| Centre No. | | | | | | Paper Reference | | | | | | | | Surname | Initial(s) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Candidate No. | | | | | | W | A | C | 0 | 1 | / | 0 | 1 | Signature | |

Paper Reference(s)

**WAC01/01**

**Pearson Edexcel**

# International Advanced Level

## Accounting (Modular Syllabus)

Unit 1: The Accounting System and Costing

Wednesday 14 May 2014 – Morning

Time: 3 hours

Examiner's use only

Team Leader's use only

| Question Number | Leave Blank |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |
| 6 | |
| 7 | |
| Total | |

| Materials required for examination | Items included with question papers |
|---|---|
| Nil | Source booklet |

### Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.
Check that you have the correct question paper.
Answer FIVE questions, choosing TWO from Section A and THREE from Section B.
Indicate which question you are answering by marking the box (☒).
If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).
All calculations must be shown.
Write your answers in the spaces provided in this question paper.
Do not return the insert with the question paper.

### Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. **(2)**.
There are 7 questions in this question paper. The total mark for this paper is 200.
There are 44 pages in this question paper. Any blank pages are indicated.
Calculators may be used.
**The source material for use with questions 1 to 7 is in the enclosed source booklet.**

### Advice to Candidates

Write your answers neatly and in good English.



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PEARSON

## SECTION A

## SOURCE MATERIAL FOR USE WITH QUESTION 1

**1.** Marianna owns an information technology consultancy business, advising customers on computer hardware and software. The following balances were extracted from her books on 31 March 2014.

| | £ |
|---|---|
| Revenue from consultancy | 295 000 |
| Commission received from software sales | 45 600 |
| Staff wages and salaries | 154 000 |
| Drawings | 32 000 |
| Rent and rates | 36 000 |
| Heating and electricity | 6 300 |
| Trade receivables | 34 000 |
| Trade payables | 7 700 |
| Internet and communication charges | 5 800 |
| Cash and bank | 4 450 Dr |
| Marketing expenses | 55 000 |
| Disposal account | 6 250 Cr |
| Non-current assets (at cost): | |
| Fixtures and fittings | 60 000 |
| Computer equipment | 76 000 |
| Motor vehicles | 90 000 |
| Provisions for depreciation: | |
| Fixtures and fittings | 18 000 |
| Computer equipment | 40 000 |
| Motor vehicles | 36 000 |
| 6% Bank loan (repayable on 31 March 2020) | 50 000 |
| Capital | 55 000 |

**Additional information at 31 March 2014:**

(1) A customer was invoiced £7 500 for consultancy on 28 March 2014. This had not been recorded in the books.

(2) During the year only 9 months' rent and rates had been paid.

(3) Marketing expenses of £2 800 were pre-paid.

(4) The bank loan interest for the year is owing.

(5) Depreciation is to be charged as follows:
Fixtures and fittings at the rate of 15% per annum straight line
Computer equipment at the rate of 25% per annum reducing balance
Motor vehicles at the rate of 20% per annum straight line.

(6) Trade receivables of £1 500 are irrecoverable. A provision for doubtful debts of 5% of remaining debts is to be created.

(7) On 1 April 2013 there was a credit balance on the Commission Received for Software Sales Account of £600. During the year cheques totalling £45 000 were received from the software company. On 31 March 2014 £2 900 commission was owed to Marianna by the software company.

**Required:**

(a) Prepare the Commission Received on Software Sales Account for the year ended 31 March 2014, showing the transfer to the Statement of Comprehensive Income.
**(6)**

(b) Prepare the Statement of Comprehensive Income for the year ended 31 March 2014.
**(16)**

(c) Prepare the Statement of Financial Position at 31 March 2014.
**(16)**

Marianna is considering a major expansion of her business with the help of a new 10-year bank loan of £200 000. The terms of the new bank loan are that repayment will be by 10 equal annual instalments.

(d) Explain the treatment in the Statement of Financial Position for the:

(i) existing £50 000 6% bank loan (repayable on 31 March 2020)
**(3)**

(ii) proposed new bank loan of £200 000.
**(3)**

(e) Evaluate the use of accounting concepts in the preparation of financial statements.
**(8)**

**(Total 52 marks)**

**Answer space for question 1 is on pages 2 to 8 of the question paper.**

**WAC01/01**
**June 2014**
**MARKING SCHEME**

1(a)

Commission Received from Software Sales Account

| | | £ | | | £ |
|---|---|---|---|---|---|
| | | | 1 April 2013 | Balance b/d | 600 √ |
| 31 Mar 2014 | Income Statement √ | 48 500 √of | | Bank | 45 000 √ |
| | | | 31 Mar 2014 | Balance c/d | 2 900 √ |
| | | 48 500 | | | 48 500 |
| 1 April 2014 | Balance b/d | 2 900 √of **if on debit side** | | | |

(6)

(b)

Marianna
Statement of Comprehensive Income for the year ended 31 March 2014

| | | £ | £ |
|---|---|---|---|
| Income | | | |
| Revenue from consultancy | 295 000 √ + 7 500 √ | 302 500 | |
| Commission received from software sales | | 48 500√√ (√ of) | |
| Disposal of non-current assets | | 6 250√ | |
| | | | 357 250 |
| Less Expenses | | | |
| Wages and salaries | | 154 000√ | |
| Rent and rates | 36 000 + 12 000 | 48 000√ | |
| Heating and electricity | | 6 300√ | |
| Internet and communication | | 5 800√ | |
| Marketing | 55 000 – 2 800 | 52 200√ | |
| Depreciation- | | | |
| Fixtures | | 9 000√ | |
| Computers | | 9 000√ | |
| Motor vehicles | | 18 000√ | |
| Bank loan interest | | 3 000√ | |
| Bad debts | | 1 500√ | |
| Provision for doubtful debts | | 2 000√ | |
| | | | 308 800 |
| Profit for the year | | | 48 450 |
| | | | 357 250 |

