Pearson Edexcel
International Advanced Level

Accounting
Paper 1: The Accounting System and Costing

Tuesday 17 May 2016 – Afternoon
Source Booklet

Paper Reference
WAC11/01

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SECTION A

Answer BOTH questions in this section.

1 Azlina and Siti are in partnership retailing clothing. Their partnership agreement states that:

- The agreed capital is: Azlina £50 000 and Siti £25 000.
- Profits and losses will be shared equally.
- Salaries will be paid: £5 000 per annum to Azlina and £5 000 per annum to Siti.
- Interest on capital is allowed at the rate of 5% per annum.
- There will be no interest charged on drawings.
- Azlina made a loan to the business of £20 000 on 1 January 2014. Interest is payable at the rate of 8% per annum. The loan is repayable in full on 31 December 2016.

The following balances were extracted from the books on 31 March 2016:

		£
Capital accounts 1 April 2015:		
	Azlina	50 000
	Siti	25 000
Current accounts 1 April 2015:		
	Azlina	400 Dr
	Siti	200 Cr
Drawings (excluding salaries paid):		
	Azlina	4 000
	Siti	1 500
Non-current assets (at cost):		
Freehold premises		128 000
Delivery vehicles		12 000
Fixtures and fittings		14 000
Provisions for depreciation:		
Delivery vehicles		8 400
Fixtures and fittings		5 600
Loans:		
8% Loan from Azlina		20 000
5% Bank loan (repayable 1 January 2018)		40 000
Inventory 1 April 2015		19 500
Trade receivables		7 500
Trade payables		9 800
Bank overdraft		9 520
Revenue		117 300
Purchases		54 000
Purchase returns		1 700
Commission receivable		900
Rates		4 750
Wages and salaries		24 500
Electricity and water		8 150
Sundry expenses		10 300
Allowance (Provision) for doubtful debts		180

Additional information at 31 March 2016

(1) Inventory £13 800

(2) Wages and salaries include the salaries paid in full to the partners.

(3) Rates £250 were prepaid and electricity £600 was owing.

(4) No interest has been paid on the 8% loan from Azlina or the 5% bank loan for the year.

(5) Depreciation is to be charged as follows:

- no depreciation on the freehold premises
- delivery vehicles at the rate of 25% per annum reducing balance
- fixtures and fittings at the rate of 10% per annum straight line.

(6) The allowance (provision) for doubtful debts is to be maintained at 4% of trade receivables.

Required

(a) Prepare for the partnership the:

(i) Statement of Profit or Loss and Other Comprehensive Income (including an appropriation section) for the year ended 31 March 2016

(18)

(ii) Current accounts of the partners for the year ended 31 March 2016

(6)

(iii) Statement of Financial Position at 31 March 2016.

(14)

The business premises of Azlina and Siti are located in a retail area that is growing in popularity with shoppers. Azlina and Siti have plans to take advantage of this popularity by expanding their business in the next financial year. They propose to:

(1) Undertake building work to expand the sales area available.

(2) Substantially increase the level of inventory in the business.

(3) Redecorate the premises.

(4) Employ an additional sales assistant.

(5) Purchase an electronic bar code system for inventory.

(b) State whether **each** of the above proposals is **capital expenditure** or **revenue expenditure**.

(5)

To finance the expansion of the business Azlina and Siti will have to obtain finance in the form of additional bank loans.

(c) Evaluate whether Azlina and Siti should expand their business.

(12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark
1(a)(i)	**AO1 (5), AO2 (12), AO3 (1)** **A01: Five marks for recording the given expense in the account without adjustment.** **A02: Twelve marks for adjusting the given figure or calculating the figure and inserting this correctly in the account.** **A03: One mark for calculating the correct figure and inserting this into the correct section of the account.**	

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2016

		£	£	
Revenue			117 300	(1)AO1
Less				
Opening inventory		19 500		
Purchases		54 000		
Purchase returns		(1 700)		
		71 800		
Less Closing inventory		(13 800)		
Cost of sales			(58 000)	(1)AO2
Gross profit			59 300	
Plus Other income				
Commission receivable			900	(1)AO1
			60 200	
Less expenses				
Rates	4 750 – 250	4 500		(1)AO2
Wages and salaries	24 500 – 10 000	14 500		(1)AO2
Electricity and water	8 150 + 600	8 750		(1)AO2
Sundry expenses		10 300		(1)AO1
Interest on loan Azlina		1 600		(1)AO3
Interest on bank loan		2 000		(1)AO2
Increase in ADD		120		(1)AO2
Depreciation- Delivery vehicle		900		(1)AO2
Fixtures & fittings		1 400		(1)AO2
			44 070	
Profit for the year			16 130	(1of)AO1
Less appropriations				No aliens
Interest on capital – Azlina		2 500		(1)AO2
Siti		1 250		(1)AO2
Salaries	Azlina	5 000		(1)AO1
	Siti	5 000		
			13750	
			2 380	
Share of profit	Azlina		1 190	(1 of)AO2
	Siti		1 190	(1 of)AO2
				No aliens

(18)

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1(a)(ii)</td><td>AO2 (5), AO3 (1)
A02: Five marks for adjusting the given figure or calculating the figure and inserting this correctly in the account.
A03: One mark for calculating the correct figure and inserting this into the correct section of the account.

