

Pearson Edexcel
International Advanced Level**Accounting (Modular Syllabus)****Unit 1: The Accounting System and Costing**

Tuesday 12 May 2015 – Morning

Source Booklet

Paper Reference

WAC01/01**Do not return the insert with the question paper.***Turn over* ►**P44821A**

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**PEARSON**

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

- 1 The following trial balance was extracted from the books of Tolbury Golf Club at 30 April 2015:

| | Dr £ | Cr £ |
|---|------------------|------------------|
| Revenue: Restaurant Sales | | 175 000 |
| Subscriptions | | 225 000 |
| Interest receivable | | 4 200 |
| Donations | | 12 000 |
| Restaurant inventory 1 May 2014 | 7 000 | |
| Purchases of supplies for restaurant | 57 500 | |
| Wages: Restaurant | 35 000 | |
| General | 96 000 | |
| Salaries: Restaurant | 27 500 | |
| General | 64 000 | |
| Electricity: Restaurant | 8 500 | |
| General | 19 200 | |
| Insurance | 5 750 | |
| Golf course maintenance | 64 850 | |
| Bad debts: Subscriptions | 11 000 | |
| Provision for doubtful debts on subscriptions | | 2 500 |
| Clubhouse (at cost) | 280 000 | |
| Equipment (at cost) | 200 000 | |
| Fixtures and fittings (at cost) | 100 000 | |
| Provisions for depreciation: | | |
| Clubhouse | | 84 000 |
| Equipment | | 120 000 |
| Fixtures and fittings | | 50 000 |
| Trade receivables | 1 450 | |
| Trade payables | | 21 250 |
| Bank savings account | 90 000 | |
| Cash and bank | 26 200 | |
| Accumulated fund | | 400 000 |
| | <u>1 093 950</u> | <u>1 093 950</u> |

Additional information at 30 April 2015:

1. Restaurant inventory £6 500.
2. Insurance prepaid £2 500.
3. Interest receivable owing £1 200.
4. Subscriptions: paid in advance £16 500: in arrears £27 500.
5. Depreciation is charged as follows:
 - Clubhouse at the rate of 2% per annum straight line
 - Equipment at the rate of 20% per annum reducing balance
 - Fixtures and fittings at the rate of 10% per annum straight line.
6. One quarter of the depreciation on equipment and half of the depreciation on fixtures and fittings are to be charged to the restaurant.
7. The provision for doubtful debts on subscriptions is to be increased to £3 000.

Required:

- (a) Prepare the:
 - (i) Restaurant Trading Account for the year ended 30 April 2015 (10)
 - (ii) Income and Expenditure Account for the year ended 30 April 2015 (18)
 - (iii) Statement of Financial Position at 30 April 2015. (16)
- (b) Evaluate the usefulness of a provision for doubtful debts on subscriptions. (8)

(Total for Question 1 = 52 marks)

Answer space for question 1 is on pages 2 to 7 of the question paper.

Section A

1(a)(i)

Tolbury Golf Club
Restaurant Trading Account for the year ended 30 April 2015

| | £ | £ | |
|--------------------------------|----------------|----------------------|-------|
| Revenue | | 175 000 | ✓ |
| Less | | | |
| Inventory 1 May 2014 | 7 000 | | ✓ |
| Purchases | <u>57 500</u> | | ✓ |
| | 64 500 | | |
| Inventory 30 April 2015 | <u>(6 500)</u> | | ✓ |
| Cost of sales | | <u>(58 000)</u> | ✓ + w |
| Gross profit | | 117 000 | |
| Less Wages | 35 000 | | ✓ |
| Salary | 27 500 | | ✓ |
| Electricity | 8 500 | | ✓ |
| Depreciation- Equipment | 4 000 | | ✓ |
| Fixtures and fittings | <u>5 000</u> | | ✓ |
| | | <u>(80 000)</u> | |
| Restaurant profit for the year | | <u><u>37 000</u></u> | |

(10)

(ii)

Income and Expenditure Account for the year ended 30 April 2015

| | £ | £ | |
|---|--------------|---------------------|---------------|
| Income | | | |
| Subscriptions 225 000 -16 500 ✓ +27 500 ✓ | | 236 000 | Ignore |
| Restaurant profit | | 37 000 | ✓ of aliens |
| Interest receivable 4 200 ✓ + 1 200 ✓ | | 5 400 | |
| Donations | | <u>12 000</u> | ✓✓ |
| | | 290 400 | |
| Less expenditure: | | | |
| Wages | 96 000 | | ✓ |
| Salaries | 64 000 | | ✓ |
| Electricity | 19 200 | | ✓ |
| Insurance 5 750 – 2 500 | 3 250 | | ✓ |
| Golf course maintenance | 64 850 | | ✓ |
| Bad debts – subscriptions | 11 000 | | ✓ |
| Increase in PDD on subscriptions | 500 | | ✓ |
| Depreciation: Clubhouse | 5 600 | | ✓ |
| Equipment | 12 000 | | ✓ |
| Fixtures and fittings | <u>5 000</u> | | ✓ |
| | | <u>(281 400)</u> | |
| Surplus | | <u><u>9 000</u></u> | ✓ of + w (18) |