**(16)**

(c)

Statement of Financial Position

| | | | | |
|---|---|---|---|---|
| Non-current assets | | | | |
| | Cost | Aggregate depreciation | Carry over | |
| | £ | £ | £ | |
| Fixtures and fittings | 60 000 | 27 000 | 33 000 √of | |
| Computers | 76 000 | 49 000 | 27 000 √of | |
| Motor vehicles | 90 000 | 54 000 | 36 000 √of | |
| | 226 000 | 130 000 | 96 000 √ | |
| Current assets | | | | |
| Trade receivables 34 000 √ + 7 500 √ – 1 500 √ | 40 000 | | | |
| Less Provision for doubtful debts | 2 000 | | | |
| | | 38 000 √of | | |
| Other receivables 2 900 √ + 2 800 √ | | 5 700 | | |
| Cash and bank | | 4 450 √ | | |
| | | | 48 150 | |
| | | | 144 150 | |
| Capital and equity: | | | | |
| Capital | | 55 000 | | |
| Profit for the year | | 48 450 | | |
| | | 103 450 | | |
| Drawings | | (32 000) | | |
| | | | 71 450 √of | |
| Non-current liabilities | | | | |
| 6% Bank loan | | | 50 000 √ | |
| Current liabilities | | | | |
| Trade payables | | 7 700 √ | | |
| Other payables 12 000 √ + 3 000 √ | | 15 000 | | |
| | | | 22 700 | |
| | | | 144 150 | |
| | | | | **(16)** |

(d)

(i) Existing loan is repayable in more than one year into the future √. Therefore the whole loan is a long term/Non-current liability √ payable by a single sum at the end of the term. √

(ii) Proposed loan is repayable in equal instalments over the life of the loan √ not at the end of the loan period. Therefore, the capital sum repayable within the next year will be a current liability √ the remaining capital of the outstanding loan will be a long term/non-current liability √.

**(6)**

(e)

Valid points may include:

Positive

- Provides a framework for preparing financial statements
- Readers can rely upon the accuracy of the financial statements
- Can be relied upon globally
- Provides a true and fair view
- Meets legal requirements
- Enables comparisons to be made.

Negative

- Many concepts are open to interpretation
- Concepts can contradict each other
- Many non-financial aspects of a business are not considered by accounting concepts
- Need for specialist knowledge to implement which has cost implications

NOT Time consuming, easy/difficult to understand, aid to decision making, examples of accounting concepts, not accuracy/mathematical accuracy without qualification

√√ per point x 4 - MAX 2 points positive and 2 points negative

**(8)**

**(Total 52 marks)**

**SOURCE MATERIAL FOR USE WITH QUESTION 2**

**2.** Leung buys and sells office furniture. The following information relates to his last two financial years ended 30 April 2013 and 30 April 2014.

Statement of Comprehensive Income for the year ended

| | 30 April 2013 | 30 April 2014 |
|---|---|---|
| | £ | £ |
| Revenue | 700 000 | 750 000 |
| Cost of sales | (420 000) | (500 000) |
| Gross profit | 280 000 | 250 000 |
| Less | | |
| General expenses | (200 000) | (200 000) |
| Loan interest | (12 000) | (12 000) |
| Depreciation | (40 000) | (30 000) |
| Profit for the year | 28 000 | 8 000 |

**Additional note:**
80% of revenues for both years were on credit.

Statement of Financial Position at

| | 30 April 2013 | 30 April 2014 |
|---|---|---|
| | £ | £ |
| **Non-current assets** | | |
| Cost | 200 000 | 150 000 |
| Accumulated depreciation | (120 000) | (90 000) |
| Carry over | 80 000 | 60 000 |
| | | |
| **Current assets** | | |
| Inventory | 105 000 | 80 000 |
| Trade receivables | 135 000 | 55 000 |
| Cash and bank | - | 65 000 |
| | 320 000 | 260 000 |
| **Capital and equity** | | |
| Capital 1 May 2013 | 64 000 | 50 000 |
| Profit for the year | 28 000 | 8 000 |
| | 92 000 | 58 000 |
| Drawings | (42 000) | (8 000) |
| Capital 30 April 2014 | 50 000 | 50 000 |
| | | |
| **Non-current liabilities** | | |
| 8% Loan | 150 000 | 150 000 |
| **Current liabilities** | | |
| Trade payables | 60 000 | 60 000 |
| Bank overdraft | 60 000 | - |
| | 320 000 | 260 000 |

**Required:**

(a) Calculate the following ratios for **both** the years ended 30 April 2013 **and** 30 April 2014:

(i) Gross profit as a percentage of revenue
(ii) Percentage return on capital employed
(iii) Trade receivables collection period (in days)
(iv) Current ratio
(v) Liquid (acid test) ratio

**(24)**

(b) Suggest **two** possible reasons for the change in the gross profit as a percentage of revenue in the year ended 30 April 2014.

**(4)**

(c) (i) Explain the term **return on capital employed**.

**(4)**

(ii) Comment upon the percentage return on capital employed for Leung's business.

**(2)**

(d) (i) Explain the term **idle funds**.

**(3)**

(ii) Comment upon the liquidity ratios calculated for Leung's business.

**(3)**

(e) State **four** reasons why Leung's cash and bank balance has increased during the year ended 30 April 2014.

**(4)**

(f) Evaluate the financial position of Leung's business for the year ended 30 April 2014.