Current Accounts
<table>
<tr><th></th><th>Azlina</th><th>Siti</th><th></th><th>Azlina</th><th>Siti</th><th></th></tr>
<tr><td></td><td>£</td><td>£</td><td></td><td>£</td><td>£</td><td></td></tr>
<tr><td>Balance b/d</td><td>400</td><td></td><td>Balance b/d</td><td></td><td>200</td><td></td></tr>
<tr><td>(1)AO2 Salaries paid</td><td>5 000</td><td>5 000</td><td>Interest on capital</td><td>2 500</td><td>1 250</td><td>(1of)AO2</td></tr>
<tr><td>(1)AO2 Drawings</td><td>4 000</td><td>1 500</td><td>Salaries</td><td>5 000</td><td>5 000</td><td></td></tr>
<tr><td></td><td></td><td></td><td>Share of profit</td><td>1 190</td><td>1 190</td><td>(1of)AO2</td></tr>
<tr><td>Balance c/d</td><td>890</td><td>1 140</td><td>Interest on loan</td><td>1 600</td><td></td><td>(1of)AO3</td></tr>
<tr><td></td><td>10 290</td><td>7 640</td><td></td><td>10 290</td><td>7 640</td><td></td></tr>
<tr><td></td><td></td><td></td><td>Balance b/d</td><td>890</td><td>1 140</td><td>(1of)AO2</td></tr>
</table></td><td>(6)</td></tr>
</table>

Question Number	Answer	Mark
1(a)(iii)	**AO1 (5), AO2 (7), AO3 (2)** **A01: Five marks for recording the given item in the account without adjustment.** **A02: Seven marks for adjusting the given figure or calculating the figure and inserting this correctly in the account.** **A03: Two marks for calculating the correct figure and inserting this into the correct section of the account.**	

Statement of Financial Position at 31 March 2016

Non-current Assets

	Cost £	Accumulated depreciation £	Carrying value £
Freehold premises	128 000		128 000 (1)AO2
Delivery vehicles	12 000 -	9 300	2 700 (1of)AO2
Fixtures & fittings	14 000 -	7 000	7 000 (1of)AO2
	154 000	16 300	137 700
Current Assets			
Inventory		13 800 (1)AO1	
Trade receivables	7 500		
Less ADD	(300)		
		7 200 (1of)AO3	
Other receivables		250 (1)AO2	
			21 250
Total Assets			158 950
Capital: Azlina		50 000	
Siti		25 000	
			75 000 (1)AO1
Current Accounts:			
Azlina		890	
Siti		1 140	
			2 030 (1of)AO1
Non-current Liability			
5% Bank loan			40 000 (1)AO2
Current Liabilities			
Loan – Azlina		20 000 (1)AO3	
Trade payables		9 800 (1)AO1	
Other payables: 2 000(1of) + 600 (1)		2 600 AO2	
Bank overdraft		9 520(1)AO1	
			41 920
Capital and Liabilities			158 950

(14)

Question Number	Answer	Mark
1(b)	**AO1 (5)** **A01: Five marks for identifying whether the expense is capital expenditure or revenue expenditure.** (1) Capital expenditure (1)AO1 (2) Revenue expenditure (1)AO1 (3) Revenue expenditure (1)AO1 (4) Revenue expenditure (1)AO1 (5) Capital expenditure (1)AO1	**(5)**

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1(c)</td><td>AO1 (1), AO2 (1), AO3 (5), AO4 (5)
A01: One mark for knowing identifying positive and negative aspects of this business.
A02: One mark for applying positive or negative aspects of this business to the scenario.
A03: Five marks for interpreting and analysing the aspects of the proposals made.
A04: Five marks for evaluating the scenario counterbalancing the arguments giving weight to a range of financial and non-financial aspects to arrive at a logical conclusion.

Potential arguments for changing
The business is in an area with growing demand
The percentage of gross profit to sales is high at 50%
The business has a substantial asset in the Freehold Property which could be used to raise loans
Increased sales may improve profit/profitability NOT just sales may increase or profit may increase
Need to take advantage of opportunity otherwise a competitor might.
Potential arguments against changing
The business already has substantial liabilities in the form of loans
Loans are repayable in current year leaving weak liquidity
The business has no cash available as it already has an bank overdraft
Loans will have to be raised increasing the risk for the partners
Major risk that business will not expand to the extent expected
Projections made are only estimates
Expenses will increase substantially
Large loans may impact on reputation.</td><td>(12)</td></tr>
</table>

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 Holborn Products manufactures parts for the motor industry. The following balances were extracted from the books on 30 April 2016.

