# Pearson Edexcel
## International Advanced Level

# Accounting (Modular Syllabus)
## Unit 1 – The Accounting System and Costing

Tuesday 6 January 2015 – Afternoon

**Source booklet for use with Questions 1 to 7.**

Paper Reference
**WAC01/01**

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## SECTION A

## SOURCE MATERIAL FOR USE WITH QUESTION 1

**1** Kokila is in business as a trader of mobile phones. She does not maintain a full set of accounts but does maintain a bank account together with other memorandum records. The following information is available for the year ended 31 December 2014:

1. Bank Account

| | £ | | £ |
|---|---|---|---|
| Balance b/d | 2 600 | Payments to suppliers | 85 700 |
| Cash sales banked | 45 300 | Bank loan repayments and interest | 6 300 |
| Cheques from customers | 95 250 | | |
| Commission received | 3 400 | Rates and insurance | 5 300 |
| | | Sundry expenses | 10 500 |
| | | New office computer | 4 000 |
| | | Delivery expenses | 15 670 |
| | | Balance c/d | 19 080 |
| | 146 550 | | 146 550 |
| Balance b/d | 19 080 | | |

2. Kokila made cash sales of £84 000 in the year. Before banking the cash, she paid the following expenses and took her cash drawings:

| | £ |
|---|---|
| Wages | 14 250 |
| Rent | 6 000 |
| Sundry expenses | 6 950 |
| Drawings | 11 500 |

3. Other balances:

| | At 1 January 2014 | At 31 December 2014 |
|---|---|---|
| | £ | £ |
| Inventory at cost | 9 800 | 8 200 |
| Trade receivables | 12 400 | 13 500 |
| Trade payables | 8 750 | 11 150 |
| Warehouse fixtures (at valuation) | 15 000 | 13 800 |
| Office computers (at valuation) | 24 000 | 25 000 |
| Commission receivable due | – | 800 |
| Wages accrued | 750 | 500 |
| Rates and insurance prepaid | 1 100 | 1 700 |
| Bank loan | 20 000 | 15 000 |

4. The inventory at cost on 31 December 2014 contained a batch of phones costing £1 500 which are damaged and will require repairs costing £150. After repair the phones will have a resale value of £1 350.

5. All bank loan interest for the year has been paid.

6. Kokila is concerned about possible bad debts. She has decided to create a provision for doubtful debts based upon the age of her trade receivables.

| **Age of debt** (Months) | **Amount** £ | **Percentage allowance (%)** |
|---|---|---|
| Over 6 months | 500 | 40 |
| 3 to 6 months | 2 500 | 10 |
| 1 to 3 months | 4 000 | 5 |
| Up to 1 month | 6 500 | 2 |

(a) Calculate Kokila's capital at 1 January 2014.
**(4)**

(b) Prepare the:

(i) Statement of Comprehensive Income for the year ended 31 December 2014
**(22)**

(ii) Statement of Financial Position at 31 December 2014.
**(14)**

Kokila is considering maintaining full double entry accounts in the next accounting year.

(c) State **four** advantages to Kokila of maintaining full double entry accounts.
**(4)**

A friend of Kokila, who is an accounting student, has recommended that she depreciates her warehouse fixtures and office computers using the straight line method of depreciation.

(d) Evaluate whether Kokila should change her method of depreciation from revaluation to the straight line method.
**(8)**

**(Total for Question 1 = 52 marks)**

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

**WAC01/01 - Mark Scheme**
**January 2015**

1 (a)

Capital:

| | | |
|---|---|---|
| **Assets** | £ | |
| Inventory | 9 800 | |
| Warehouse fixtures | 15 000 | |
| Office computers | 24 000 | |
| Trade receivables | 12 400 | |
| Prepaid | 1 100 | |
| Bank | 2 600 | |
| | 64 900 √ | |
| **Less liabilities** | | |
| Trade payables | 8 750 | |
| 8% Bank loan | 20 000 | |
| Accrual | 750 | |
| | 29 500 √ | |
| Capital | 35 400 √√(1of) | (4) |

An answer of 35 400 is correct and worth four ticks

(b)