**(8)**

**(Total 52 marks)**

**Answer space for question 2 is on pages 9 to 14 of the question paper.**

2 (a)

i) Gross profit as a percentage of revenue (sales)

| 30 April 2013 | 30 April 2014 |
|---|---|
| 280 000 √ x 100 = 40% / 700 000 √ | 250 000 √ x 100 = 33.3% / 750 000 √ |

ii) Percentage return on capital employed

| 30 April 2013 | 30 April 2014 |
|---|---|
| 28 000 + 12 000 √ = 20% √of / 50 00 + 150 000 √ | 8 000 + 12 000 √= 10% √of / 50 000 + 150 000 √ |

iii) Trade receivables collection period (in days)

| 30 April 2013 | 30 April 2014 |
|---|---|
| 135 000 √ =88 days √of / (700 0 x 80%)/365 √ | 55 000 √ =33.5 days √of / (750 000 x 80%)/365 √ |

iv) Current ratio

| 30 April 2013 | 30 April 2014 |
|---|---|
| 240 000 √ = 2.0:1 / 1200 √ | 200 000 √ = 3.33:1 / 60 000 √ |

v) Liquid (acid test) ratio.

| 30 April 2013 | 30 April 2014 |
|---|---|
| 135 000 √ = 1.13:1 / 120 000 √ | 120 000 √ = 2:1 / 60 000 √ |

**(24)**

(b) Change in sales mix
Reduction in sales prices due to economic conditions
Increased cost of goods which cannot be passed on to customers
Increased competition

NOT increase/decrease in sales

2 Points x √√ **(4)**

(c)(i) Return on capital employed is calculated as the percentage return on the long term capital employed within the business. The capital employed is calculated by adding capital √ to long term liabilities. √ This is compared with the profit for the year √ plus any interest due on the long term liabilities.√ It is a profitability ratio √.

If in a formula award marks for elements above. Profit/capital employed √ only **(Max 4)**

(ii) The percentage return on capital employed is good/high in the year ending 30 April 2013 at 20%.√ In the year ended 30 April 2014 the percentage has fallen significantly √ but is still at an acceptable level of 10%.√ **OF RULE APPLIES** **MAX (2)** (d)(i) Idle funds relate to current assets/ circulating assets √ which are not being effectively used in the business to generate profits. √ A high current ratio/ liquid acid test ratio √ in excess of the accepted norms will indicate idle funds. √

Poor management of funds √√ Business not using funds efficiently √√

Current assets not being used efficiently √√ MAX **(3)**

(ii) At a current ratio of 3.33:1 and a liquid acid test ratio of 2:1 both ratios are above the benchmarks of 2:1 √ and 1:1√. The degree of idle funds has increased over the year. √

**(3)**

e) Profit for the year has generated cash
Sale of non-current assets
Reduced inventory
Reduced trade receivables
Reduced drawings

NOT introduced extra capital/loans
√ x 4 points **(4)**

f) Valid points **(OF RULE APPLIES)** may include:
Positive

- The cash and bank balance has improved during the year
- Inventory is reduced and trade receivables collection improved
- Return on capital employed is still at an acceptable level
- Leung has reduced his drawings to not act as a reduction on capital
- Good liquidity above the benchmarks.

Negative

- Gross profit margin has fallen
- Costs are rising
- Idle funds exist in the liquidity of the business
- All of the profit for the year has been taken as drawings
- The profit has declined.

√√ per point x 4 - MAX 2 points positive and 2 points negative

**(8)**

**(Total 52 marks)**

## SOURCE MATERIAL FOR USE WITH QUESTION 3

**3.** Rakib's bookkeeper prepared the following Trial Balance at 30 April 2014. Rakib identified errors in both the Trial Balance preparation and the information from which it had been prepared.

Trial Balance at 30 April 2014

| | Dr | Cr |
|---|---|---|
| | £ | £ |
| Purchases | 70 550 | |
| Revenue | | 150 000 |
| Trade receivables | | 9 980 |
| Trade payables | 6 750 | |
| Rent | 4 500 | |
| Bank overdraft | | 1 500 |
| Other expenses | 8 390 | |
| Wages | 50 000 | |
| Discount allowed | | 900 |
| Discount received | | 1 570 |
| Non-current assets (at cost): | | |
| Equipment | 16 000 | |
| Motor vehicles | 26 000 | |
| Provisions for depreciation: | | |
| Equipment | 8 000 | |
| Motor vehicles | 20 000 | |
| Inventory 1 May 2013 | 8 610 | |
| Capital | | 10 000 |
| | 218 800 | 173 950 |

**The following errors were subsequently found:**

(1) Purchases of £3 800 from Titan Supplies had been received on 20 April 2014. No entries had been made in the books.
(2) The Sales Day Book had been over-cast by £2 400.
(3) A payment of £900 to Patil, a creditor, had been posted to the account of Batik.
(4) Other Expenses of £300 had been debited to the Equipment Account.
(5) Discount received of £470 had been correctly entered in the Cash Book, but had been debited to the Discount Received Account.
(6) A payment of £850 for rent had been entered on the credit side of the Rent Account as £580 but entered correctly in the Cash Book.
(7) A motor vehicle with a cost of £14 000 and accumulated depreciation of £11 200 was sold with a cheque received for £4 000. No entries had been made in the books.

**Required:**

(a) (i) Explain the difference between an **error of commission** and an **error of principle**.

**(4)**

(ii) Identify **one** error from (1) to (7) which is an example of an:

- Error of commission
- Error of principle.

**(2)**

(b) Prepare the Journal entries to correct the errors (1) to (7). Narratives are **not** required.

**(18)**

(c) Prepare the corrected Trial Balance at 30 April 2014.

**(20)**

(d) Evaluate the usefulness to a business of preparing a trial balance.