	£
Inventories at 1 May 2015:	
Raw material	23 400
Work in progress	52 000
Finished goods	72 000
Purchases of raw materials	97 800
Carriage inwards	8 450
Manufacturing wages	81 400
Production management salaries	59 500
Non-current assets:	
Manufacturing equipment	
Cost	280 000
Provision for depreciation	160 000
Computing equipment	
Cost	150 000
Provision for depreciation	90 000
Computing technician wages	40 000
Factory consumables	45 200
Rent and rates	16 000
Electricity and water charges	15 600
General expenses	21 000
Property maintenance expenses	11 000
Provision for unrealised profit	12 000

Additional information at 30 April 2016

(1) Inventories:

Raw materials	£16 950
Work in progress	£58 000
Finished goods	£90 000

(2) Manufacturing wages of £2 600 were owing.

(3) All of the costs of computing are charged 60% to manufacturing and 40% to administration.

(4) Depreciation is charged on all non-current assets using the reducing balance method:

(i) manufacturing equipment at the rate of 20% per annum

(ii) computing equipment at the rate of 30% per annum.

(5) Factory consumables of £35 300 are direct.

(6) Half of the general expenses relate to manufacturing.

(7) Property maintenance expenses of £1 800 are owing.

(8) Rent and rates, electricity and water, property maintenance expenses are allocated 75% to manufacturing and 25% to administration.

(9) Production is transferred to finished goods at cost plus 20%.

Required

(a) Prepare, for the year ended 30 April 2016, the:

(i) Manufacturing Account

(21)

(ii) Provision for Unrealised Profit on Manufactured Goods Account

(5)

(iii) Manufacturing Wages Account.

(5)

The owner of Holborn Products is proposing changes to the way in which financial statements are prepared. There are four proposals.

Proposal 1
Include a sum for the skill of the workforce as a non-current asset in the Statement of Financial Position.

Proposal 2
Charge the full cost price of non-current assets to the year in which they are purchased.

Proposal 3
No longer provide for unrealised profit by removing the provision for unrealised profit on manufactured goods from the accounts.

Proposal 4
Charge the drawings of the owner to the Statement of Profit or Loss and Other Comprehensive Income.

(b) State, giving reasons for your answer, an accounting principle or concept that would **not** be complied with if **each** of the proposals 1, 2, 3 and 4 were introduced.

(12)

(c) Evaluate the use of International Accounting Standards (IAS) in the preparation of financial statements.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Question Number	Indicative content
4 (a)	**AO1 (1), AO2 (2), AO3 (1)** **A01: One mark for identifying that depreciation relates to age and usage.** **A02: Two marks for explaining the impact upon the income for the period and non-current asset values in the financial position statement.** **A03: One mark for linking the need for depreciation to the application of accounting concepts.** • Non-current assets generally **fall in value** with age and usage (1)AO1 • The depreciation is a **cost / expense of a period of time** and therefore should be charged against income for that period/**profits should not be overstated** (1)AO2 • Because the non-current assets are generally falling in value this should be **reflected in the financial position statement** (1)AO2 • Charging depreciation complies with the **going concern**(1)AO3 • Charging depreciation complies with the **accruals concepts**. (1)AO3 Max 4 **Not** Prudence concept

Question Number	Indicative content
4 (b)	**AO2 (2)** **A02: One mark for calculating the depreciation on existing non-current assets and additions. One mark for calculating the depreciation on disposals.** Cost 30 April 2015 £30 000 + Additions £10 000 = £40 000 - Disposals £5 000 = £35 000 x 20% = £7000 (1)AO2 + Disposals £5 000 x 20%/2 £500 (1)AO2 = Total £7 500

Question Number	Indicative content
4 (c)	**AO1 (4), AO2 (4), AO3 (2)** **A01: Four marks for correctly recording the opening balances and bringing down the balances to the next period.** **A02: Four marks for correctly recording the transactions for the year.** **A03: Two marks for calculating the disposal sums and correctly recording in the accounts.**

Computer Account

		£			£
2015			2015		
1 May	Balance b/d	30 000 (1)AO1		Disposal	5 000 (1)AO3
			2016		
	Bank/cash	10 000 (1)AO2	30 April	Balance c/d	35 000 (1)AO2
		40 000			40 000
2016					
1 May	Balance b/d	35 000 (1of)AO1			