Statement of Comprehensive Income for the year ended 31 December 2014

| | £ | £ | | |
|---|---|---|---|---|
| Revenue 84 000√ + (95 250√ – 12 400√ +13 500√) | | 180 350 | | |
| Less | | | | |
| Opening inventory | 9 800 | | | |
| Purchases 85 700√ +11 150√ – 8 750√ | 88 100 | | | |
| | 97 900 | | | |
| Less Closing inventory 8 200 – 300 | ( 7 900) √√(8050 √of) | | | |
| Cost of sales | | (90 000) | | |
| Gross profit | | 90 350 | | |
| Plus Commission receivable 3 400 + 800 | | 4 200 | √ | |
| | | 94 550 | | |
| Less expenses: | | | | |
| Wages 14 250 – 750√ + 500√ | 14 000 | | | |
| Rent | 6 000 | | √ | |
| Sundry expenses 6 950 + 10 500 | 17 450 | | √ | |
| Loan interest | 1 300 | | √ | |
| Rates and insurance 5 300 + 1 100√ – 1 700√ | 4 700 | | | |
| Delivery expenses | 15 670 | | √ | |
| Depreciation – Warehouse fixtures | 1 200 | | √ | |
| Office computers | 3 000 | | √ | |
| Creation of provision for doubtful debts | 780 | | √√(√of) | |
| | | (64 100) | | |
| Profit for the year | | 30 450 | | (22) |

Statement of Financial Position at 31 December 2014

| | | | | |
|---|---|---|---|---|
| Non-current Assets | | | | |
| | | | Book value | |
| | £ | £ | £ | |
| Warehouse fixtures | | | 13 800 | √ |
| Office computers | | | 25 000 | √ |
| | | | 38 800 | |
| Current Assets | | | | |
| Inventory | | 7 900 | | √of |
| Trade receivables | 13 500 | | | |
| Less PDD | 780of | 12 720 | √√(√of) | |
| Other receivables: Rates and insurance | 1 700 | | | √ |
| Commission receivable | 800 | | | √ |
| | | 2 500 | | |
| Bank | | 19 080 | | √ |
| | | | 42 200 | |
| | | | 81 000 | |
| Capital and equity: | | | | |
| Capital 1 January 2014 | | 35 400 | | |
| Profit for the year | | 30 450 | | √of |
| | | 65 850 | | |
| Less Drawings | | (11 500) | | √ |
| Capital 31 December 2014 | | | 54 350 | |
| Non-current Liabilities √(correct heading label) | | | | |
| 8% Bank loan | | | 15 000 | √ |
| Current Liabilities | | | | |
| Trade payables | | 11 150 | | √ |
| Other payables: wages | | 500 | | √ |
| | | | 11 650 | |
| | | | 81 000 | |

(14)

(c)

Valid answers may include:

- Easier to prepare financial statements / trial balance / establish profit
- Detailed record of each debtor / creditor accounts
- Checking of records is possible / less time consuming to check
- Can monitor business progress
- Can control costs more effectively
- Can manage business more effectively
- Can detect errors but NOT in correct errors
- Useful for authorities / tax authorities / bank
- Enables comparisons

√ x 4 points (4)

Not:
- More accurate
- True and fair view
- Organised

(d)

Valid answers may include:

For the use of revaluation
- Book value will be the same as market value
- Market value of asset may be significantly different from book value if you use straight line depreciation / not show a realistic book value
- Maintains consistency concept

Against the use of revaluation
- Equal depreciation each year for equal usage of asset
- Total costs of owning the asset will increase as repairs become significant
- Probably high depreciation in early years although usage in each year will be constant
- May be time consuming and difficult to value the assets each year
- Will distort profit from year to year with different depreciation values

√√ x 4 points (MAX two points for revaluation and two points against revaluation) (8)

**(Total 52 marks)**

**SOURCE MATERIAL FOR USE WITH QUESTION 2**

**2** Chai is a trader of children's clothing. His business has two departments:

- sales to retailers
- on-line sales through his website direct to customers.

The following information is available for the year ended 31 December 2014:

| | £ |
|---|---|
| Revenue: Sales to retailers | 240 000 |
| On-line sales | 150 000 |
| Inventory 1 January 2014 | 76 000 |
| Purchases | 244 000 |
| Carriage in | 22 000 |
| Postage of on-line sales | 6 000 |
| Maintaining website for on-line sales | 1 700 |
| Salaries: Sales to retailers | 12 000 |
| On-line sales | 9 500 |
| Premises rent | 10 000 |
| Premises running costs | 5 500 |
| Depreciation on computers and fixtures | 8 400 |
| Selling expenses | 7 800 |
| Bad debts on sales to retailers | 5 100 |

**Additional information for the year**

1. Other balances at 31 December 2014:

| | £ |
|---|---|
| Inventory | 60 000 |
| Trade receivables | 32 000 |
| Trade payables | 56 000 |
| Cash and bank | 48 000 |

2. Chai has calculated that £90 000 of the cost of sales relates to on-line sales.
3. The floor areas occupied are: sales to retailers 3 000 sqm: on-line sales 2 000 sqm.
4. Computers and fixtures used: sales to retailers £40 000: on-line sales £30 000.
5. All sales to retailers are on credit. All on-line sales are cash with order.