(iii)

Statement of Financial Position at 30 April 2015

| Non-current assets | Cost £ | Depreciation to Date £ | Carry over value £ | |
|------------------------------------|----------------|------------------------------|--------------------------|------|
| Clubhouse | 280 000 | 89 600 | 190 400 | ✓of |
| Equipment | 200 000 | 136 000 | 64 000 | ✓of |
| Fixtures and fittings | <u>100 000</u> | <u>60 000</u> | <u>40 000</u> | ✓of |
| | <u>580 000</u> | <u>285 600</u> | 294 400 | |
| Current assets | | | | |
| Inventory | | 6 500 | | ✓ |
| Trade receivables | | 1 450 | | ✓ |
| Other receivables: | | | | |
| Subscriptions in arrears | 27 500 | | | ✓ |
| Less PDD | <u>(3 000)</u> | | | ✓ |
| | | 24 500 | | ✓ |
| Insurance prepaid | | 2 500 | | ✓ |
| Interest receivable | | 1 200 | | ✓ |
| Investment on deposit/Bank savings | | 90 000 | | ✓ |
| Cash and bank | | <u>26 200</u> | | ✓ |
| | | | <u>152 350</u> | |
| | | | <u>446 750</u> | |
| Accumulated fund | | | 400 000 | ✓ +w |
| Plus surplus for the year | | | <u>9 000</u> | ✓of |
| | | | 409 000 | |
| Current liabilities | | | | |
| Trade payables | | 21 250 | | ✓ |
| Subscriptions in advance | <u>16 500</u> | | | ✓ |
| | | | <u>37 750</u> | |
| | | | <u>446 750</u> | |

(16)

(b) Valid answers may include

In favour

- Prudent to provide for bad debts/ Application of prudence concept
- Bad debts were incurred in current year
- Need to not overstate surplus
- Need to give correct value for subscriptions receivable.

Against

- The level of provision seems inadequate to the level of bad debts incurred
- Difficult to predict level of bad debts/ Bad debts are only estimated
- Easier just to write off descriptions when they occur
- Reduce subscriptions affecting income/surplus in current year.

NOT

- A DESCRIPTION OF A PROVISION FOR DOUBTFUL DEBTS
- More time consuming/Costly/ Need expertise
- Reputation affected
- Money measurement concept.

✓/ per point (Max two points in favour and two points against)

(8)

(Total 52 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 2

- 2 Andreas extracted a trial balance on the 31 March 2015 which failed to agree. He then prepared a Draft Statement of Comprehensive Income. After preparation of the Draft Statement of Comprehensive Income the following balances remained in the books:

| | Dr | Cr |
|-------------------------------|----------------|----------------|
| | £ | £ |
| Profit for the year | | 9 680 |
| Wages accrued | | 500 |
| Heat and light accrued | | 590 |
| General expenses prepaid | 750 | |
| Computer maintenance accrued | | 350 |
| Provision for doubtful debts | | 2 300 |
| Non-current assets (at cost): | | |
| Leasehold on buildings | 100 000 | |
| Computers | 24 000 | |
| Fixtures and fittings | 12 500 | |
| Provisions for depreciation: | | |
| Leasehold on buildings | | 50 000 |
| Computers | | 14 000 |
| Fixtures and fittings | | 10 000 |
| Trade receivables | 31 800 | |
| Trade payables | | 27 500 |
| Inventory 31 March 2015 | 16 100 | |
| Cash and bank | 1 990 | |
| Capital | | 75 000 |
| Suspense | 2 780 | |
| | <u>189 920</u> | <u>189 920</u> |

On inspection of the books, Andreas found the following errors:

1. Wages of £1 250 had been entered correctly in the Wages Account, but had been recorded in the Bank as £2 150.
2. Discount allowed £940 had been credited to the Discount Allowed Account.
3. The Leasehold on buildings is a 25 year lease, no depreciation had been charged in the Statement of Comprehensive Income.
4. A new computer costing £1 600 had been posted to the Computers Maintenance Account. Depreciation of 25% of cost per annum had **not** been charged in the Statement of Comprehensive Income.
5. A cheque receipt of £480 from a debtor, Fung, had been omitted from the books.

Required:

- (a) Prepare the:
- (i) Journal entries to correct the errors (1) to (5). Narratives are **not** required (12)
 - (ii) Suspense Account after the correction of the errors (1) to (5). (4)
- (b) Calculate the profit for the year after the correction of all errors. (10)
- (c) Prepare the Statement of Financial Position at 31 March 2015, after the correction of all errors. (18)
- (d) Evaluate the usefulness of draft financial statements, before the correction of errors. (8)

(Total for Question 2 = 52 marks)

Answer space for question 2 is on pages 8 to 14 of the question paper.