**(8)**

**(Total 52 marks)**

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

3 (a)(i) An error of commission applies where the error has been posted to the wrong account **within the same class of account**. e.g an entry in Debtor A instead of Debtor B. √√

An error of principle applies where the error has been posted to the wrong account in a **different class of account**. e.g an entry in a non-current asset account instead of an expenses account. √√

**(4)**

(ii)Error of commission – Item (3) √
Error of principle – Item (4) √

**(2)**

(b)

Journal

| | Dr £ | Cr £ | |
|---|---|---|---|
| Purchases (NOT purchase day book) | 3 800 | | √ |
| Titan Supplies | | 3 800 | √ |
| | | | |
| Revenue (Sales) | 2 400 | | √ |
| Suspense/Sales ledger control | | 2 400 | √ |
| | | | |
| Patil | 900 | | √ |
| Batik | | 900 | √ |
| | | | |
| Other expenses | 300 | | √ |
| Equipment | | 300 | √ |
| | | | |
| Suspense | 940 | | √ |
| Discount Received | | 940 | √ |
| | | | |
| Rent | 1 430 | | √ |
| Suspense | | 1 430 | √ |
| | | | |
| Bank | 4 000 | | √ |
| Provision for depreciation/depreciation | 11 200 | | √√ |
| Motor vehicle | | 14 000 | √ |
| Disposal/Income statement | | 1 200 | √√ |

**(18)**

(c) Trial Balance at 30 April 2014

| | | Dr | Cr | |
|---|---|---|---|---|
| | | £ | £ | |
| Purchases | 70 550 + 3 800 | 74 350 | | √ |
| Revenue (Sales) | 150 000 – 2 400 | | 147 600 | √ |
| Trade receivables | | 9 980 | | √ |
| Trade payables | 6 750 + 3 800 | | 10 550 | √√ |
| Rent | 4 500 +1 430 | 5 930 | | √ |
| Bank | -1 500 + 4 000 | 2 500 | | √√ |
| Other expenses | 8 390 + 300 | 8 690 | | √ |
| Wages | | 50 000 | | √ |
| Discount allowed | | 900 | | √ |
| Discount received | 1 570 + 940 | | 2 510 | √ |
| Non-current assets: | | | | |
| Equipment | 16 000 - 300 | 15 700 | | √ |
| Motor vehicles | 26 000 - 14000 | 12 000 | | √ |
| Provisions for depreciation: | | | | |
| Equipment | | | 8 000 | √ |
| Motor vehicles | 20 000 – 11 200 | | 8 800 | √ |
| Disposal | | | 1 200 | √√ |
| Inventory 1 May 2013 | | 8 610 | | √ |
| Capital | | | 10 000 | √ |
| | | 188 660 | 188 660 | |

**(20)**

d) Valid points may include:

Positive

- Is 'prima facie' evidence of correct double entry/ a checking device
- Enables the existence of arithmetical errors to be identified
- Enables draft financial statements to be prepared
- Shows all accounts for information.

Negative

- Errors which do not affect the balancing of the trial balance will not be revealed
- The number of errors is not revealed just the balancing figure
- Draft financial statements will be prepared inaccurately.
- Difficult to locate error

NOT Time consuming, requires expertise, costly, it cannot correct an error,

√√ per point x 4 – MAX 2 points positive and 2 points negative

**(8)**

**(Total 52 marks)**

## SECTION B

## SOURCE MATERIAL FOR USE WITH QUESTION 4

**4.** Hasibul and Iffath are in partnership. The following balances were extracted from their books at 31 March 2014.

| | £ |
|---|---|
| Capital: | |
| Hasibul | 50 000 |
| Iffath | 80 000 |
| Current accounts: | |
| Hasibul | 500 Dr |
| Iffath | 6 500 Cr |
| Drawings: | |
| Hasibul | 25 000 |
| Iffath | 16 000 |
| Non-current assets (at cost) | 120 000 |
| Provision for depreciation of non-current assets | 20 000 |
| Trade payables | 19 000 |
| 8% Bank loan | 15 000 |
| Cash and bank | 10 000 Dr |
| Inventory | 31 500 |
| Trade receivables | 27 000 |
| Profit for the year | 39 500 |

**Additional information:**

The Partnership Agreement of Hasibul and Iffath stated that:

1. profits and losses are shared in the ratio 2:1
2. interest is allowed on capital at the rate of 5% per annum
3. salaries are paid as follows: Hasibul £7 000   Iffath £5 000

**Required:**

(a) Prepare the:

(i) Appropriation Account for the year ended 31 March 2014

**(5)**

(ii) Current Accounts of Hasibul and Iffath.

**(6)**

On 1 April 2014 Hasibul and Iffath admitted Jila as a partner. The following was agreed:

1. Profits and losses would be shared in the ratio 2:2:1
2. The goodwill of Hasibul and Iffath was valued at £120 000 on 31 March 2014. It was agreed that goodwill would **NOT** remain in the books of the new partnership
3. Non-current assets costing £30 000 were sold for their carry over (net book) value of £21 000. Payment to the partnership was half by cheque and half on credit
4. Jila would bring capital of £40 000 into the new partnership; £20 000 in cash and £20 000 in inventory
5. The 8% Bank loan was repaid

**Required:**

(b) Prepare the Goodwill Account at 1 April 2014.

**(5)**

(c) Prepare the Statement of Financial Position for the new partnership at 1 April 2014.

**(12)**

Jila had been trading as a sole trader before joining the partnership.

(d) Evaluate Jila trading in a partnership compared with being a sole trader.