**Required:**

(a) Prepare the Departmental Statement of Comprehensive Income for the year ended 31 December 2014, in columnar format, showing the profit or loss for the year of sales to retailers, on-line sales, and the business as a whole.
**(24)**

(b) Calculate the departmental gross profit as a percentage of revenue for:

(i) sales to retailers

(ii) on-line sales.
**(6)**

(c) Suggest **one** possible reason for the difference between the gross profit as a percentage of revenue for sales to retailers and on-line sales.
**(2)**

(d) Calculate the departmental profit for the year as a percentage of revenue for:

(i) sales to retailers

(ii) on-line sales.
**(6)**

The market for sales to retailers is not increasing, but the market for on-line sales has been increasing rapidly. Chai is considering expanding his on-line sales business, but has been advised by a friend about 'overtrading'.

**Required:**

(e) Calculate, at 31 December 2014, the:

(i) the trade receivables collection period for sales to retailers.

(ii) current ratio for the whole of Chai's business.
**(6)**

(f) Evaluate Chai's proposal to expand his on-line sales business.
**(8)**

**(Total for Question 2 = 52 marks)**

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

2 (a)

Chai

Departmental Statement of Comprehensive Income for the year ended 31 December 2014

| | Retail sales | On-line sales | Total |
|---|---|---|---|
| | £ | £ | £ |
| Revenue | 240 000√ | 150 000√ | 390 000 |
| Less | | | |
| Inventory 1 January 2014 | | | 76 000 |
| Purchases | | | 244 000 |
| Carriage inwards | | | 22 000 |
| | | | 342 000 |
| Less Inventory 31 December 2014 | | | (60 000) |
| Cost of sales | 192 000√√ | 90 000 | 282 000 √√of |
| Gross profit | 48 000 | 60 000 | 108 000 √√of |
| Less expenses: | | | |
| Postage of on-line sales | -√ | 6 000√ | 6 000 |
| Maintaining website for on-line sales | -√ | 1 700√ | 1 700 |
| Salaries | 12 000√ | 9 500√ | 21 500 |
| Premises rent | 6 000√ | 4 000√ | 10 000 |
| Premises running costs | 3 300√ | 2 200√ | 5 500 |
| Depreciation on computers and fixtures | 4 800√ | 3 600√ | 8 400 |
| Selling expenses | 4 800√ | 3 000√ | 7 800 |
| Bad debts on wholesale sales | 5 100√ | -√ | 5 100 |
| | (36 000) | (30 000) | (66 000) |
| Departmental profit for the year | 12 000 | 30 000 | 42 000 |

(24)

(b)

| | Retail sales | On-line sales |
|---|---|---|
| $\frac{\text{Gross profit}}{\text{Revenue}}$ x 100 = | $\frac{48\,000}{240\,000√}$ x 100 = 20% √√(√of) | $\frac{60\,000}{150\,000√}$ x 100 = 40% √√(√of) |

(6)

(c)

Valid answers may include:

- Sales to retailers must offer a discount on list price to enable the retailer to make a profit
- On-line sales has a different product mix of higher mark up products

  1 point x 2 marks

  Not:
  - Incurs higher / lower cost of sales or sales revenue
  - Easier to buy online

(2)

(d)

| | Retail sales | On-line sales |
|---|---|---|
| Profit for the year x 100 = / Revenue | 12 000 / 240 000√ x 100 = 5% √√(√of) | 30 000 / 150 000√ x 100 = 20% √√(√of) |

(6)

(e)

Retail sales debtors collection period $\frac{32\ 000}{240\ 000√}$ x 365√ = 49 days √

Current ratio $\frac{60\ 000 + 32\ 000 + 48\ 000√}{56\ 000√}$ = 2.5:1 √

(6)

(f)

Valid answers may include:

In favour of expansion of on-line sales

- The gross profit and net profit margins are higher
- Existing liquidity is good so can support an expansion
- All online sales are cash sales further increasing liquidity
- No bad debts as all cash sales
- Less costs of debt collection
- Attracts new customers / market share
- Easier to create an international business
- Generally needs less capital to expand
- Can increase the business reputation leading to higher profit

Against expansion of on-line sales

- More resources required to expand such as additional staff and premises
- Business vulnerable to transport/postal strikes /IT breakdowns
- On-line not used by some people e.g older people
- May loose existing retail customers
- Potentially entering a crowded market place
- May result in overtrading unless supported by long term borrowing

**Not:**

- Just more profit / increase in sales
- Will lead to overtrading without explanation

√√ x 4 points (MAX two points in favour and two points against) (8)