2

(a)(i)

| Journal | | | |
|--|---------|---------|---|
| | Dr £ | Cr £ | |
| Bank | 900 | | ✓ |
| Suspense | | 900 | ✓ |
| Discount allowed | 1 880 | | ✓ |
| Suspense | | 1 880 | ✓ |
| Income statement/Depreciation | 4 000 | | ✓ |
| Provision for depreciation – leasehold | | 4 000 | ✓ |
| Computers | 1 600 | | ✓ |
| Computer maintenance | | 1 600 | ✓ |
| Income statement/Depreciation | 400 | | ✓ |
| Provision for depreciation-Computers | | 400 | ✓ |
| Bank | 480 | | ✓ |
| Fung | | 480 | ✓ |

(12)

(ii)

| Suspense Account | | | |
|------------------|--------------|--------------------|--------------|
| | £ | | £ |
| Balance b/d | 2 780 | Bank ✓ | 900 ✓ |
| | | Discount allowed ✓ | 1 880 ✓ |
| | <u>2 780</u> | | <u>2 780</u> |

(4)

(b)

Correction of profit for the year ended 31 March 2015

| | £ | £ | |
|-----------------------------|------------|--------------|---------|
| Draft profit for the year | | 9 680 | |
| Add | | | |
| Computer | | <u>1 600</u> | ✓✓ |
| | | 11 280 | |
| Less | | | |
| Discount allowed | 1 880 | ✓✓ | |
| Leasehold depreciation | 4 000 | ✓✓ | |
| Computer depreciation | <u>400</u> | ✓✓ | |
| | | <u>6 280</u> | |
| Revised profit for the year | | <u>5 000</u> | ✓✓(✓of) |

NOTE: A calculation is required so narratives are not required.

(10)

(c)

Statement of Financial Position at 31 March 2015

| Non-current Assets | Cost £ | Accumulated depreciation £ | Carry over £ |
|--------------------------|---------------------------|----------------------------------|--------------------|
| Leasehold buildings | 100 000 | 54 000 ✓ | 46 000 |
| Computers | 25 600 ✓ | 14 400 ✓ | 11 200 |
| Fixtures and fittings | <u>12 500</u> | <u>10 000</u> | <u>2 500</u> ✓ |
| | <u>138 100</u> | <u>78 400</u> | 59 700 |
| Current Assets | | | |
| Inventory | | 16 100 | ✓ |
| Trade receivables | 31 800 ✓ – 480 ✓ = 31 320 | | |
| Less PDD | <u>(2 300)</u> ✓ | 29 020 | ✓ |
| Other receivables: | | | |
| General expenses | | 750 | ✓ |
| Cash and bank | 1 990 ✓ + 480 ✓ + 900 ✓ | <u>3 370</u> | |
| | | | <u>49 240</u> |
| | | | <u>108 940</u> |
| Capital and equity: | | | |
| Capital | | 75 000 cf | |
| Plus Profit for the year | | <u>5 000</u> of | |
| | | | 80 000 ✓ of |
| Current Liabilities | | | |
| Trade payables | | 27 500 | ✓ |
| Other payables: | | | |
| Wages | | 500 | ✓ |
| Heat and light | | 590 | ✓ * 1 440 ✓ ✓ ✓ |
| Computer maintenance | | <u>350</u> | ✓ |
| | | | <u>28 940</u> |
| | | | <u>108 940</u> |

(18)

(d) Valid answers may include

In favour

- Gives a good idea of the level of profit for the year
- Draft profit can then be refined as errors are discovered
- Enables swift preparation of the financial statements

Against

- The profit for the year is inaccurate
- Financial accounts cannot be 'signed off' until the errors are found
- Time consuming as work has to be completed more than once/ Costly.

NOT

- ANYTHING TO DO WITH ERRORS/ Types/ Descriptions/Effect of/ Does not locate
- Help provide a true and fair view
- Identifies arithmetical errors
- Checking device

✓✓ per point (Max two points in favour and two points against)

(8)

(Total 52 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 3

- 3** Nural is considering buying a restaurant. He has found two restaurants that are for sale, each at a purchase price of £100 000. Nural has sufficient funds available to purchase one of the restaurants. The two restaurants are the:
1. Garden Restaurant – Opened nine years ago, the Restaurant is in an area of the Town Centre which has many other competing restaurants
 2. New Restaurant – Opened one year ago, the Restaurant is in a residential area on the outskirts of the Town.

