GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International
Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Accounting (Modular Syllabus)
Unit 1: The Accounting System and Costing

Tuesday 6 January 2015 – Afternoon
Time: 3 hours

Paper Reference
WAC01/01

You must have:
Source Booklet

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **five** questions, choosing **two** from Section A and **three** from Section B.
- All calculations must be shown.
- Answer the questions in the spaces provided – *there may be more space than you need.*
- Do not return the insert with the question paper.

Information

- The total mark for this paper is 200.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.
- The source material for use with Questions 1 to 7 is in the enclosed source booklet.

Advice

- Read each question carefully before you start to answer it.
- Write your answers neatly and in good English.
- Check your answers if you have time at the end.

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PEARSON

SECTION A

Answer TWO questions from this section.

If you answer question 1, put a cross in this box ☒ .

Source material for question 1 is on pages 2 and 3 of the source booklet.

1 (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)

If you answer question 2, put a cross in this box ☒ .

Source material for question 2 is on pages 4 and 5 of the source booklet.

2 (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'.

(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)

If you answer question 3, put a cross in this box ☒ .

Source material for question 3 is on pages 6 and 7 of the source booklet.

3 (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)

(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)

(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)

SECTION B

Answer THREE questions from this section.

If you answer question 4, put a cross in this box ☒ .

Source material for question 4 is on page 8 of the source booklet.

4 (a) Prepare the Journal entries to correct the errors in (1) to (5) on page 8 of the source booklet. 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)

If you answer question 5, put a cross in this box ☒ .

Source material for question 5 is on page 9 of the source booklet.

5 (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)

If you answer question 6, put a cross in this box ☒ .

Source material for question 6 is on pages 10 and 11 of the source booklet.

6 (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)

If you answer question 7, put a cross in this box ☒ .

Source material for question 7 is on pages 12 and 13 of the source booklet.

7 (a) Name the accounting principle or concept that has **not** been correctly applied in each of (1) to (6) on pages 12 and 13 of the source booklet.

(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)

TOTAL FOR SECTION B : 96 MARKS
TOTAL FOR PAPER : 200 MARKS

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GradeMax

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
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PEARSON

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.

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.

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.

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.

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.

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.

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)

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

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