**(Total 52 marks)**

**SOURCE MATERIAL FOR USE WITH QUESTION 3**

**3** Miguel owns a construction business which hires equipment to customers. The following balances were recorded in his books on 31 December 2014:

| | £ | |
|---|---|---|
| Income from hire of equipment to customers | 573 000 | |
| Wages and salaries | 185 000 | |
| Rent and rates | 30 000 | |
| Administration expenses | 17 500 | |
| Marketing expenses | 42 750 | |
| Delivery expenses | 61 200 | |
| Servicing and repair of equipment | 89 750 | |
| Bad debts | 11 000 | |
| Fixtures and fittings at cost | 110 000 | |
| Fixtures and fittings provision for depreciation | 27 000 | |
| Equipment at cost | 285 000 | |
| Equipment provision for depreciation | 125 000 | |
| Non-current asset disposal account | 4 500 | Cr |

**Additional information 31 December 2014**

1. Wages and salaries were prepaid £1 300.
2. Servicing and repairs of equipment £3 200 were outstanding.
3. Depreciation is charged as follows:
   - fixtures and fittings 15% on cost
   - equipment at 25% by the diminishing balance method.

**Required:**

(a) Prepare the Statement of Comprehensive Income for the year ended 31 December 2014.

**(11)**

(b) (i) Distinguish between **capital expenditure** and **revenue expenditure**.

**(4)**

(ii) State, giving your reasons, whether each of the following is capital expenditure or revenue expenditure:

- servicing and repair of equipment
- purchase of new equipment
- purchase of second hand equipment.

**(6)**

Miguel owns a Mobile Crane which is a piece of equipment. The details of the Mobile Crane are as follows:

| | | |
|---|---|---|
| 1 January 2012 | Purchased Mobile Crane | £60 000 |
| 1 January 2012 | Delivery of Mobile Crane | £4 000 |
| 30 June 2014 | Sold Mobile Crane | £35 000 |

Miguel has the depreciation policy, that non-current assets sold in a year will be depreciated pro-rata to the months of ownership.

(c) Prepare for the years ended 31 December 2012, 31 December 2013 and 31 December 2014 the:

(i) Mobile Crane Account

(ii) Mobile Crane Provision for Depreciation Account.

**(11)**

Miguel has purchased a new piece of equipment, the Trench Digger. The following information is available:

| | £ |
|---|---|
| Depreciation for the year | 21 000 per annum |
| Operator wages | 100 per day hired |
| Delivery costs to site | 200 per contract |
| Servicing and repair | 3 000 per annum |
| Overheads | 15 000 per annum |
| | |
| Profit mark-up | 20% |

The Trench Digger will be hired to customers at a rate per day. Miguel estimates that the Trench Digger will be used on 80 different contracts per year and hired to customers for a total of 200 days per year.

(d) Calculate the:

(i) total cost per year of operating the Trench Digger

(ii) rate per day charged to customers, including the profit mark-up of 20%.

**(12)**

Miguel stated that "If we allow the correct depreciation on a piece of equipment, this will always ensure that we have the cash for a replacement when it is worn out".

(e) Evaluate this statement.

**(8)**

**(Total for Question 3 = 52 marks)**

**Answer space for question 3 is on pages 15 to 23 of the question paper.**

3 (a)

Miguel

Statement of Comprehensive Income for the year ended 31 December 2014

| | | £ | £ | |
|---|---|---|---|---|
| Hire of equipment | | | 573 000 | √ |
| Profit on disposal | | | 4 500 | √ |
| | | | 577 500 | |
| Less expenses: | | | | |
| Wages and salaries | 185 000 – 1 300 | 183 700 | | √ |
| Rent and rates | | 30 000 | | √ |
| Administration expenses | | 17 500 | | √ |
| Marketing expenses | | 42 750 | | √ |
| Delivery expenses | | 61 200 | | √ |
| Servicing and repairs | 89 750 + 3 200 | 92 950 | | √ |
| Bad debts | | 11 000 | | √ |
| Depreciation: | Fixtures and fittings | 16 500 | | √ |
| | Equipment | 40 000 | | √ |
| | | | (495 600) | |
| Profit for the year | | | 81 900 | |

(11)

(b)(i)

Capital expenditure- Money spent on purchasing a non-current asset and improving or extending existing non-current assets / provide long term benefits√√

Revenue expenditure- Money spent running the business on a day to day basis / provide benefits for less than one year √√

(4)

(ii)

- Repair of equipment- Revenue expenditure √ day to day expenditure √
- Purchase of new equipment- Capital expenditure √ purchase of non-current asset√
- Purchase of second hand equipment- Capital expenditure √ purchase of non-current asset√

(6)

(c)