The following summarised information is available:

Statements of Comprehensive Income for the year ended 31 March 2015

| | Garden Restaurant £ | New Restaurant £ |
|--------------------------------------|------------------------|---------------------|
| Revenue | 270 000 | 140 000 |
| Cost of sales | <u>(108 000)</u> | <u>(70 000)</u> |
| Gross profit | 162 000 | 70 000 |
| Wages | (80 000) | (17 000) |
| General expenses | (50 000) | (30 000) |
| Depreciation - Lease | (25 000) | - |
| Depreciation - Fixtures and fittings | <u>(1 000)</u> | <u>(1 000)</u> |
| Profit for the year | <u>6 000</u> | <u>22 000</u> |

Statements of Financial Position at 31 March 2015

| | Garden Restaurant £ | New Restaurant £ |
|--|------------------------|---------------------|
| Non-current Assets (carry over value) | | |
| Leasehold on premises | 25 000 | - |
| Freehold premises | - | 60 000 |
| Fixtures and fittings | <u>1 000</u> | <u>10 000</u> |
| | 26 000 | 70 000 |
| Current Assets | | |
| Inventory | 12 000 | 4 000 |
| Trade receivables | 8 000 | 5 000 |
| Cash and bank | <u>2 000</u> | <u>6 000</u> |
| | <u>48 000</u> | <u>85 000</u> |
| | £ | £ |
| Capital at 1 April 2014 | 47 000 | 73 000 |
| Profit for the year | <u>6 000</u> | <u>22 000</u> |
| | 53 000 | 95 000 |
| Drawings | <u>(20 000)</u> | <u>(15 000)</u> |
| | 33 000 | 80 000 |
| Current Liabilities | | |
| Trade payables | <u>15 000</u> | <u>5 000</u> |
| | <u>48 000</u> | <u>85 000</u> |

Additional information:

1. All purchases are on credit, and for the year ended 31 March 2015 these were:
- Garden Restaurant £110 000
 - New Restaurant £70 000.

Required:

- (a) Calculate for the Garden Restaurant **and** for the New Restaurant the following :
- (i) gross profit as a percentage of revenue
 - (ii) return on capital employed percentage (using the closing capital)
 - (iii) current ratio
 - (iv) trade payables payment period (in days)
 - (v) non-current assets to revenue ratio
 - (vi) value of the goodwill included in the purchase price of £100 000.
- (24)
- (b) Suggest **two** possible reasons for the differences between the ratios for the Garden Restaurant and for the New Restaurant under each of the following headings:
- (i) Profitability
 - (ii) Liquidity
 - (iii) Use of assets.
- (12)
- (c) Explain the importance to Nural of calculating the non-current assets to revenue ratio.
- (4)
- (d) Suggest **four** non-financial factors that Nural should consider before making a decision to purchase either the Garden Restaurant or the New Restaurant.
- (4)
- (e) Evaluate which restaurant, if any, Nural should purchase.
- (8)

(Total for Question 3 = 52 marks)

Answer space for question 3 is on pages 15 to 20 of the question paper.

3(a)

| Ratio | Garden Restaurant | New Restaurant |
|---|--|---|
| (i) gross profit as a percentage of revenue | $\frac{162\,000}{270\,000} \times 100 = 60\% \checkmark\checkmark$ | $\frac{70\,000}{140\,000} \times 100 = 50\% \checkmark\checkmark$ |
| (ii) return on capital employed percentage (based on the closing capital) | $\frac{6\,000}{33\,000} \times 100 = 18.2\% \checkmark\checkmark$ | $\frac{22\,000}{80\,000} \times 100 = 27.5\% \checkmark\checkmark$ |
| (iii) current ratio | $\frac{22\,000}{15\,000} = 1.5:1 \checkmark\checkmark$ | $\frac{15\,000}{5\,000} = 3:1 \checkmark\checkmark$ |
| (iv) trade payables payment period (in days) | $\frac{15\,000}{110\,000/365} = 50 \text{ days } \checkmark\checkmark$ | $\frac{5\,000}{70\,000/365} = 26 \text{ days } \checkmark\checkmark$ |
| (v) non-current assets to revenue ratio | $\frac{270\,000}{26\,000} = 10:1 \checkmark\checkmark$ Or $\frac{26\,000}{270\,000} = 0.096:1$ | $\frac{140\,000}{70\,000} = 2:1 \checkmark\checkmark$ Or $\frac{70\,000}{140\,000} = 0.5:1$ |
| (vi) value of the goodwill included in the purchase price. | $100\,000 - 33\,000 = 67\,000 \checkmark\checkmark$ | $100\,000 - 80\,000 = 20\,000 \checkmark\checkmark$ |

(24)

NOTE:

- Award $\checkmark\checkmark$ if correct answer, percentage sign is not required in (i) (ii) or days in (iv)
- For $\checkmark\checkmark$ in (iii) and (v) must be :1, the correct figure without this is only worth \checkmark
- \checkmark can be awarded if one figure is correct and an answer has been derived in (i) to (v)
- In (vi) it must be correct for the marks.

