

Question Number	Answer	Mark
3(c)	**AO1 (1)** **AO1: One mark for identifying each possible non-financial factor.** Skill of the workforce Quality/design of the product Reputation/ image of the business Location of premises Branding Relationships with suppliers 4 points x (1) AO1	**(4)**

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Question Number	Answer	Mark
3(d)	**AO1 (4)** **A01: Two marks recalling the definition of goodwill and carrying out the deduction of the two figures.** (i) Goodwill is the price paid (1) AO1 in excess of the net book value of tangible assets in the business purchased.(1) AO1 (ii) Good will is £85 000 - £60 000 (1) AO1 = £25 000(1) AO1	**(4)**

Question Number	Indicative content	Mark
3(e)	**AO2 (1), AO3 (2), AO4 (3)** Potential arguments in favour of purchase • Gross margin is higher than the industry average, so business profitable. Every Day Wear is able to either sustain charging higher prices in the market or obtaining highly competitive prices from suppliers • Acid test liquidity is good with the business performing at the benchmark level and able to pay its short term debts. Compared to the Sector, Every Day wear is very slightly above level of the Sector. Potential arguments against the purchase • ROCE is low, this could be due to either high expenses including bank interest or a higher capital employed because the business has a £40 000 bank loan • The business has excessive inventory for which there is the risk that it may become outdated. Every Day Wear is providing clothing upon which fashion has an impact. The longer inventory is held the greater the risk of it becoming outdated • The goodwill purchase may be high for a business with such low ROCE. Conclusion • Candidates may argue for or against the purchase of Every Day Wear. Candidate's decision should be supported by key arguments in arriving at that decision.	**(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.

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4 The following information is available for the Sandy Bay Social Club for the year ended 31 August 2016.

(1) Annual subscriptions:

		1 September 2015	31 August 2016
		£	£
• balances	subscriptions in advance	350	530
	subscriptions in arrears	900	700

- during the year annual subscriptions received and banked were £4 250

- £630 of the subscriptions in arrears at 1 September 2015 were received, the balance was irrecoverable.

(2) Life membership subscriptions:

- balance 1 September 2015   £30 400
- during the year life membership subscriptions received and banked were £1 600
- the Sandy Bay Social Club transfers 10% of the Life Membership Subscription Account balance at the end of the year to the Income and Expenditure Account.

(3) Balances at 31 August 2016:

	£
Subscriptions in advance	530
Subscriptions in arrears	700
Life membership subscriptions	?
Clubhouse (at book value)	55 000
5% Bank loan (repayable 30 June 2025)	6 000
Trade payables	825
Bank	1 950 Dr
Accrued expenses	235

Autumn 2016
Past Paper

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Accounting Unit 1
WAC01 or WAC11

Required

(a) Explain **two differences** between the Receipts and Payments Account and the Income and Expenditure Account.

(4)

(b) Prepare for the year ended 31 August 2016, showing the appropriate transfer to the Income and Expenditure Account, the:

(i) Subscriptions Account

(5)

(ii) Life Membership Account.

(5)

(c) Calculate the Accumulated Fund at 31 August 2016.

(2)

(d) Prepare the Statement of Financial Position at 31 August 2016.

(8)

(e) Evaluate the case for the club offering life membership.

(6)

(Total for Question 4 = 30 marks)

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Question Number	Answer	Mark
4(a)	**AO1 (4)** **AO1: Four marks for explaining two differences.**	

	Receipts and payments	Income and Expenditure
	Cash book of a club	Income statement of a club
	Cash/bank payment summary	Includes non-cash items e.g depreciation
	Balance carried forward to next year's account	New account each year, no balance carried forward

(1) Mark for each point which is related to the specific account x 4

(4)

Question Number	Answer	Mark
4(b)(i)	**AO2 (3), AO3 (2)** **AO2: Three marks for applying correct figures to the account.** **AO3: Two marks for calculating the bad debts and income and expenditure transfer.**	