**(4)**

**(Total 32 marks)**

**Answer space for question 4 is on pages 21 to 26 of the question paper.**

**SECTION B**

4 (a)(i)

Hasibul and Iffath
Appropriation Account for the year ended 31 March 2014

| | £ | £ | |
|---|---|---|---|
| Profit for the year | | 39 500 | |
| Less | | | |
| Interest on capital: | | | |
| Hasibul | 2 500 √ | | |
| Iffath | 4 000 √ | | |
| | 6 500 | | |
| Salaries: | | | |
| Hasibul | 7 000 | | |
| Iffath | 5 000 √ both | | |
| | 12 000 | | |
| Share of profit: | | | |
| Hasibul | 14 000 √ of | | if in correct ratio and no aliens |
| Iffath | 7 000 √ of | | |
| | 21 000 | | |
| | | 39 500 | |

**(5)**

(ii)

Current accounts

| | Hasibul | Iffath | | Hasibul | Iffath |
|---|---|---|---|---|---|
| | £ | £ | | £ | £ |
| Balance b/d | 500 | | Balance b/d | | 6 500 √ |
| Drawings | 25 000 | 16 000 √ | Int on cap | 2 500 | 4 000 √of |
| | | | Salaries | 7 000 | 5 000 √ |
| | | | Share of pro't | 14 000 | 7 000 √of |
| Balance c/d | | 6 500 | Balance c/d | 2 000 | |
| | 25 500 | 22 500 | | 25 500 | 22 500 |
| Balance b/d | 2 000 | | Balance b/d | | 6 500 √of |

**(6)**

(b)

Goodwill Account

| | £ | | £ |
|---|---|---|---|
| Capita – Hasibul | 80 000√ | Capital- Hassibul | 48 000 √ |
| Iffath | 40 000 √ | Iffath | 48 000 √ |
| | | Jila | 24 000 √ |
| | 120 000 | | 120 000 |

**(5)**

(c)

Hasibul , Iffath and Jila
Statement of Financial Position at 1 April 2014

| | | Cost | Aggregate depreciation | Carry over |
|---|---|---|---|---|
| | | £ | £ | £ |
| Non-current assets | | 90 000 √ | 11 000 √ | 79 000 |
| | | | | |
| Current assets | | | | |
| Inventory | 31 500 √ + 20 000 √ | | 51 500 | |
| Trade receivables | 27 000 √ + 10 500 √ | | 37 500 | |
| Cash and bank | 10 000 – 15 000 √ + 10 500 √ + 20 000 √ | | 25 500 (20 500√, 30 000√, 5 000Cr√ 40 500√√, 5 500√√, 15 000√√) | |
| | | | | 114 500 |
| | | | | 193 500 |
| Equity and capital: | | | £ | £ |
| Capital accounts: | | | | |
| Hasibul | 50 000 +80 000 - 48 000 | | 82 000 √of if not 50 000 | |
| Iffath | 80 000 + 40 000- 48 000 | | 72 000 | |
| Jila | 40 000 – 24 000 | | 16 000 | |
| | | | | 170 000 |
| Current accounts: | | | | |
| Hasibul | | | (2 000) √of | |
| Iffath | | | 6 500 | |
| Jila | | | - | |
| | | | | 4 500 |
| Current liabilities | | | | |
| Trade payables | | | | 19 000 √ |
| | | | | 193 500 |

**(12)**

d) Valid points from Jila's point of view may include:

Positive

- Greater capital/resources available
- Specialist skills available from the other partners
- Share losses/reduce risks

Negative

- Shared, not sole, decision making/conflicts
- Joint and several liability
- Share profits

√√ per point x 2 – MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**

**SOURCE MATERIAL FOR USE WITH QUESTION 5**

**5.** Aminath commenced business as a self-employed electrician on 1 February 2013. The following information is available for the year ended 31 January 2014:

- Raw materials costing £90 000 were used on customers' jobs in the year. Aminath marks-up raw materials by 20% before charging them to customers
- Aminath worked 50 hours per week for 50 weeks of the year
- 60% of the hours worked by Aminath were charged to customers
- Overhead costs were:

| | |
|---|---|
| Advertising | £8 500 |
| Rent of premises | £10 000 |
| Motor vehicle running costs | £11 300 |

- Aminath charged customers at the rate of £30 per hour to recover his labour and overheads costs

**Required:**

(a) Explain the following terms, giving an example of each:

(i) Fixed cost
(ii) Semi-fixed cost
(iii) Variable cost

**(9)**

(b) Calculate Aminath's profit/loss for the year ended 31 January 2014.

**(9)**

(c) Prepare a job cost quotation for a customer where:

| | |
|---|---|
| Raw materials cost Aminath | £1 200 |
| Chargeable hours | 20 |

**(4)**

(d) Identify **three** business duties or tasks undertaken by Aminath that are not directly chargeable to the customer.

**(6)**

Aminath is considering charging customers separate recovery rates for labour and overhead costs.

(e) Evaluate the use of separate recovery rates for labour and overhead costs.

**(4)**

**(Total 32 marks)**

**Answer space for question 5 is on pages 27 to 31 of the question paper.**

5 (a)Fixed costs – Costs which are constant over a period of time/ not varying with the level of output √√ e.g rent, advertising. √

Semi-fixed cost – Costs which are fixed until a certain level of output is achieved, √ then those costs rise and remain fixed until the next level of output is achieved when they rise again √ . (Stepped costs) e.g supervision costs √

Variable costs rise in proportion to the level of output √√ e.g raw materials, direct labour. (accept electricity/power, motor vehicle running expenses ) √

**(9)**

(b)

Aminath

| | £ | £ |
|---|---|---|
| Income: | | |
| Labour 1 500 hours @ £30 per hour | 45 000 √√ | |
| Raw material mark up | 18 000 √√ | |
| | | 63 000 |
| Less: | | |
| Expenses: | | |
| Advertising | 8 500 √ | |
| Rent of premises | 10 000 √ | |
| Motor vehicle running costs | 11 300 √ | |
| | | 29 800 √of |
| Profit for the year (NOTE correct figure earns 9√) | | 33 200 √of |
| | | 63 000 |

If raw materials income 90 000 expenses 72 000 award √ √

**(9)**

(c)

Quotation

| | £ |
|---|---|
| Raw materials 1 200 + 20% | 1 440 √√ |
| Labour and overheads 20 x £30 | 600 √ |
| Quotation price | 2 040 √of If figure for raw materials and labour |

**(4)**

(d)

Activities not directly chargeable may include:

- Preparing the accounts
- Preparing quotations for work
- Meeting contacting suppliers
- Dealing with the government/tax authorities
- Holiday
- Sickness

3 points x √√

**(6)**

(e) Valid points may include:

Positive

- As labour is a variable cost and overheads mainly fixed cost, quotations can be more accurate and competitive.