(b)

| | Garden Restaurant | New Restaurant |
|---------------|---|---|
| Profitability | 1. Possible higher prices 2. Higher costs reduced ROCE 3. Lower capital base 4. Lower profit 5. Wages very high 6. Fixed costs are higher √√ x MAX 2 points | Possible better raw materials use Costs under control Higher capital base Higher profit |
| Liquidity | 1. High inventory 2. Taking a long time to pay trade payables 3. Low cash balance √√ x MAX 2 points | Low inventory Trade payables paid on time High cash balance |
| Use of assets | 1. Revenue level is much higher 2. Low premises value 3. Leasehold one year to run 4. Current assets are efficiently used. Ratio close to the 'yardstick' figure. √√ x MAX 2 points | Revenue level is much lower High premises value Freehold premises Current assets not efficiently used. Idle funds. |

(12)

- (c) Calculates how many pounds of revenue sales are generated for each pound of non-current assets. √√ A large proportion of the owners capital can be invested in non-current assets, therefore it is important to calculate the return on each pound invested. √√

(4)

(d) Valid answers may include:

- Location of restaurant
- Skill of the staff
- Size of the local market
- Competition in the area
- Nural's knowledge of the restaurant trade
- Condition of the restaurant fabric
- Reputation of the restaurant
- Good products

✓ per point x 4 points

(4)

(e) Valid answers may include financial and non-financial factors:

| Points in favour: | |
|---|--|
| Garden Restaurant | New Restaurant |
| <ul style="list-style-type: none"> • High gross profit to revenue percentage | <ul style="list-style-type: none"> • High ROCE |
| <ul style="list-style-type: none"> • High revenue /NCA ratio | <ul style="list-style-type: none"> • Trade payables paid on time |
| <ul style="list-style-type: none"> • Long established business | <ul style="list-style-type: none"> • Much lower goodwill payment |
| <ul style="list-style-type: none"> • In town centre so potentially more business | <ul style="list-style-type: none"> • Will own freehold premises |
| <ul style="list-style-type: none"> • Higher turnover/Revenue/More customers | <ul style="list-style-type: none"> • Makes a higher net profit |
| | <ul style="list-style-type: none"> • High level of liquidity |
| | <ul style="list-style-type: none"> • More cash in the bank |
| Points against: | |
| <ul style="list-style-type: none"> • Lower ROCE/ high costs | <ul style="list-style-type: none"> • Lower gross profit to revenue percentage |
| <ul style="list-style-type: none"> • Long trade payables payment period | <ul style="list-style-type: none"> • Low revenue/NCA ratio |
| <ul style="list-style-type: none"> • High goodwill payment | <ul style="list-style-type: none"> • New business |
| <ul style="list-style-type: none"> • Leasehold only for one further year | |
| | |

✓✓ per point (Max two points in favour and two points against)

(8)

(Total 52 marks)

SECTION B**SOURCE MATERIAL FOR USE WITH QUESTION 4**

- 4** The following balances were extracted from the books of Promita for the month of February 2015:

Opening balances on 1 February

| | |
|------------------------------|------------|
| Sales ledger control account | £32 500 Dr |
| | £950 Cr |
| Provision for doubtful debts | £1 300 |

Additional information for the month of February 2015:

1. Totals for the month of February

| | |
|--------------------------------------|--------|
| | £ |
| Sales day book | 66 580 |
| Cash sales | 3 000 |
| Sales returns day book | 2 060 |
| Cheques from trade receivables | 55 900 |
| Dishonoured cheque | 3 360 |
| Refund to trade receivable by cheque | 190 |
| Discount allowed | 1 620 |
| Bad debt written off | 900 |

2. There was no credit balance on the Sales Ledger Control Account at 28 February 2015.
3. The bad debt written-off in February related to the debt of Chumi, who was only able to pay £600 of his debt. The balance was irrecoverable.
4. The provision for doubtful debts is to be maintained at 4% of trade receivables at 28 February 2015.

Required:

- (a) Distinguish between bad debts and a provision for doubtful debts. (4)
- (b) Suggest **two** possible reasons for the opening credit balance on the Sales Ledger Control Account at 1 February 2015. (2)
- (c) Prepare the:
- (i) Sales Ledger Control Account for the month of February 2015 (10)
 - (ii) journal entry recording the writing off of the bad debt of Chumi (6)
 - (iii) Provision for Doubtful Debts Account for the month of February 2015. (6)
- (d) Evaluate the use of control accounts. (4)

(Total for Question 4 = 32 marks)

Answer space for question 4 is on pages 21 to 24 of the question paper.

Section B

- 4 (a) Bad debts – Actual bad debts from the last accounting period. ✓✓
 Provision for doubtful debts- An estimate of the amount that Promita will lose in the next financial period because of bad debts. ✓✓
 (4)

(b) Possible reasons:

- Overpayment by debtor
- Prepayment by debtor
- Goods returned after payment
- Error in posting

✓ per point x 2

(2)

(c)(i)

Sales Ledger Control Account

| | £ | | £ |
|-----------------------------------|---------------------------|--------------------------|----------------|
| 1 Feb Balance b/d | 32 500 | 1 Feb Balance b/d | 950 ✓ both |
| Feb Sales | 66 580 ✓ | Feb Sales returns | 2 060 ✓ |
| Bank (dishonoured cheque) 3 360 ✓ | | Bank | 55 900 ✓ |
| Bank (refund) 190 ✓ | | Discount allowed 1 620 ✓ | |
| | | Bad debt | 900 ✓ |
| | | Balance c/d | 41 200 ✓ |
| | <u>102 630</u> | | <u>102 630</u> |
| 1 Mar Balance b/d | 41 200 ✓ of if Dr balance | | |