Computer- Provision for Depreciation Account

		£			£
2015			2015		
	Disposal(1)AO2	2 500 (1)AO3	1 May	Balance b/d	9 200 (1)AO1
2016			2016		
30 April	Balance c/d	14 200	30 April	Income statement	7 500(1of)AO2
		16 700			16 700
			1 May	Balance b/d	14 200 (1of)AO1

Question Number	Indicative content
4(d)	**AO1(4), AO2 (4)** **A01: Four marks for correctly recording or totalling figures in the statement.** **A02: Four marks for calculating and applying the correct figures to the statement.**

Extract
Non-current assets

	Cost		Accumulated depreciation		Carrying over
	£		£		£
Land & buildings	105 000 (1)AO2	-	9 400 (1)AO2	=	95 600
Computers	35 000 (1)AO2	-	14 200(1of)AO1	=	20 800
Fixtures & fittings	11 000 (1)AO1	-	5 400 (1)AO2	=	5 600
	151 000 (1of)AO1		29 000		122 000 (1of)AO1

Question Number	Indicative content
4(e)	**AO2 (1), AO3 (2), AO4 (3)** **A02: One mark for applying positive or negative aspects of Jabir's depreciation policy, drawing out key points.** **A03: Two marks for interpreting and analysing possible solutions to depreciating computers, using a developed chain of reasoning.** **A04: Three marks for evaluating the scenario counterbalancing the arguments giving weight to a range of financial and non-financial aspects to arrive at a logical conclusion.** Potential positive arguments for the business • Depreciation is being charged and therefore the accounting concepts are being complied with. • The method will reflect the principle of **equal usage equal charge** for each year. • Does not distort profits. Potential negative points for the business • Computers depreciate quickly due to obsolescence and therefore 20% is a fairly low figure for the early years. • In the early years the computer value in the financial position statement will be overstated. • A full year's depreciation in the year of purchase would result in high depreciation for non-current assets bought late in the year. **Not** Easier to calculate Consistent method

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.

SECTION B

Answer THREE questions from this section.

3 Channa commenced business as a market trader on 1 May 2015. His capital was an inventory of £4 000 and cash from an 8% bank loan of £5 000 repayable in 2018.

The following balances were extracted from the books at 30 April 2016.

	£
Revenue	90 000
Purchases	60 000
Wages	12 000
General expenses	8 200
Rental of market stall	7 200
Fixtures and fittings	2 500

Additional information at 30 April 2016

(1) Inventory £6 000

(2) General expenses included £200 for bank loan interest.

(3) Fixtures and fittings were valued at £1 700.

Required

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

(5)

(b) Calculate the:

(i) rate of inventory turnover

(3)

(ii) net profit for the year as a percentage of revenue.

(3)

Channa has been offered shop premises and is considering moving his business from market trading to a shop. To assist him to make that decision the following estimates were made for the year ended 30 April 2017:

- Revenue volume would increase by $33\frac{1}{3}$%. Selling prices would also be increased by 20%.
- The inventory on 30 April 2017 would be £12 000.
- The rate of inventory turnover would be 8 times for the year.
- The rent of the shop would be £18 200 per annum.
- Wages and general expenses would rise by 25%.
- Additional fixtures and fittings costing £18 500 would be purchased. At the end of the year **all** fixtures and fittings would have a value of £15 000.
- To finance the move to the shop the 8% bank loan would be increased to £25 000.

(c) Prepare the Forecast Statement of Profit or Loss and Other Comprehensive Income for the first year of trading in the shop ending 30 April 2017.

(10)

(d) Calculate the forecast net profit for the year as a percentage of revenue.

(3)

(e) Evaluate whether Channa should move his business into the shop premises.

(6)

(Total for Question 3 = 30 marks)

Question Number	Answer	Mark
3(a)	**AO1 (3), AO2 (2)** **A01: Three marks for recording the given expense in the account without adjustment.** **A02: Two marks for adjusting the given figure or calculating the figure and inserting this correctly in the account.**	

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

	£	£	
Revenue		90 000	(1) AO1
Less			
Opening inventory	4 000		(1) AO1
Purchases	60 000		
	64 000		
Less Closing inventory	(6 000)		
Cost of sales		(58 000)	
Gross profit		32 000	
Less expenses			
Wages	12 000		
General expenses	8 000		(1) AO1
Rent of market stall	7 200		all three
Depreciation	800		(1) AO2
Interest on loan	400		(1) AO2
		28 400	
Profit for the year		3 600	

(5)

Question Number	Answer	Mark
3(b)	**AO1 (3), AO2 (3)** **A01: Three marks for recording the calculated figure in the ratio without adjustment.** **A02: Three marks for inserting the appropriate figure and carrying out the calculation and correctly identifying the correct descriptor.** (i) Rate of inventory turnover 58 000 (1) AO1 = 11.6 times (1) AO2 (4000 + 6 000/2) (1) AO2 (ii) Profit for the year as a percentage of revenue 3 600 x 100 (1of) AO1 = 4% (1of) AO2 90 000 (1) AO1	**(6)**

Question Number	Answer	Mark
3(c)	**AO1 (1), AO2 (6), AO3 (3)** **A01: One mark for recording the given expense in the account without adjustment.** **A02: Six marks for adjusting the given figure or calculating the figure and inserting this correctly in the account.** **A03: Three marks for calculating the correct figure and inserting this into the correct section of the account.**	

Forecast Statement of Profit or Loss and Other Comprehensive Income for the first year of trading in the shop.