Negative

- As no multiple departments the recovery basis will be the same; Aminath's hours worked.
- Time consuming/complicated to calculate

√√ per point x 2 – MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**

**SOURCE MATERIAL FOR USE WITH QUESTION 5**

**5.** Aminath commenced business as a self-employed electrician on 1 February 2013. The following information is available for the year ended 31 January 2014:

- Raw materials costing £90 000 were used on customers' jobs in the year. Aminath marks-up raw materials by 20% before charging them to customers
- Aminath worked 50 hours per week for 50 weeks of the year
- 60% of the hours worked by Aminath were charged to customers
- Overhead costs were:

| | |
|---|---|
| Advertising | £8 500 |
| Rent of premises | £10 000 |
| Motor vehicle running costs | £11 300 |

- Aminath charged customers at the rate of £30 per hour to recover his labour and overheads costs

**Required:**

(a) Explain the following terms, giving an example of each:

(i) Fixed cost
(ii) Semi-fixed cost
(iii) Variable cost

**(9)**

(b) Calculate Aminath's profit/loss for the year ended 31 January 2014.

**(9)**

(c) Prepare a job cost quotation for a customer where:

| | |
|---|---|
| Raw materials cost Aminath | £1 200 |
| Chargeable hours | 20 |

**(4)**

(d) Identify **three** business duties or tasks undertaken by Aminath that are not directly chargeable to the customer.

**(6)**

Aminath is considering charging customers separate recovery rates for labour and overhead costs.

(e) Evaluate the use of separate recovery rates for labour and overhead costs.

**(4)**

**(Total 32 marks)**

**Answer space for question 5 is on pages 27 to 31 of the question paper.**

**SOURCE MATERIAL FOR USE WITH QUESTION 6**

**6.** Apostolou started business in 1 May 2013 buying and selling sports shoes. He did not maintain double entry accounts but provides the following information for the year ended 30 April 2014:

1. He started business on 1 May 2013 with inventory £5 000, bank £ 1 000 and trade payables of £4 500.
2. Cash sales were £18 500 and credit sales were £65 000. During the year trade receivables paid £55 600. This included a receipt of £600 as final settlement on a debt of £2 300. The remainder of the debt was irrecoverable.
3. Purchases of £49 000 were made on credit. Goods costing £1 900 were returned to suppliers. During the year trade payables were paid £43 000.
4. Inventory at 30 April 2014 was £15 000.
5. Fixtures and fittings were purchased for £6 000 by cheque. On 30 April 2014 these were valued at £5 200.
6. Expenses for the year:
   Rent £5 000 paid to 31 July 2014
   Wages £17 450
   Sundry expenses £4 600 paid to 31 March 2014
   Sundry expenses owing for April 2014 £650
7. Apostolou had drawn £7 500 during the year for his own use.
8. All receipts were banked and all payments were made through the bank account.

**Required:**

(a) Prepare for Apostolou the:

(i) summarised Bank Account for the year ended 30 April 2014

**(9)**

(ii) Statement of Comprehensive Income for the year ended 30 April 2014

**(8)**

(iii) Statement of Financial Position at 30 April 2014.

**(11)**

(b) Evaluate the need for Apostolou to include a provision for doubtful debts when preparing his financial statements.

**(4)**

**(Total 32 marks)**

**Answer space for question 6 is on pages 32 to 36 of the question paper.**

5 (a)Fixed costs – Costs which are constant over a period of time/ not varying with the level of output √√ e.g rent, advertising. √

Semi-fixed cost – Costs which are fixed until a certain level of output is achieved, √ then those costs rise and remain fixed until the next level of output is achieved when they rise again √ . (Stepped costs) e.g supervision costs √

Variable costs rise in proportion to the level of output √√ e.g raw materials, direct labour. (accept electricity/power, motor vehicle running expenses ) √

**(9)**

(b)

Aminath

| | £ | £ |
|---|---|---|
| Income: | | |
| Labour 1 500 hours @ £30 per hour | 45 000 √√ | |
| Raw material mark up | 18 000 √√ | |
| | | 63 000 |
| Less: | | |
| Expenses: | | |
| Advertising | 8 500 √ | |
| Rent of premises | 10 000 √ | |
| Motor vehicle running costs | 11 300 √ | |
| | | 29 800 √of |
| Profit for the year (NOTE correct figure earns 9√) | | 33 200 √of |
| | | 63 000 |

If raw materials income 90 000 expenses 72 000 award √ √

**(9)**

(c)

Quotation

| | £ |
|---|---|
| Raw materials 1 200 + 20% | 1 440 √√ |
| Labour and overheads 20 x £30 | 600 √ |
| Quotation price | 2 040 √of If figure for raw materials and labour |

**(4)**

(d)
Activities not directly chargeable may include:

- Preparing the accounts
- Preparing quotations for work
- Meeting contacting suppliers
- Dealing with the government/tax authorities
- Holiday
- Sickness

3 points x √√

**(6)**

(e) Valid points may include:

Positive

- As labour is a variable cost and overheads mainly fixed cost, quotations can be more accurate and competitive.