Annual Subscriptions Account

	£		£	
2015		2015		
1 Sept Balance b/d	900	1 Sept Balance b/d	350	**(1)** AO2
31 Aug Income and expenditure	4 140	2015/16 Bank	4 250	**(1)** AO2
	(1) AO3			
		2016		2016
		31 Aug Bad debts	270	**(1)** AO3
31 Aug Balance c/d	530	31 Aug Balance c/d	700	
			5 570	
	5 570			
1 Sept Balance c/d	700	1 Sept Balance c/d	530	**(1)** AO2

(5)

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Question Number	Answer	Mark

4(b)(ii)	**AO2 (4), AO3 (1)**
	AO2: Four marks for applying correct figures to the account.
	AO3: One mark for calculating the transfer.
	
	Life Membership Account
	
	£ £
	2015 2015
	                          1 Sept Balance b/d 30 400 **(1)** AO2
	                          2015/16 Bank 1 600 **(1)** AO2
	2016 2016
	31 Aug Income and
	Expenditure 3 200**(1)** AO3
	31 Aug Balance c/d <u>28 800</u>**(1)** AO2 <u> </u>
	                <u>32 000</u> <u>32 000</u>
	                     1 Sept Balance b/d 28 800 **(1 of)**
	
	AO2
		(5)

Question Number	Answer	Mark

4(c)	**AO2 (2)**
	AO2: Two marks for identifying and totalling the assets and liabilities of the club.
	
	Assets £ Liabilities £
	Subscriptions in arrears 700 Subscriptions in advance 530
	Clubhouse (at book value) 55 000 Life membership 28 800
	Bank 1 950 5% Bank loan 6 000
	                                   Trade payables 825
	                                   Accrued expenses <u>235</u>
	                   <u>57 650</u> **(1)** AO2 <u>36 390</u>**(1of)** AO2
	
	Accumulated Fund at 31 August 2016 £21 260
		(2)

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Question Number	Answer	Mark

4(d)	**AO1 (4), AO2 (3), AO3 (1)**
	AO1: Four marks for correctly posting figure.
	A02: Three marks for correctly posting figures and labelling.
	AO3: One mark for identifying two non-current liabilities and totalling the section.
	
	Sandy Bay Social Club
	Statement of Financial Position at 31 August 2016
	
	Assets £ £
	Non-current assets
	Clubhouse (at book value) 55 000 **(1)** AO1
	Current assets
	Subscriptions in arrears 700 **(1)** AO2
	Bank <u>1 950</u>
	              2 650
	         <u>57 650</u> **(1)** AO2
	
	Liabilities
	Accumulated fund 21 260 **(1)** AO1
	
	Non-current liabilities
	5% Bank loan (repayable 30 June 2020) 6 000 **(1)** AO1
	Life membership subscriptions <u>28 800</u>
	         34 800 **(1)** AO3
	Current liabilities
	Subscriptions in advance 530 **(1)** AO2
	Trade payables 825
	Other payables <u>235</u> **(1)** AO1
	           1 590
	           <u>57 650</u>
		(8)

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Question Number	Indicative content	Mark
4(e)	**AO2 (1), AO3 (2), AO4 (3)** Potential arguments for life membership • Positive initial cash flow. As members take up the option of life membership, sums in excess of the normal annual subscription will be received in cash and raising the cash balance • Ties members to the club long term. If members have subscribed to a life membership they will be more inclined to retain contact with the club long term • May attract new members because of the discount offered. Viewed in cost per annum the subscription will seem cheaper than an individual annual subscription • The cash inflow could be used to pay back the loan • Probably reduces bad debts. Certainly there will be fewer subscriptions in arrears. Time will be saved in 'chasing' debts. Potential arguments against using life membership • Does the club need the advanced cash payment when it has a surplus and cash in the bank? There is no pressing need to bring in cash to the club • Creates a long term liability to provide the service. The club will be committing itself to provide the long term provision of services for an up front payment • Probably delivered at a substantial discount. The charge for the life time membership has not been stated but this will probably have to be offered at a substantial discount to attract members to subscribe. This will have a long term, ongoing, detrimental impact on future surpluses. Conclusion • Candidates may argue for or against life membership. Candidate's decision should be supported by key arguments in arriving at that decision.	
		(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)	**AO1 (4)** **A01: Four marks for explaining the two terms.** A variable cost varies directly **(1)** with activity levels **(1)** Fixed costs do not change **(1)** with the level of activity **(1)**	**(4)**