Equipment – Mobile Crane Account

| | | £ | | | £ |
|---|---|---|---|---|---|
| 2012 | | | 2012 | | |
| 1 Jan | Bank | 64 000 √ | 31 Dec | Balance c/d | 64 000 √ |
| | | 64 000 | | | 64 000 |
| 2013 | | | 2013 | | |
| 1 Jan | Balance b/d | 64 000 | 31 Dec | Balance c/d | 64 000 √of |
| | | 64 000 | | | 64 000 |
| 2014 | | | 2014 | | |
| 1 Jan | Balance b/d | 64 000 | 30 June | Disposal | 64 000 √of |
| | | 64 000 | | | 64 000 |

Equipment- Mobile Crane provision for depreciation account

| | | £ | | | £ |
|---|---|---|---|---|---|
| 2012 | | | 2012 | | |
| 31 Dec | Balance c/d | 16 000 | 31 Dec | Income statement / depreciation | 16 000 √ |
| | | 16 000 | | | 16 000 |
| 2013 | | | 2013 | | |
| | | | 1 Jan | Balance b/d | 16 000 √of |
| 31 Dec | Balance c/d | 28 000 | 31 Dec | Income statement/ depreciation | 12 000 √of |
| | | 28 000 | | | 28 000 |
| 2014 | | | 2014 | | |
| | | | 1 Jan | Balance b/d | 28 000 √ of |
| 30 June | Disposal √ | 32 500 √of | 31 Dec | Income statement / depreciation | 4 500 √of |
| | | 32 500 | | | 32 500 |

(11)

(d)(i)

| | £ |
|---|---|
| Depreciation | 21 000 √ |
| Operator's wages | 20 000 √√ |
| Transport | 16 000 √√ |
| Servicing and repairs | 3 000 √ |
| Overheads | 15 000 √ |
| Total cost for year | 75 000 |

(ii)

Total cost / Days of hire = 75 000 + 15 000 √of / 200 √√ = £450 √√(√of)

(12)

(e)

Valid answers may include:
In favour

- Cash will be generated from general trading profit
- The business may set aside cash for the replacement of a non-current asset

Against

- Depreciation is non-cash
- Depreciating a non-current asset does not enable a replacement to be purchased
- Depreciation is an estimate of the loss in value of an existing non-current asset
- Depreciating a non-current asset does not directly generate cash

√√ x 4 points (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 ledger account was recorded in the books of Downtown Traders at 30 November 2014.

Petrus Account

| 2014 | | £ | 2014 | | £ |
|---|---|---|---|---|---|
| 1 Nov | Balance b/d | 6 000 | 5 Nov | Bank | 5 850 |
| 5 Nov | Discount allowed | 150 | 19 Nov | Sales returns | 530 |
| 18 Nov | Sales | 3 000 | 30 Nov | Balance c/d | 5 170 |
| 23 Nov | Sales | 2 400 | | | |
| | | 11 550 | | | 11 550 |
| 1 Dec | Balance b/d | 5 170 | | | |

On inspecting of the books, the following errors were discovered in the account of Petrus:

1. On 5 November Petrus had paid the balance of his account and had deducted 2½% cash discount which had been credited to the discount allowed account.
2. A trade discount of 15% should have been deducted from the sales made on 18 November.
3. The sales returns on 19 November were correctly recorded in the Sales Returns Account as £350, but were recorded in Petrus's Account as £530.
4. The sales recorded on 23 November were sales made to Potter and Co, which had been incorrectly posted to the account of Petrus.
5. A refund of £50, for overpayment, was made to Petrus by cheque on 28 November, but no entries had been made in the books.

**Required:**

(a) Prepare the Journal entries to correct the errors in (1) to (5) above. Narratives are **not** required.

**(10)**

(b) Update the Petrus Account in the books of Downtown Traders after the correction of all errors.

**(10)**

(c) Name and explain **four** types of error that would **not** be revealed by a trial balance.

**(8)**

(d) Evaluate the use of a **suspense account** when preparing a trial balance.

**(4)**

**(Total for Question 4 = 32 marks)**

**Answer space for question 4 is on pages 24 to 27 of the question paper.**

## SECTION B

4 (a)

Journal

| | Dr | Cr | |
|---|---|---|---|
| | £ | £ | |
| Discount allowed | 300 | | √ |
| Petrus | | 300 | √ |
| | | | |
| Sales | 450 | | √ |
| Petrus | | 450 | √ |
| | | | |
| Petrus | 180 | | √ |
| Suspense | | 180 | √ |
| | | | |
| Potter & Co | 2 400 | | √ |
| Petrus | | 2 400 | √ |
| | | | |
| Petrus | 50 | | √ |
| Bank | | 50 | √ |

(10)

(b)