Negative

- As no multiple departments the recovery basis will be the same; Aminath's hours worked.
- Time consuming/complicated to calculate

√√ per point x 2 – MAX 1 points positive and 1 points negative

**(4)**
**(Total 32 marks)**

6(a)
(i)

Bank Account

| | £ | | £ |
|---|---|---|---|
| Opening balance | 1 000 | Trade payables | 43 000 √ |
| Cash sales | 18 500 √ | Fixtures and fittings | 6 000 √ |
| Trade receivables | 55 600 √ | Rent | 5 000 √ |
| | | Wages | 17 450 √ |
| | | Sundry expenses | 4 600 √ |
| Balance c/d | 8 450 | Drawings | 7 500 √ |
| | 83 550 | | 83 550 |
| | | Balance b/d | 8 450 √of |

**(9)**

(ii)

Statement of Comprehensive Income for the year ended 30 April 2014

| | | £ | £ | £ |
|---|---|---|---|---|
| Revenue (sales) | 18 500 + 65 000 | | | 83 500 √ |
| Less | | | | |
| Opening inventory | | | 5 000 | |
| Purchases | | 49 000 | | |
| Less Returns | | (1 900) | | |
| | | | 47 100 √ | |
| | | | 52 100 | |
| Less Closing inventory | | | (15 000) | |
| Cost of sales | | | | (37 100) √ |
| Gross profit | | | | 46 400 |
| Less | | | | |
| Bad debt | | | 1 700 √ | |
| Depreciation Fixtures and fittings | | | 800 √ | |
| Rent | 5 000 – 1 000 | | 4 000 √ | |
| Wages | | | 17 450 √ | |
| Sundry expenses | 4 600 + 650 | | 5 250 √ | |
| | | | | (29 200) |
| Profit for the year | | | | 17 200 |

**(8)**

## SOURCE MATERIAL FOR USE WITH QUESTION 6

**6.** Apostolou started business in 1 May 2013 buying and selling sports shoes. He did not maintain double entry accounts but provides the following information for the year ended 30 April 2014:

1. He started business on 1 May 2013 with inventory £5 000, bank £ 1 000 and trade payables of £4 500.
2. Cash sales were £18 500 and credit sales were £65 000. During the year trade receivables paid £55 600. This included a receipt of £600 as final settlement on a debt of £2 300. The remainder of the debt was irrecoverable.
3. Purchases of £49 000 were made on credit. Goods costing £1 900 were returned to suppliers. During the year trade payables were paid £43 000.
4. Inventory at 30 April 2014 was £15 000.
5. Fixtures and fittings were purchased for £6 000 by cheque. On 30 April 2014 these were valued at £5 200.
6. Expenses for the year:
   Rent £5 000 paid to 31 July 2014
   Wages £17 450
   Sundry expenses £4 600 paid to 31 March 2014
   Sundry expenses owing for April 2014 £650
7. Apostolou had drawn £7 500 during the year for his own use.
8. All receipts were banked and all payments were made through the bank account.

**Required:**

(a) Prepare for Apostolou the:

(i) summarised Bank Account for the year ended 30 April 2014

**(9)**

(ii) Statement of Comprehensive Income for the year ended 30 April 2014

**(8)**

(iii) Statement of Financial Position at 30 April 2014.

**(11)**

(b) Evaluate the need for Apostolou to include a provision for doubtful debts when preparing his financial statements.

**(4)**

**(Total 32 marks)**

**Answer space for question 6 is on pages 32 to 36 of the question paper.**

6(a)
(i)

Bank Account

| | £ | | £ |
|---|---|---|---|
| Opening balance | 1 000 | Trade payables | 43 000 √ |
| Cash sales | 18 500 √ | Fixtures and fittings | 6 000 √ |
| Trade receivables | 55 600 √ | Rent | 5 000 √ |
| | | Wages | 17 450 √ |
| | | Sundry expenses | 4 600 √ |
| Balance c/d | 8 450 | Drawings | 7 500 √ |
| | 83 550 | | 83 550 |
| | | Balance b/d | 8 450 √of |

**(9)**

(ii)

Statement of Comprehensive Income for the year ended 30 April 2014

| | | £ | £ | £ |
|---|---|---|---|---|
| Revenue (sales) | 18 500 + 65 000 | | | 83 500 √ |
| Less | | | | |
| Opening inventory | | | 5 000 | |
| Purchases | | 49 000 | | |
| Less Returns | | (1 900) | | |
| | | | 47 100 √ | |
| | | | 52 100 | |
| Less Closing inventory | | | (15 000) | |
| Cost of sales | | | | (37 100) √ |
| Gross profit | | | | 46 400 |
| Less | | | | |
| Bad debt | | | 1 700 √ | |
| Depreciation Fixtures and fittings | | | 800 √ | |
| Rent | 5 000 – 1 000 | | 4 000 √ | |
| Wages | | | 17 450 √ | |
| Sundry expenses | 4 600 + 650 | | 5 250 √ | |
| | | | | (29 200) |
| Profit for the year | | | | 17 200 |

**(8)**

(iii)

Statement of Financial Position at 30 April 2014

| | Cost | Aggregate depreciation | Carry over |
|---|---|---|---|
| | £ | £ | £ |
| Non-current assets | | | |
| Fixtures and fittings | 6 000 | 800 | 5 200 √ |
| | | | |
| Current Assets | | | |
| Inventory | | 15 000 √ | |
| Trade receivables 65 000 – 55 600 √ – 1 700 √ | | 7 700 (√ 9 400, 63 300) | |
| Other receivables | | 1 000 √ | |
| | | | 23 700 |
| | | | 28 900 |
| Equity and capital: | | £ | £ |
| Capital 5 000 + 1 000 – 4 500 | | 1 500 | |
| Profit for the year | | 17 200 | |
| | | 18 700 | |
| Drawings | | (7 500) | |
| | | | 11 200 √of |
| | | | |
| Current Liabilities | | | |
| Trade payables 4 500 + 49 000 √ – 1 900√ – 43 000 √ | | 8 600 (√ 53 500, 2 600 √√ 51 600, 10,500) | |
| Other payables | | 650 √ | |
| Bank | | 8 450 √of (from part a) | |
| | | | 17 700 |
| | | | 28 900 |

**(11)**

(c) Valid points may include:

Positive
- Complies with prudence concept
- Complies with the accruals concept
- History of bad debts in the year
- Profit/trade receivables not over stated/ true and fair view.