Question Number	Answer	Mark
5(b)	**AO1(2)** **A01: Two marks for carrying out the calculation.** Variable costs – Call charges **(1)** Fixed cost – Depreciation of phone or network rental **(1)**	**(2)**

Question Number	Answer	Mark
5(c)	**AO2(12), AO3(4)** **A02: Twelve marks for carrying out the calculation.** **AO3: Four marks for carrying out multiple calculations correctly.**	**(16)**

5 Martino has been asked to make recommendations for the purchase and network rental of mobile phones.

He has obtained the following information from three suppliers:

Company	Mobile phone purchase price	Monthly contract network rental	Call costs
National Telecom	£120	£50 per month for a period of 12 months.	2 pence (£0.02) per minute for the first 500 minutes per month. 10 pence (£0.10) per minute for all minutes over 500 minutes per month.
One2one Link	£260	£10 per month for a period of 20 months.	15 pence (£0.15) per minute for all minutes per month.
Speed Call	£90	£45 per month for a period of 15 months.	8 pence (£0.08) per minute for all minutes per month.

Additional information

(1) Mobile phones purchased will have no resale value at the end of the contract period.

(2) Mobile phones are only required by two managers, whose projected usage is:

- Sales Manager – 600 minutes per month
- Purchasing Manager – 300 minutes per month.

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Required

(a) Explain the difference between variable and fixed costs.

(4)

(b) Give **one** example of a variable cost and a fixed cost from the purchase or network rental of mobiles phones.

(2)

(c) Complete the table in your Question Paper showing the cost **per month** for the usage of a mobile phone from each supplier for the Sales Manager and the Purchasing Manager.

(16)

(d) Recommend which supplier of mobile phones is the most cost effective for the:

- Sales Manager
- Purchasing Manager.

(2)

The business is considering apportioning the cost of mobile phones between its departments.

(e) Evaluate the proposal of apportioning business mobile phone costs.

(6)

(Total for Question 5 = 30 marks)

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(c) Complete the table below showing the cost **per month** for the usage of a mobile phone from each supplier for the Sales Manager and the Purchasing Manager.

(16)

Company	Sales Manager	Purchasing Manager
National Telecom		
One2one Link		
Speed Call		

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Level	Mark	Descriptor
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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)	**AO1 (4)** **A01: Four marks for explaining the two terms.** A variable cost varies directly **(1)** with activity levels **(1)** Fixed costs do not change **(1)** with the level of activity **(1)**	**(4)**

Question Number	Answer	Mark
5(b)	**AO1(2)** **A01: Two marks for carrying out the calculation.** Variable costs – Call charges **(1)** Fixed cost – Depreciation of phone or network rental **(1)**	**(2)**

Question Number	Answer	Mark
5(c)	**AO2(12), AO3(4)** **A02: Twelve marks for carrying out the calculation.** **AO3: Four marks for carrying out multiple calculations correctly.**	**(16)**

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Accounting Unit 1
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Company	Sales Manager	Purchasing Manager

National Telecom	Fixed costs £
	Depreciation 10 **(1)** AO2
	Rental <u>50</u>
	                60**(1)** AO3
	Semi-var/Vari
	Call 10
	          <u>10</u>
	             <u>20</u>**(1)** AO3
	Total cost 80**(1 of)** AO2
		Fixed costs £
		Depreciation 10
		Rental <u>50</u>
		              60
		Variable
		Call costs <u>6</u>**(1)** AO2
		Total costs 66**(1 of)** AO2

One2One Link	Fixed costs £
	Depreciation 13
	Rental <u>10</u>
	            23**(1)** AO3
	Variable
	Call <u>90</u> **(1)** AO2
	          90
	Total cost 113**(1 of)** AO2
		Fixed costs £
		Depreciation 13
		Rental <u>10</u>
		            23
		Variable
		Call <u>45</u> **(1)**
		AO2
		           <u>45</u>
		Total cost 68**(1 of)** AO2