Narratives must be present but accept reasonable narratives
 Ignore aliens

(10)

(ii)

Journal

| | Dr | Cr |
|-----------|-------|---------|
| | £ | £ |
| Bank ✓ | 600 ✓ | |
| Bad debts | 900 ✓ | |
| Chumi ✓ | | 1 500 ✓ |

Bad debt: Chumi paid £600 of his debt of £1 500. ✓

(6)

(iii)

Provision for Doubtful Debts Account

| | £ | | £ |
|--------------------|--------------|---------------------------|------------------|
| 28 Feb Balance c/d | 1 648 ✓ of | 1 Feb Balance b/d | 1 300 ✓ |
| | | 28 Feb Income statement ✓ | 348 |
| | | | <u>1 648</u> |
| | <u>1 648</u> | 1 Mar Balance b/d | 1 648 ✓ of if Cr |

(6)

(d)

Valid answers may include

In favour

- Checks accuracy of ledger
- Minimise fraud
- Help to locate errors
- Provide summary totals to speed up preparation of the financial statements

Against

- Do not pinpoint errors or correct errors
- Require accounting expertise
- Not all errors can be revealed by control accounts.

✓✓ per point (Max one point in favour and one point against)

(4)

(Total 32 marks)

5 (a)

| Date | Receipts | Issues | Balance |
|----------|---------------|------------------------------|--|
| 1 March | | | 600 @ £1.20 ✓✓ |
| 3 March | 1 800 @ £1.30 | | 600 @ £1.20 1 800 @ £1.30 ✓✓ |
| 5 March | | 1 800 @ £1.30 200 @ £1.20 | 400 @ £1.20 ✓✓ |
| 17 March | 1 500 @ £1.50 | | 400 @ £1.20 1 500 @ £1.50 ✓✓ |
| 20 March | | 1 000 @ £1.50 | 400 @ £1.20 500 @ £1.50 = £1 230 ✓✓ (10) |

(b)

Manufacturing Account for the month of March 2015

| | Metres | £ | |
|---|--------------|--------------|---------------|
| Inventory of raw material 1 March 2015 | 600 | 720 | ✓✓ |
| Purchases of raw material | <u>3 300</u> | <u>4 590</u> | ✓✓ |
| | 3 900 | 5 310 | |
| Inventory of raw material 1 March 2015 | <u>900</u> | <u>1 230</u> | ✓✓ of |
| Cost of raw materials consumed | 3 000 | 4 080 | |
| Factory wages 200 paid hours x £4 per hour x 12 | | 9 600 | ✓✓ |
| Direct expenses 3 800 x 40% | | <u>1 520</u> | ✓✓ |
| Prime cost ✓ | | 15 200 | ✓✓ of (12) |

SOURCE MATERIAL FOR USE WITH QUESTION 5

- 5** Khin manufactures bicycle frames from metal tubing. The following information relates to the month of March 2015:
1. Each bicycle frame requires 3 metres of metal tubing.
 2. The inventory of metal tubing at 1 March 2015 was 600 metres costing £1.20 per metre.
 3. Receipts of metal tubing for March:

| | |
|----------|--------------------------------|
| 3 March | 1 800 metres @ £1.30 per metre |
| 17 March | 1 500 metres @ £1.50 per metre |
 4. Issues of metal tubing to production for March:

| | |
|----------|--------------|
| 5 March | 2 000 metres |
| 20 March | 1 000 metres |
 5. Khin uses the perpetual inventory Last In First Out (L.I.F.O) method of valuation.
 6. 5% of the total raw material issued to production in March was wasted.
 7. The production line has 12 employees. Each employee worked 185 hours in March. Employees worked:
 - 160 hours at standard time of £4 per hour
 - 20 hours at time and a half
 - 5 hours at double time.
 8. Expenses for March were £3 800 of which 40% were direct and 60% were indirect.
 9. There was no work in progress at the beginning or end of the month.

Required:

- (a) Calculate the value of the closing inventory of metal tubing at 31 March 2015. (10)
- (b) Prepare the Prime Cost section of the Manufacturing Account for the month ending 31 March 2015. (12)
- (c) Calculate for March 2015, the:
- (i) number of bicycle frames manufactured (3)
 - (ii) prime cost per bicycle frame manufactured. (3)
- (d) Evaluate the use of Last In First Out (L.I.F.O) as a method of valuing inventory. (4)

(Total for Question 5 = 32 marks)

Answer space for question 5 is on pages 25 to 29 of the question paper.

(d)

Valid answers may include

In favour

- Checks accuracy of ledger
- Minimise fraud
- Help to locate errors
- Provide summary totals to speed up preparation of the financial statements

Against

- Do not pinpoint errors or correct errors
- Require accounting expertise
- Not all errors can be revealed by control accounts.