	£	£	
Revenue		144 000	(1) AO2
Less			
Opening inventory	6 000		(1) AO1
Purchases	78 000		(1) AO2
	84 000		
Less Closing inventory	(12 000)		
Cost of sales		(72 000)	(1of) AO3
Gross profit		72 000	
Less expenses			
Wages	15 000		(1) AO2
General expenses	10 000		(1) AO2
Rent	18 200		(1) AO2
Depreciation	5 200		(2) AO3
Interest on loan	2 000		(1) AO2
		50 400	
Profit for the year		21 600	

Workings:
Depreciation 21 000 – 15 000 = 6 000 (1) – 800 (1) = 5 200

(10)

Question Number	Answer	Mark
3(d)	**AO1 (2), AO2 (1)** **A01: Two marks for recording the calculated figure in the ratio without adjustment.** **A02: One mark for inserting the appropriate figure and carrying out the calculation and correctly identifying the correct descriptor.** Profit for the year as a percentage of revenue 21 600 x 100 (1of) AO1 = 15% (1of) AO2 144 000 (1of) AO1	**(3)**

Question Number	Answer	Mark
3(e)	**AO2 (1), AO3 (2), AO4 (3)** **A02: One mark for applying positive or negative aspects of Channa's business to the scenario set, drawing out key points.** **A03: Two marks for interpreting and analysing courses of action to Channa's dilemma of whether to move his business, using a developed chain of reasoning.** **A04: Three marks for evaluating the scenario counterbalancing the arguments giving weight to a range of financial and non-financial aspects to arrive at a logical conclusion.** Potential arguments for changing • The profit for the year is much greater £21 600 per annum as opposed to £3 600 per annum with the market stall • Percentage net profit to revenue is higher • The profile of the business will be much greater with a shop • Wide range of new customers. Potential arguments against changing • Inventory turnover is slower with a shop. Greater chance of inventory becoming outdated. • The debt of the business will increase as the bank loan increases • The total investment by Channa is much higher and therefore the risk is higher if he fails • He has a low owners capital for the project • If own figure shows a loss it would be less profitable • May lose customers because selling price increases. **Not** Greater revenue Greater closing stock Lower/decreased rate of inventory turnover **unless** they quantity by how much Higher expenses for shop, wages and general expenses **unless** it states the impact on profit	**(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.

4 The following is a schedule of non-current assets from the records of Jabir.

Non-current assets	**Balances at 1 May 2015**		**For the year ended 30 April 2016**	
	Cost	**Provision for depreciation**	**Additions at cost**	**Disposals at cost**
	£	**£**	**£**	**£**
Land and buildings	85 000	8 000	20 000	-
Computers	30 000	9 200	10 000	5 000
Fixtures and fittings	9 500	4 300	1 500	-

The depreciation policy of Jabir is as follows:

- No depreciation is charged on land, which cost £35 000. Depreciation is charged on buildings at the rate of 2% per annum using the straight line method.
- Computers are depreciated at the rate of 20% per annum using the straight line method.
- Fixtures and fittings are depreciated at the rate of 10% per annum using the straight line method.
- A full year's depreciation is charged in the year of addition (purchase).
- A half year's depreciation is charged in the year of disposal (sale).

Additional information

(1) All non-current asset additions were paid for by cheque.

(2) All disposals were transferred to the Disposals Account.

(3) The computer disposed of in the year had been purchased on 1 January 2014.