Petrus Account

| 2014 | | £ | | 2014 | | £ | |
|---|---|---|---|---|---|---|---|
| 1 Nov | Balance b/d | 6 000 | | 5 Nov | Bank | 5 850 | |
| 5 Nov | Discount allowed | 150 | | 19 Nov | Sales returns | 530 | |
| 18 Nov | Sales | 3 000 | | 30 Nov | Discount allowed √ | 300 | √ |
| 23 Nov | Sales | 2 400 | | | Sales (trade discount) √ | 450 | √ |
| 30 Nov | Suspense √ | 180 | √ | | Potter & Co | 2 400 | √ |
| | Bank (refund) √ | 50 | √ | | Balance c/d | 2 250 | |
| | | 11 780 | | | | 11 780 | |
| | | | | | | | |
| 1 Dec | Balance b/d | 2 250 | √of | | | | |

(10)

(c)

| | |
|---|---|
| Commission | Posted to wrong account of same class |
| Reversal | Accounts correct but double entry reversed |
| Omission | No double entry made in the books |
| Principle | Posted to wrong account in a different class |
| Compensating | Two different errors cancelling each other out |
| Original entry | Incorrect original figure used |

√ for naming an error plus √ for a brief description x 4

**Not**: Transposition (8)

(d)

Valid answers may include:

In favour

- Enables trial balance to balance
- Identifies the net value of errors to be found.

Against

- Errors remain in the accounts until found
- Financial statements prepared will be inaccurate
- Some errors will not be revealed by the suspense account
- Does not help to actually find the error.

**Not**: Time consuming / correct errors / detects arithmetic errors.

√√ x 2 points (MAX one point in favour and one point against) (4)

**(Total 32 marks)**

**SOURCE MATERIAL FOR USE WITH QUESTION 5**

**5** Ryman is a manufacturer of wooden products. The following information is available for the month of November 2014:

1. Raw materials inventory at 1 November 2014 200 cubic metres @ £100 per cubic metre

2. Purchases of raw materials: 3 November 150 cubic metres @ £120 per cubic metre
   15 November 80 cubic metres @ £140 per cubic metre
   23 November 100 cubic metres @ £150 per cubic metre

3. During the month of November 400 cubic metres were issued to production. Ryman uses the First In First Out (F.I.F.O) method of inventory valuation.

4. The factory production line employed 24 workers each of whom worked 180 hours in the month. 160 hours per worker were paid at normal time and 20 hours per worker were paid a rate of time and a half. Production workers were paid £8 per hour for normal time.

5. General expenses for production were £12 000 of which 30% were direct and 70% were indirect.

6. The factory manager was paid £3 500 and 2 supervisors were paid £2 500 each.

7. The rent of the factory premises was £2 000.

8. Depreciation on machinery was £4 500 and machinery repairs were £3 000.

9. Work in progress was £1 000 greater on 30 November than on 1 November.

10. Finished goods are transferred to the warehouse at a value of £150 000.

**Required:**

(a) Prepare the Manufacturing Account for the month of November 2014.
**(20)**

(b) Explain how a provision for unrealised profit would be treated by a manufacturer.
**(4)**

(c) Explain the following methods of remuneration:

(i) day-work

(ii) piecework.
**(4)**

Ryman is considering remunerating their factory production line workers by piecework.

(d) Evaluate Ryman remunerating their factory production line workers by piecework
**(4)**

**(Total for Question 5 = 32 marks)**

**Answer space for question 5 is on pages 28 to 32 of the question paper.**

5 (a)

Ryman

Manufacturing Account for the month of November 2014

| | £ | £ | |
|---|---|---|---|
| Inventory of raw materials 1 November | 20 000 | | √ |
| Purchases of raw materials | 44 200 | | √√ |
| | 64 200 | | |
| Less Inventory of raw materials 30 November | (19 200) | | √√ |
| **Cost of raw materials** | | 45 000 | √of + w |
| Add: | | | |
| Factory wages | 36 480 | | √√ |
| Direct general expenses | 3 600 | | √ |
| **Prime cost** | | 85 080 | √of + w |
| Plus overheads: | | | (no aliens) |
| Indirect general expenses | 8 400 | | √ |
| Manager's salary | 3 500 | | √ |
| Supervisors' salary | 5 000 | | √ |
| Rent | 2 000 | | √ |
| Depreciation of machinery | 4 500 | | √ |
| Machinery repairs | 3 000 | | √ |
| | | 26 400 | |
| | | 111 480 | |
| Work in progress | | (1 000) | √ |
| **Production cost** | | 110 480 | √of + w |
| Profit on manufacture | | 39 520 | √of |
| **Transfer to trading** | | 150 000 | √ + w |

(20)

(b)

- Transfers from Manufacturing Account to Trading Account are at a mark-up. √√
- At year end the manufacturing profit is removed from the inventory of finished goods √√
- A decrease in the provision will be added and a increase in the provision deducted from the gross profit in the income statement √√
- The provision balance is deducted from the inventory valuation in the Statement of financial position √√
- Application of the realisation concept √√

MAX √√ x 2

(4)

(c)

| | | |
|---|---|---|
| Day-work | Workers are paid by the hour | Hours worked √ x Rate per hour √ |
| Piecework | Workers are paid by the number of items produced | Number produced √ x Rate per item √ |

(4)

(d)

Valid answers may include:

In favour

- Greater production
- Cost reduced per unit
- Greater motivation for workers.