Speed Call	Fixed costs £
	Depreciation 6
	Rental <u>45</u>
	           51 **(1)** AO3
	Variable
	Call <u>48</u> **(1)** AO2
	         48
	Total cost 99**(1 of)** AO2
		Fixed costs £
		Depreciation 6
		Rental <u>45</u>
		           51
		Variable
		Call <u>24</u> **(1)** AO2
		         <u>24</u>
		Total cost 75**(1 of)** AO2

Question Number	Answer	Mark

5(d)	**AO1(2)**
	A01: Two marks for identification.
	
	  • Sales Manager National Telecom **(1of)**
	  • Purchasing Manager National Telecom **(1of)**
		(2)

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Question Number	Indicative content	Mark
5(e)	**AO2 (1), AO3 (2), AO4 (3)**	
	Potential arguments for apportionment	
	• Overhead is divided on the most reasonable basis. The sales and purchasing managers will be responsible for the provision of services to a number of departments. There is a requirement to apportion this cost and the most reasonable basis for apportionment must be determined	
	• A fair share of overheads is attached to each department. What amounts to a 'fair share' will be determined by the method of apportionment chosen	
	• The apportionment will be based upon the cost driver for that overhead. The factor which links the expenditure to the volume of use must be determined.	
	Potential arguments against apportionment	
	• The division of the cost is an estimate of use and not a precise calculation	
	• Apportionment can be an accurate calculation because there is a strong link between the cost and the 'driver'. However, the link can be arbitrary if the link between the cost and the 'driver' is not strong	
	• Requires considerable work to determine the basis of apportionment. Detailed consideration of the driving factors and collection of data to enable the apportionment to be completed will be required	
	Conclusion	
	• Candidates may argue for or against apportioning the mobile phone costs. Candidate's decision should be supported by key arguments in arriving at that decision.	
		(6)

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Level	Mark	Descriptor
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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)	**AO1 (4)** **AO1: Four marks for correct explanations.** Capital expenditure is the acquisition of or enhancement of non-current assets **(1)** which will provide a benefit to the business for more than one year. **(1)** Revenue expenditure is day to day expenditure **(1)** the benefit of which will only be in the current year. **(1)**	**(4)**

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Accounting Unit 1
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6 Palak has reviewed his policy for the depreciation of computers. He has decided to change from the straight line method to the reducing balance method. He provided the following information:

(1) Purchased computers on 1 October 2013 at a cost of £25 000

(2) His policy for depreciating computers for the years ended 30 September 2014 and 30 September 2015 was to depreciate at the rate of 10% per annum using the straight line method.

(3) His policy for depreciating computers for the year ended 30 September 2016 will be to depreciate at the rate of 20% per annum using the reducing balance method.

(4) The difference due to the change in depreciation method on computers for the years ended 30 September 2014 and 30 September 2015 will be charged to the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2016.

Required

(a) Explain the difference between capital expenditure and revenue expenditure.

(4)

(b) Explain how capital expenditure will be treated in the financial statements.

(4)

(c) Identify **one** accounting concept that:

(i) supports a change in the method of depreciation on computers

(1)

(ii) does **not** support a change in the method of depreciation on computers.

(1)

(d) Calculate the:

(i) difference due to the change in method of depreciation on computers for the years ended 30 September 2014 and 30 September 2015

(6)

(ii) depreciation on computers for the year ended 30 September 2016.

(2)

(e) Prepare the Computers – Provision for Depreciation Account for the years ending 30 September 2014, 30 September 2015 and 30 September 2016.

(6)

(f) Evaluate Palak's decision to change the method for depreciating computers from the straight line method to the reducing balance method.