Required

(a) Explain why Jabir needs to charge depreciation on his non-current assets.
(4)

(b) Calculate the depreciation to be charged on the computers for the year ended 30 April 2016.
(2)

(c) Prepare, for the year ended 30 April 2016, the:

(i) Computers Account
(5)

(ii) Computers – Provision for Depreciation Account.
(5)

(d) Complete in the question paper the extract from the Statement of Financial Position at 30 April 2016 for the non-current assets.
(8)

Non-current assets	Cost	Accumulated depreciation	Carrying value
	£	£	£
Land and buildings			
Computers			
Fixtures and fittings			
Total			

(e) Evaluate Jabir's depreciation policy for computers.
(6)

(Total for Question 4 = 30 marks)

Question Number	Indicative content
4 (a)	**AO1 (1), AO2 (2), AO3 (1)** **A01: One mark for identifying that depreciation relates to age and usage.** **A02: Two marks for explaining the impact upon the income for the period and non-current asset values in the financial position statement.** **A03: One mark for linking the need for depreciation to the application of accounting concepts.** • Non-current assets generally **fall in value** with age and usage (1)AO1 • The depreciation is a **cost/expense of a period of time** and therefore should be charged against income for that period/**profits should not be overstated** (1)AO2 • Because the non-current assets are generally falling in value this should be **reflected in the financial position statement** (1)AO2 • Charging depreciation complies with the **going concern**(1)AO3 • Charging depreciation complies with the **accruals concepts**. (1)AO3 Max 4 **Not** Prudence concept

Question Number	Indicative content
4 (b)	**AO2 (2)** **A02: One mark for calculating the depreciation on existing non-current assets and additions. One mark for calculating the depreciation on disposals.** Cost 30 April 2015 £30 000 + Additions £10 000 = £40 000 - Disposals £5 000 = £35 000 x 20% = £7000 (1)AO2 + Disposals £5 000 x 20%/2 £500 (1)AO2 = Total £7 500

Question Number	Indicative content
4 (c)	**AO1 (4), AO2 (4), AO3 (2)** **A01: Four marks for correctly recording the opening balances and bringing down the balances to the next period.** **A02: Four marks for correctly recording the transactions for the year.** **A03: Two marks for calculating the disposal sums and correctly recording in the accounts.**

Computer Account

		£			£
2015			2015		
1 May	Balance b/d	30 000 (1)AO1		Disposal	5 000 (1)AO3
			2016		
	Bank/cash	10 000 (1)AO2	30 April	Balance c/d	35 000 (1)AO2
		40 000			40 000
2016					
1 May	Balance b/d	35 000 (1of)AO1			

Computer- Provision for Depreciation Account

		£			£
2015			2015		
	Disposal(1)AO2	2 500 (1)AO3	1 May	Balance b/d	9 200 (1)AO1
2016			2016		
30 April	Balance c/d	14 200	30 April	Income statement	7 500(1of)AO2
		16 700			16 700
			1 May	Balance b/d	14 200 (1of)AO1

Question Number	Indicative content
4(d)	**AO1(4), AO2 (4)** **A01: Four marks for correctly recording or totalling figures in the statement.** **A02: Four marks for calculating and applying the correct figures to the statement.**

Extract
Non-current assets

	Cost		Accumulated depreciation		Carrying over
	£		£		£
Land & buildings	105 000 (1)AO2	-	9 400 (1)AO2	=	95 600
Computers	35 000 (1)AO2	-	14 200(1of)AO1	=	20 800
Fixtures & fittings	11 000 (1)AO1	-	5 400 (1)AO2	=	5 600
	151 000 (1of)AO1		29 000		122 000 (1of)AO1

<table>
<tr><th>Question Number</th><th>Indicative content</th></tr>
<tr><td>4(e)</td><td>AO2 (1), AO3 (2), AO4 (3)
A02: One mark for applying positive or negative aspects of Jabir's depreciation policy, drawing out key points.
A03: Two marks for interpreting and analysing possible solutions to depreciating computers, using a developed chain of reasoning.
A04: Three marks for evaluating the scenario counterbalancing the arguments giving weight to a range of financial and non-financial aspects to arrive at a logical conclusion.

Potential positive arguments for the business
• Depreciation is being charged and therefore the accounting concepts are being complied with.
• The method will reflect the principle of equal usage equal charge for each year.
• Does not distort profits.
Potential negative points for the business
• Computers depreciate quickly due to obsolescence and therefore 20% is a fairly low figure for the early years.
• In the early years the computer value in the financial position statement will be overstated.
• A full year's depreciation in the year of purchase would result in high depreciation for non-current assets bought late in the year.

Not
Easier to calculate
Consistent method</td></tr>
</table>

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.

5 Hiruni makes parts for washing machines. Her largest contract is to supply part PNC3 to a major manufacturer, Wash the World.

The following information is available for part PNC3:

- Manufacture of part PNC3 is in batches of 200
- Raw materials cost £303.70 per batch
- Direct labour per batch – 30 hours Assembly
  20 hours Finishing

  Direct labour is paid at the rate of £5 per hour for Assembly and £4 per hour for Finishing
- Overheads:

	£
Rent and rates	16 000
Employment insurance	9 000
Premises maintenance	12 000
Management salaries	18 000

There are three departments, two production departments, Assembly and Finishing and one service department, Administration

Additional information

	Assembly	Finishing	Administration
Floor area occupied (sq m)	4 000	2 400	1 600
Direct labour hours (per annum)	9 200	5 600	3 200

Administration costs are reapportioned to the production departments on the basis of 50% to Assembly and 50% to Finishing.