Negative
- Only an estimate of future loss
- Easier just to write off bad debts when they occur

√√ per point x 2 – MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**

**SOURCE MATERIAL FOR USE WITH QUESTION 7**

**7.** Varsini Transport delivers goods nationwide. The following information relates to the delivery vehicles owned by Varsini Transport.

| | |
|---|---|
| 1 April 2011 | Purchased delivery vehicle A £20 000 |
| 1 July 2012 | Purchased delivery vehicle B £18 000 |
| 1 April 2013 | Purchased delivery vehicle C £25 000 |
| 30 June 2013 | Purchased delivery vehicle D for £28 000 giving delivery vehicle A in part exchange |

Varsini Transport has the following depreciation policy:

- Delivery vehicles are depreciated at the rate of 20% per annum using the straight line method
- Depreciation is charged on delivery vehicles purchased and sold during the year on a pro rata basis according to the months of ownership
- All sales of delivery vehicles are recorded through a disposal account
- All payments and receipts for delivery vehicles are by cheque

**Required:**

(a) Complete the following table in your answer book showing the depreciation charged on delivery vehicles in **each** of the years ending 31 March 2013 and 31 March 2014.

| Year ended | Delivery vehicle A £ | Delivery vehicle B £ | Delivery vehicle C £ | Delivery vehicle D £ | Total £ |
|---|---|---|---|---|---|
| 31 March 2013 | | | | | |
| 31 March 2014 | | | | | |

**(6)**

(b) Prepare for the years ended 31 March 2013 and 31 March 2014 the:

(i) Delivery Vehicles Account

**(8)**

(ii) Provision for Depreciation of Delivery Vehicles Account.

**(8)**

Varsini Transport had the following costs in the year ended 31 March 2014:

1. Writing the sign of the business on new delivery vehicles
2. Replacement tyres
3. Installing satellite navigation into each delivery vehicle

(c) Identify whether **each** of the costs above is capital expenditure or revenue expenditure. State the reason for your answer.

**(6)**

(d) Evaluate the suitability of the straight line method when depreciating delivery vehicles.

**(4)**

**(Total 32 marks)**

**Answer space for question 7 is on pages 37 to 41 of the question paper.**

7 (a)

| Year ended | Delivery vehicle A £ | Delivery vehicle B £ | Delivery vehicle C £ | Delivery vehicle D £ | Total £ |
|---|---|---|---|---|---|
| 31 March 2013 | 4 000 √ | 2 700 √ | - | - | 6 700 |
| 31 March 2014 | 1 000 √ | 3 600 √ | 5 000 √ | 4 200 √ | 13 800 |

**(6)**

(b)(i)

Delivery Vehicles Account

| | | £ | | | £ |
|---|---|---|---|---|---|
| 1 April 2012 | Balance b/d | 20 000 √ | 31 Mar 2013 | Balance c/d | 38 000 √ |
| 1 July 2012 | Bank (B) √ | 18 000 √ | | | |
| | | 38 000 | | | 38 000 |
| 1 April 2013 | Balance b/d | 38 000 | 30 June 2013 | Disposal (A) | 20 000 √ |
| | Bank (C) | 25 000 √ | | | |
| 30 June 2013 | Bank (D) | 8 000 | | | |
| | Part exchange | 20 000 √ | 31 Mar 2014 | Balance c/d | 71 000 |
| | | 91 000 | | | 91 000 |
| 1 April 2014 | Balance b/d | 71 000 √ | | | |

**(8)**

(ii)

Delivery Vehicles – Provision for Depreciation Account

| | | £ | | | £ |
|---|---|---|---|---|---|
| | | | 1 April 2012 | Balance b/d | 4 000 √ |
| 31 March 2013 | Balance c/d | 10 700 | 31 March 2013 | Income Stat'nt | √ 6 700 √ |
| | | 10 700 | | | 10 700 |
| 30 June 2014 | Disposal √ | 9 000 √ | 1 April 2013 | Balance b/d | 10 700 √of |
| 31 March 2014 | Balance c/d | 15 500 | 31 March 2014 | Income Stat'nt | 13 800 √of |
| | | 24 500 | | | 24 500 |
| | | | 1 April 2014 | Balance b/d | 15 500 √of |

**(8)**

(c)

(1) Capital expenditure √√ – the advertising generated will be maintained over the life of the vehicle.

(2) Revenue expenditure √√ -the tyres will only last for a short period and will not enhance the value of the vehicle.

(3) Capital expenditure √√ - satellite navigation will last for many years and will enhance the capital value of the vehicle.

**(6)**

(d) ) Valid points may include:

Positive

- Equal benefit will be received each year from the vehicle therefore equal depreciation should be charged
- Profit will not be distorted in the early years due to high depreciation.

Negative

- Costs of depreciation plus repairs will increase over the years
- Higher depreciation on vehicles in the early years meaning that the net book value and market value will be at variance.

√√ per point x 2 – MAX 1 points positive and 1 points negative

**(4)**

**(Total 32 marks)**