✓✓ per point (Max one point in favour and one point against)

(4)

(Total 32 marks)

5 (a)

| Date | Receipts | Issues | Balance |
|----------|---------------|------------------------------|--|
| 1 March | | | 600 @ £1.20 ✓✓ |
| 3 March | 1 800 @ £1.30 | | 600 @ £1.20 1 800 @ £1.30 ✓✓ |
| 5 March | | 1 800 @ £1.30 200 @ £1.20 | 400 @ £1.20 ✓✓ |
| 17 March | 1 500 @ £1.50 | | 400 @ £1.20 1 500 @ £1.50 ✓✓ |
| 20 March | | 1 000 @ £1.50 | 400 @ £1.20 500 @ £1.50 = £1 230 ✓✓ (10) |

(b)

Manufacturing Account for the month of March 2015

| | Metres | £ | |
|---|--------------|--------------|---------------|
| Inventory of raw material 1 March 2015 | 600 | 720 | ✓✓ |
| Purchases of raw material | <u>3 300</u> | <u>4 590</u> | ✓✓ |
| | 3 900 | 5 310 | |
| Inventory of raw material 1 March 2015 | <u>900</u> | <u>1 230</u> | ✓✓ of |
| Cost of raw materials consumed | 3 000 | 4 080 | |
| Factory wages 200 paid hours x £4 per hour x 12 | | 9 600 | ✓✓ |
| Direct expenses 3 800 x 40% | | <u>1 520</u> | ✓✓ |
| Prime cost ✓ | | 15 200 | ✓✓ of (12) |

NOTE: Marks awarded for £ not metres.

$$(c) \quad 3\,000 \text{ metres consumed} - 5\% = \frac{2\,850 \text{ metres}}{3 \text{ metres}} \checkmark = 950 \text{ frames} \checkmark \quad (3)$$

$$\frac{\text{Prime cost}}{\text{Frames produced}} = \frac{£15\,200}{950 \text{ frames}} \checkmark \text{of} = £16 \text{ per frame} \checkmark \text{of}$$

(3)

(d) Valid answers may include

In favour

- Raw materials are issued to production at current market value
- Selling/issue price will reflect current raw material cost.

Against

- Not accepted by IAS or tax authorities
- Value of closing inventory low compared to market value
- Gives a lower profit.

$\checkmark\checkmark$ per point (Max one point in favour and one point against) (4)

(Total 32 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 6

- 6 Poon and Quan are in partnership sharing profits and losses in the ratio 2:1. The following is their summary Statement of Financial Position at 28 February 2015:

| | £ |
|--|----------------|
| Non-current Assets (book value) | |
| Motor vehicles | 25 000 |
| Fixtures and fittings | <u>9 000</u> |
| | 34 000 |
| Current Assets | |
| Inventory | 36 000 |
| Trade receivables | 46 000 |
| Bank | <u>2 000</u> |
| | <u>118 000</u> |
| Capital: | |
| Poon | 60 000 |
| Quan | 40 000 |
| Current Liabilities | |
| Trade payables | <u>18 000</u> |
| | <u>118 000</u> |

On 28 February 2015 Poon retired from the business and Quan continued in business as a sole trader. The following was agreed:

- Goodwill was valued at £60 000, and this would remain in the books of Quan
- Poon would take one of the motor vehicles at the book value of £10 000
- Inventory was re-valued at £30 000
- All other assets and liabilities were transferred at book value
- Poon would leave £50 000 in the business as a loan for 5 years. The balance owing to him would be paid by cheque.

On 1 March 2015 Quan obtained a £30 000 8% business bank loan.

Required:

- (a) Where there is no partnership agreement, state how the following would be treated:
- (i) Partners' salaries
 - (ii) Partners' loans
 - (iii) Share of profits or losses
 - (vi) Interest on drawings
- (4)
- (b) Prepare the:
- (i) Capital Accounts of Poon and Quan
- (8)
- (ii) Bank Account
- (5)
- (iii) Quan's opening Statement of Financial Position at 1 March 2015.
- (11)
- (c) Evaluate the decision of Quan to keep goodwill in his books.
- (4)

(Total for Question 6 = 32 marks)

Answer space for question 6 is on pages 30 to 34 of the question paper.

6 (a)

- (i) No salaries ✓
- (ii) 5% interest on loans over and above the capital ✓
- (iii) Equal shares ✓
- (iv) No interest on drawings ✓

(4)

(b)

(i)

| | | Capital Accounts | | | |
|-----------------------|----------|------------------|---------------|----------------|---------------|
| | | Poon | Quan | Poon | Quan |
| | | £ | £ | £ | £ |
| Motor vehicle | 10 000 ✓ | Balance | | 60 000 | 40 000 |
| Inventory revaluation | 4 000 ✓ | 2 000 ✓ | Goodwill | 40 000 ✓ | 20 000 ✓ |
| Loan to Quan | 50 000 ✓ | | | | |
| Bank | 36 000 ✓ | of | | | |
| Balance c/d | | 58 000 | | | |
| | | <u>100 000</u> | <u>60 000</u> | <u>100 000</u> | <u>60 000</u> |
| | | Balance b/d | | | 58 000 ✓ |
| | | | | | if Cr |