Overheads are recovered on the basis of direct labour hours

- Mark-up

  Hiruni adds 15% to production cost for her profit.

Required

(a) Explain the terms:

(i) semi-fixed cost

(2)

(ii) semi-variable cost.

(2)

(b) Explain the difference between **allocated overheads** and **apportioned overheads**.

(4)

(c) Calculate the:

(i) total overhead for **each** of the three departments

(7)

(i) overhead recovery rate to be used in **each** of the Assembly and Finishing Departments.

(2)

(d) Calculate the selling price of **one** part PNC3.

(7)

Hiruni has been requested by Wash the World to reduce the price of part PNC3 from the existing £5 per part to £4 per part.

(e) Evaluate whether Hiruni should meet Wash the World's request to reduce her selling price for part PNC3.

(6)

(Total for Question 5 = 30 marks)

Question Number	Indicative content
5 (a)	**AO1 (4)** **A01: Two marks for explaining the term semi-fixed cost and two marks for explaining the term semi-variable cost.** • A semi-fixed cost are fixed over a limited range of output (1 AO1) but once that limit is reached it increases but then remain fixed over the next range of output (1 AO1) • A semi-variable cost includes both a fixed and a variable component (1 AO1) The fixed cost will be incurred if there is no output but the variable element will increase directly with usage (1 AO1) Accept valid diagrams but not examples on their own.

Question Number	Indicative content
5 (b)	**AO1 (4)** **A01: Four marks for differentiating between allocated overheads and apportioned overheads.** Allocated overheads are those costs which directly relate to a department or cost centre (1 AO1) therefore they can be directly allocated to those specific departments or cost centres (1 AO1). Apportioned overheads relate to at least two departments or cost centres (1 AO1) they must be apportioned on the most appropriate and reasonable basis (I AO1).

Question Number	Indicative content
5 (c)	**AO1 (1), AO2 (12), AO3 (3)** **A01: One marks recording the correct raw material.** **A02: Twelve marks for correct calculations.** **A03: Three marks for the correct basis for calculating the product overheads and unit cost.** (c) (i) Total overhead

	Assembly £	Finishing £	Administration £	
Rent and rates	8 000	4 800	3 200	(1 AO2)
Employment insurance	4 600	2 800	1 600	(1 AO2)
Premises maintenance	6 000	3 600	2 400	(1 AO2)
Management salaries	9 200	5 600	3 200	(1 AO2)
	27 800	16 800	10 400	(1 AO2)
Re-apportionment	5 200	5 200	(10 400)	(1 AO2)
	33 000	22 000		(1 AO2)

(ii) Overhead recovery rate

	Assembly		Finishing	
Overhead / Labour hours	£33 000 / 9 200	= £3.59 per hour (1of AO2)	£22 000 / 5 600	= £3.93 per hour (1of AO2)

Any reasonable rounding.

5 (d)

(d) Cost of manufacture

		£	
Raw material		303.70	(1 AO1)
Direct labour Assembly	30 x £5	150.00	(1 AO2)
Finishing	20 x £4	80.00	(1 AO2)
Overhead Assembly	30 x £3.59	107.70	(1of AO3)
Finishing	20 x £3.93	78.60	(1of AO3)
		720.00	
Mark up 15%		108.00	(1of AO2)
		828.00	
Cost per component		£4.14 each	(1of AO3)

Question Number	Indicative content
5(e)	**AO2 (1), AO3 (2), AO4 (3)** **A02: One mark for applying positive or negative aspects of Hiruni's pricing policy, drawing out key points.** **A03: Two marks for interpreting and analysing possible solutions to pricing, using a developed chain of reasoning.** **A04: Three marks for evaluating the scenario counterbalancing the arguments giving weight to a range of financial and non-financial aspects to arrive at a logical conclusion.** Potential positive arguments for reducing the price • The actual manufacturing cost without mark-up is less than the £4 per component requirement • Hiruni will need to consider whether she wishes to lose a major customer for her components • Still leaves a positive contribution. Potential negative points for reducing the price • The actual cost of manufacture at £4.14 per component, including mark-up, is greater than what Wash the World will pay • If Huruni is to meet the price a reduced profit/profit margin will be made on the component.

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.

6 Dula prepared draft financial statements that showed a profit of £72 000 for the year ended 30 April 2016. On further inspection the following errors were discovered:

(1) The entries for a credit sale of goods to Ruwan, £750, had been reversed in the books.

(2) Some goods had been shown in the closing inventory count at their retail value of £1 350. All goods are marked-up by 50%.

(3) Motor vehicle expenses of £400 had been recorded in the Motor Vehicles Account. Depreciation of £80 had been charged wrongly in the draft financial statements.