(6)

(Total for Question 6 = 30 marks)

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

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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)	**AO1 (4)** **AO1: Four marks for correct explanations.** Capital expenditure is the acquisition of or enhancement of non-current assets **(1)** which will provide a benefit to the business for more than one year. **(1)** Revenue expenditure is day to day expenditure **(1)** the benefit of which will only be in the current year. **(1)**	**(4)**

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Question Number	Answer	Mark
6(b)	**AO1 (4)** **AO1: Four marks for correct explanation.** A proportion of the non-current asset value (depreciation) **(1)** will be charged to the Statement of Profits or Losses and Other Comprehensive Income. **(1)** The non-current asset will be recorded in the Statement of Financial Position at original cost **(1)** less accumulated depreciation **(1)** to give the carrying value which will be totalled with the other assets.	**(4)**

Question Number	Answer	Mark
6(c)	**AO3 (2)** **AO3: Two marks for analysing the scenario and determining the concept.** (i) Prudence **(1)** (ii) Consistency **(1)**	**(2)**

Question Number	Answer	Mark
6(d)(i)	**AO2 (5), AO3 (1)** **A02: five marks for correct calculation.** **AO3: One mark for analysing the difference.**	**(6)**

Straight line	**Reducing balance**
£ Cost 25 000 30 September 2014 <u>2 500</u> **(1)** AO2 Carrying value 22 500 30 September 2015 <u>2 500</u> **(1)** AO2 Carrying value 20 000	£ Cost 25 000 30 September 2014 <u>5 000</u> **(1)** AO2 Carrying value 20 000 30 September 2015 <u>4 000</u> **(1)** AO2 Carrying value 16 000 **Difference** Reducing balance 5 000 + 4 000 = 9 000 Straight line 2 500 + 2 500 = <u>5 000</u> Difference 4 000 **(2/1 of)** AO3 OR carrying value Reducing balance 16 000 Straight line <u>20 000</u> Difference <u>4 000</u> **(2/1 of)** AO3

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Question Number	Answer	Mark
6(d) (ii)	**AO2 (2)** **AO2: Two marks for correct calculation.** 30 September 2016 16 000 **(1 of)** x 20% = 3 200 **(1)** AO2	**(2)**

Question Number	Answer	Mark
6(e)	**AO2 (5), AO3 (1)** **AO2: Five marks for correctly posting figures and labelling.** **AO3: One mark for correctly posting the annual depreciation and difference.**	

Computers - Provision for Depreciation Account

		£			£
2014			2014		
30 Sept	Balance c/d	2 500	30 Sept	Income Statement	2 500 **(1)** AO2
		2 500			2 500
2015			2015		
30 Sept	Balance c/d	5 000	1 Oct	Balance b/d	2 500 **(1)** AO2
		____	30 Sept	Income statement	2 500 **(1)** AO2
		5 000			5 000
2016			2016		
30 Sept	Balance c/d	12 200	I Oct	Balance b/d	5 000 **(1 of)** AO2
		____	30 Sept	Income Statement	7 200 **(1 of)** AO3
		12 200		(3 200 + 4 000)	12 200
			1 Oct	Balance b/d	12 200 **(1 of)** AO2

(6)

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Question Number	Indicative content	Mark
6(f)	**AO2 (1), AO3 (2), AO4 (3)** Potential arguments for keeping straight line • Simple to calculate, easier to use. The calculation is a straight percentage of cost • Consistent to retain straight line method. Applying the consistency concept it would be better to retain the current method • Equal usage in each year. The straight line concept is valid on the grounds that the usage of the non-current asset will probably be the same each year. Therefore an equal amount of depreciation should be charged against income • Time and skill required to restate previous year's figures. Re-calibrating the overhead calculations will take time and accounting skills. Potential arguments against keeping straight line • Computers depreciate by more than 10% per annum. Computers tend to lose considerable value in the early years, a 10% charge will understate the depreciation incurred • Carrying value will be higher than market value for many years. The non-current asset will therefore be overvalue in the financial position statement • Applying the concept of prudence, the change in method is advised. The change would ensure that depreciation charged would be appropriate to the value of the non-current asset. Conclusion • Candidates may argue for or against retaining straight line. Candidate's decision should be supported by key arguments in arriving at that decision.	
		(6)

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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.