NOTE: Poon bank settlement figure only if no balance carried down

(8)

(ii)

| | | Bank Account | |
|--------------|---------------|--------------|---------------|
| | | £ | £ |
| Balance b/d | 2 000 ✓ | Poon | 36 000 ✓ |
| 8% Bank loan | 30 000 ✓ | | ✓(✓of) |
| Balance c/d | 4 000 | | |
| | <u>36 000</u> | | <u>36 000</u> |
| | | Balance b/d | 4 000 ✓ |

(5)

(iii)

Quan - Statement of Financial Position at 1 March 2015

| | £ | |
|--------------------------------|----------------|---------|
| Non-current Assets | | |
| Goodwill | 60 000 | ✓ |
| Motor vehicles | 15 000 | ✓ |
| Fixtures and fittings | <u>9 000</u> | ✓ |
| | 84 000 | |
| Current Assets | | |
| Inventory | 30 000 | ✓ |
| Trade receivables | <u>46 000</u> | ✓ |
| | <u>160 000</u> | |
| Capital: | | |
| Quan | 58 000 | ✓✓(✓of) |
| Current Liabilities | | |
| Trade payables | 18 000 | ✓ |
| Bank overdraft | 4 000 | ✓of |
| Non-current Liabilities | | |
| Loan – Poon | 50 000 | ✓ |
| 8% Bank loan | <u>30 000</u> | ✓ |
| | <u>160 000</u> | |

(11)

(c)

Valid answers may include

In favour

- Shows all assets at valuation
- Should be included when selling the business.

Against

- Not prudent to record goodwill
- Intangible, difficult to value.

✓✓ per point (Max one point in favour and one point against)

(4)

(Total 32 marks)

SOURCE MATERIAL FOR USE WITH QUESTION 7

7 There was a fire at the business premises of Lucia on 20 April 2015. Lucia did not keep full accounting records, but is able to provide the following information:

- Balances at 1 April 2015:

| | |
|-------------------|---------|
| Inventory at cost | £25 000 |
| Trade receivables | £18 000 |
| Trade payables | £15 500 |
- Transactions between 1 April and 20 April 2015:

| | |
|---------------------------------|----------|
| Receipts from trade receivables | £138 000 |
| Payments to trade payables | £69 000 |
| Cash purchases | £25 800 |
- Balances at 20 April 2015:

| | |
|-----------------------------|---------|
| Remaining inventory at cost | £14 300 |
| Trade receivables | £20 000 |
| Trade payables | £16 700 |
- Lucia uses a 'mark-up' of 40%.

Required:

(a) Explain the:

- (i) accounting term **net realisable value**.

(4)

- (ii) effect on the financial statements if the closing inventory is overvalued.

(4)

(b) Calculate the:

- (i) purchases for the period 1 April to 20 April 2015.

(5)

- (ii) revenue for the period 1 April to 20 April 2015.

(4)

(c) Prepare the trading account for the period 1 April to 20 April 2015 showing the value of the inventory remaining and the value of the inventory destroyed.

(11)

"It would be more appropriate for Lucia to record the inventory at market value in her books."

(d) Evaluate this statement.

(4)

(Total for Question 7 = 32 marks)

Answer space for question 7 is on pages 35 to 38 of the question paper.

7 (a)(i) Net realisable value – Estimated receipts from the sale of the inventory, less any costs of completing the goods or costs of selling the goods. (4)

(ii) If inventory was overvalued, due to damage, this would result in profit to be over stated for a period and asset/current assets overvalued in the financial statements. (4)

(b)(i) Purchases $69\,000 + 25\,800 - 15\,500 + 16\,700 = 96\,000$ (5)

(ii) Revenue $138\,000 + 20\,000 - 18\,000 = 140\,000$ (4)

(c)

| | £ | £ | |
|---------------------|----------------------|------------------|-----------------------------------|
| Revenue | | 140 000 | ✓ (of) |
| Less | | | |
| Inventory 1 April | 25 000 ✓ | | |
| Purchases | <u>96 000</u> ✓ (of) | | |
| | 121 000 | | |
| Inventory 20 April: | | | |
| Remaining | (14 300) | | ✓✓ |
| Destroyed | <u>(6 700)</u> | | ✓✓ of If inventory combined ✓✓ of |
| Cost of sales | | (100 000) | ✓✓ of |
| Gross profit | | <u>40 000</u> ✓✓ | |
| | | <u>140 000</u> | |

(11)

(d) Valid answers may include

In favour

- Inventory would be recorded in the business at a single value
- If lower or the same then cost would be market value
- Makes the inventory up to date with market/replacement values

Against

- Would not comply with realisation/prudence/historic cost concepts
- Profit over stated
- Inventory overvalued
- Market value is a question of judgement

✓ per point (Max one point in favour and one point against) (4)

(Total 32 marks)