(4) Rent receivable of £2 300 had been correctly entered in the Bank Account and debited to the Rent Receivable Account.

(5) Dula had paid herself a salary of £6 100, which had been recorded in the Wages Account.

Required

(a) State **four** types of error that will **not affect** the balancing of the books.
(4)

(b) Prepare the journal entries to correct the errors (1) to (5). Narratives are **not** required.
(12)

(c) Complete the table, in the question paper, showing the revised profit for the year **after** the correction of all errors.

(8)

				£
Draft profit for the year				72 000
		Increase Profit	**Decrease Profit**	
Error		**£**	**£**	
(1)	The entries for a sale of goods to Ruwan, £750, had been reversed in the books			
(2)	Some goods had been shown in the closing inventory count at their retail value of £1 350. All goods are marked-up by 50%			
(3)	Motor vehicle expenses of £400 had been recorded in the Motor Vehicles Account. Depreciation of £80 had been charged wrongly in the draft financial statements			
(4)	Rent receivable of £2 300 had been correctly entered in the Bank Account and debited to the Rent Receivable Account			
(5)	Dula had paid herself a salary of £6 100, which had been recorded in the Wages Account.			
	Total increase profit and decrease profit			
Revised profit for the year				

A friend of Dula has advised her that the use of an information and communications technology (ICT) accounting software package would avoid errors and provide many other benefits.

(d) Evaluate the use of information and communications technology (ICT) accounting software packages.

(6)

(Total for Question 6 = 30 marks)

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

Question Number	Answer	Mark
6(a)	**AO1 (4)** **A01: Four marks for stating a type of error which will not affect the balancing of the books.** Error of original entry Error of omission Error of reversal Error of compensation Error of commission Error of principle (1 AO1) x 4 Not transposition	**(4)**

Question Number	Answer	Mark
6(b)	**AO1 (3), AO2 (6), AO3 (3)** **A01: Three marks for identifying the correct account name to be adjusted.** **A02: Six marks for identifying the correct accounts to be adjusted and applying the correct adjustment.** **AO3 Three marks for identifying the correct accounts to be adjusted and applying the correct adjustment where entries have been made to the wrong side of the account.**	**(12)**

Journal

	Dr £	Cr £	
Ruwan	1 500		(1 AO3)
Revenue (1 AO1)		1 500	
Income statement	450		(1 AO3)
Inventory		450	(1 AO2)
Motor vehicle expenses/ Income statement	400		(1 AO2)
Motor vehicle		400	(1 AO2)
Provision for depreciation	80		(1 AO2)
Income statement		80	(1 AO2)
Suspense (1 AO1)	4 600		
Rent receivable		4 600	(1 AO3)
Drawings (1 AO1)	6 100		
Wages		6 100	(1 AO2)

Question Number	Answer	Mark
6(c)	**AO1 (2), AO2 (6)** **A01: Two marks for arriving at a revised profit for the year.** **A02: Six marks for adjusting the profit for the year with the correct figure and increase/decrease.**	

				£
Draft profit for the year				72 000
		Increase	Decrease	
Error		£	£	
(1)	The entries for a sale of goods to Ruwan, £750,had been reversed in the books	1 500 (1 AO2)		
(2)	Some goods had been recorded in the closing inventory check at their retail value of £1 350. All goods are marked-up by 50%		450 (1 AO2)	
(3)	Motor vehicle expenses of £400 had been recorded in the Motor Vehicles Account. Depreciation of £80 had been charged in the draft financial statements	80 (1 AO2)	400 (1 AO2)	
(4)	Rent receivable of £2 300 had been correctly entered in the bank account and debited to the Rent Receivable Account	4 600 (1 AO2)		
(5)	Dula had paid herself a salary of £6 100 which had been recorded in the Wages Account.	6 100 (1 AO2)		
	Total increase and decrease	12 280 (1of AO1)	850	
Revised profit for the year				83 430 (1of AO1))

(8)

Question Number	Answer	Mark
6(d)	**AO2 (1), AO3 (2), AO4 (3)** **A02: One mark for applying positive or negative aspects of Dula's business to the scenario set, drawing out key points.** **A03: Two marks for interpreting and analysing courses of action to Dula's dilemma of whether to implement the proposal.** **A04: Three marks for evaluating the scenario counterbalancing the arguments giving weight to a range of financial and non-financial aspects to arrive at a logical conclusion.** Potential arguments for using an ICT accounting software package • Errors should be reduced because the software package determines and carries out the double entry for a given transaction • It will be quicker • Less storage space required • Standard reports can be extracted. Potential arguments against using an ICT accounting software package • The cost of the hardware and software • Training of staff to use the software will be required • Security issues • Risk of losing data.	**(6)**

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.