Against

- Quality can be reduced if work is rushed
- Greater supervision levels required.

**Not**: Increased profit

√√ x 2 points (MAX one point for and one point against) (4)

**(Total 32 marks)**

**SOURCE MATERIAL FOR USE WITH QUESTION 6**

**6** Chok and Tamar are in partnership sharing profits and losses equally. On 30 November 2014 their Statement of Financial Position was as follows:

Chok and Tamar
Statement of Financial Position at 30 November 2014

| | £ | £ |
|---|---|---|
| Non-current Assets | | |
| Premises | | 60 000 |
| Fixtures and fittings | | 26 000 |
| | | 86 000 |
| Current Assets | | |
| Inventory | 28 500 | |
| Trade receivables | 32 400 | |
| Bank | 5 600 | |
| | | 66 500 |
| | | 152 500 |
| Capital | | |
| Chock | 40 000 | |
| Tamar | 40 000 | |
| | | 80 000 |
| Current Liabilities | | |
| Trade payables | | 42 500 |
| Non-current Liabilities | | |
| Bank loan | | 30 000 |
| | | 152 500 |

On 1 December 2014 Chok and Tamar admitted Lai as a partner and the following was agreed:

1. The goodwill of Chok and Tamar was valued at £120 000.
2. Tamar would reduce his capital by £20 000, receiving this sum by cheque.
3. Lai would bring the following assets into the new partnership:

| | £ |
|---|---|
| Delivery vehicle | 15 000 |
| Inventory | 16 000 |
| Bank | 25 000 |

4. Half of the bank loan would be repaid.
5. Profits and losses would be shared by Chok, Tamar and Lai in the ratio 2:1:1.
6. Goodwill would **not** be recorded in the books of the new partnership.

**Required:**

(a) Prepare the:

(i) Capital Accounts of Chok, Tamar and Lai

**(12)**

(ii) opening Statement of Financial Position for the new partnership at 1 December 2014.

**(16)**

(b) Evaluate the introduction of a new partner into the business.

**(4)**

**(Total for Question 6 = 32 marks)**

**Answer space for question 6 is on pages 33 to 37 of the question paper.**

6 (a)(i)

Capital Accounts

| | Chok | Tamar | Lai | | Chok | Tamar | Lai |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | | £ | £ | £ |
| Bank √ | | 20 000 √ | | Balance | 40 000 | 40 000 | √ |
| Goodwill | 60 000 √ | 30 000 √ | 30 000 √ | Goodwill | 60 000 √ | 60 000 √ | |
| Balance c/d | 40 000 | 50 000 | 26 000 √ | Introduced / | | | 56 000 √√ |
| | 100 000 | 100 000 | 56 000 | Assets | 100 000 | 100 000 | 56 000 |
| | | | | Balance b/d | 40 000 | 50 000 | 26 000 √of |

(12)

(ii)

Chok, Tamar and Lai

Statement of Financial Position at 1 December 2014 √ Names + title

| | £ | £ | |
|---|---|---|---|
| Non-current Assets | | | |
| Premises | | 60 000 | √ |
| Fixtures and fittings | | 26 000 | √ |
| Delivery vehicle | | 15 000 | √ |
| | | 101 000 | |
| Current Assets | | | |
| Inventory 28 500 + 16 000 | 44 500 | | √√ |
| Trade receivables | 32 400 | | √ |
| | | 76 900 | |
| | | 177 900 | |
| Capital: | | | |
| Chok | 40 000 | | √of if unadjusted |
| Tamar | 50 000 | | √of if unadjusted |
| Lai | 26 000 | | √of if unadjusted |
| | | 116 000 | |
| Current Liabilities | | | |
| Trade payables | | 42 500 √ | |
| Bank 5 600 √+25 000 √ – 15 000 √-20 000 √ | | 4 400 | |
| Non-current Liabilities | | | |
| Bank loan | | 15 000 √ | |
| | | 177 900 | |

(16)

(b)

Valid answers may include:
In favour

- More capital available
- More skill and knowledge.

Against

- Profits shared between three
- Greater chance of disagreement.

**Not:** More profit
√√ x 2 points (MAX one point for and one point against) (4)

**(Total 32 marks)**

**SOURCE MATERIAL FOR USE WITH QUESTION 7**

**7** The following summary financial statements were prepared by Biman for his business. Biman has limited accounting knowledge.

Biman

Statement of Comprehensive Income for the year ended 30 November 2014

| | £ | £ |
|---|---|---|
| Revenue | | 115 000 |
| Less cost of sales | | (63 000) |
| Gross profit | | 52 000 |
| Less | | |
| General expenses | 15 000 | |
| Depreciation | 9 000 | (24 000) |
| Profit for the year | | 28 000 |

Statement of Financial Position at 30 November 2014

| | £ |
|---|---|
| Non-current Assets | |
| Premises | 90 000 |
| Equipment | 27 000 |
| Staff skill | 15 000 |
| | 132 000 |
| Current Assets | |
| Inventory | 20 000 |
| Trade receivables | 18 000 |
| Bank | 11 000 |
| | 181 000 |
| Equity and Capital | |
| Capital | 95 000 |
| Profit for the year | 28 000 |
| | 123 000 |
| Current Liabilities | |
| Trade payables | 58 000 |
| | 181 000 |

**Biman failed to apply the correct accounting principles and concepts to the following:**

1. The revenue contains a sum of £6 000 for goods on credit, sale or return. On 30 November 2014 the customer had not returned the goods or stated his intention to buy them. Biman uses a 50% mark up on goods.

2. General expenses of £15 000 were paid by cheque. On 30 November 2014, there was £3 200 owing and £450 was prepaid.

3. When calculating the depreciation on equipment Biman changed the method of depreciation from 20% diminishing balance to 10% straight line. On 1 December 2013 the equipment was purchased new and cost £30 000.

4. Biman had increased his capital by valuing the skill of his staff at £15 000.

5. Premises costing £80 000 had been included in the financial statements at the market value of £90 000. The correct depreciation on premises was charged.

6. Biman had removed the provision for doubtful debts of £1 500 from the accounts.

**Required:**

(a) Name the accounting principle or concept that has **not** been correctly applied in each of (1) to (6) on page 12.

**(12)**

(b) Redraft the corrected financial statements of Biman for the year ended 30 November 2014, in order to comply with the accounting concepts that you have identified. You should show your workings.

**(16)**

(c) Evaluate the use of accounting principles and concepts.

**(4)**

**(Total for Question 7 = 32 marks)**

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**Answer space for question 7 is on pages 38 to 42 of the question paper.**

7(a)

1. Realisation / Accrual
2. Accrual / matching
3. Consistency
4. Money measurement
5. Historic cost / cost
6. Prudence

√√ x each correct name (12)

(b)

Biman

Statement of Comprehensive Income for the year ended 30 November 2014.

| | | £ | |
|---|---|---|---|
| Revenue | 115 000 – 6 000 | 109 000 | √ |
| Less Cost of sales | 63 000 – 4 000 | (59 000) | √√ |
| Gross profit | | 50 000 | |
| Less | | | |
| General expenses | 15 000 + 3 200 – 450 | 17 750 | √ |
| Depreciation - | 9 000 + 3 000 | 12 000 | √√ |
| Provision for doubtful debts | | 1 500 | √ |
| | | (31 250) | |
| Profit for the year | | 18 750 | |

Statement of Financial Position at 30 November 2014

| | | £ | |
|---|---|---|---|
| Non-current Assets | | | |
| Premises | | 80 000 | √ |
| Equipment | 30 000 – 6 000 | 24 000 | √ |
| Staff skill | 15 000 – 15 000 | 0 | √ |
| | | 104 000 | |
| Current Assets | | | |
| Inventory | 20 000 + 4 000 | 24 000 | √ |
| Trade receivables | 18 000 – 6 000 √ – 1 500 √ | 10 500 | |
| Other incomes | | 450 | √ |
| Bank | | 11 000 | |
| | | 149 950 | |
| Equity and capital: | | | |
| Capital | 95 000 – 15 000 – 10 000 | 70 000 | √ |
| Profit for the year | | 18 750 | |
| | | 88 750 | |
| Current liabilities | | | |
| Trade payables | | 58 000 | |
| Other payables | | 3 200 | √ |
| | | 149 950 | |

(16)

(c)

Valid answers may include:

In favour

- Standardises approach / allows comparisons
- Reader can rely upon the information e.g. investors
- True and fair view of profit and valuing assets and liabilities
- Provides a framework to prepare financial statements.

Against

- Requires professional input
- Concepts can contradict each other
- Does not consider non-financial factors e.g. quality of management.

√√ x 2 points (MAX one point for and one point against) (4)

**(Total 32 marks)**