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 12 May 2015 – Morning
Time: 3 hours

Paper Reference
WAC01/01

You must have:
Source Booklet (enclosed)

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 question 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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SECTION A

Answer TWO questions from this section.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

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) Prepare the:

(i) Restaurant Trading Account for the year ended 30 April 2015

(10)

(ii) Income and Expenditure Account for the year ended 30 April 2015

(18)

(iii) Statement of Financial Position at 30 April 2015.

(16)

(b) Evaluate the usefulness of a provision for doubtful debts on subscriptions.

(8)

(Total for Question 1 = 52 marks)

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:

(i) Journal entries to correct the errors (1) to (5). Narratives are **not** required

(12)

(ii) Suspense Account after the correction of the errors (1) to (5).

(4)

(b) Calculate the profit for the year after the correction of all errors.

(10)

(c) Prepare the Statement of Financial Position at 31 March 2015, after the correction of all errors.

(18)

(d) Evaluate the usefulness of draft financial statements, before the correction of errors.

(8)

(Total for Question 2 = 52 marks)

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) Calculate for the Garden Restaurant **and** for the New Restaurant the following :

(i) gross profit as a percentage of revenue
(ii) return on capital employed percentage (using the closing capital)
(iii) current ratio
(iv) trade payables payment period (in days)
(v) non-current assets to revenue ratio
(vi) value of the goodwill included in the purchase price of £100 000.

(24)

(b) Suggest **two** possible reasons for the differences between the ratios for the Garden Restaurant and for the New Restaurant under each of the following headings:

(i) Profitability
(ii) Liquidity
(iii) Use of assets.

(12)

(c) Explain the importance to Nural of calculating the non-current assets to revenue ratio.

(4)

(d) Suggest **four** non-financial factors that Nural should consider before making a decision to purchase either the Garden Restaurant or the New Restaurant.

(4)

(e) Evaluate which restaurant, if any, Nural should purchase.

(8)

(Total for Question 3 = 52 marks)

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 pages 8 and 9 of the source booklet.

4 (a) Distinguish between bad debts and a provision for doubtful debts.

(4)

(b) Suggest **two** possible reasons for the opening credit balance on the Sales Ledger Control Account at 1 February 2015.

(2)

(c) Prepare the:

(i) Sales Ledger Control Account for the month of February 2015

(10)

(ii) journal entry recording the writing off of the bad debt of Chumi

(6)

(iii) Provision for Doubtful Debts Account for the month of February 2015.

(6)

(d) Evaluate the use of control accounts.

(4)

(Total for Question 4 = 32 marks)

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

Source material for question 5 is on pages 10 and 11 of the source booklet.

5 (a) Calculate the value of the closing inventory of metal tubing at 31 March 2015.

(10)

(b) Prepare the Prime Cost section of the Manufacturing Account for the month ending 31 March 2015.

(12)

(c) Calculate for March 2015, the:

(i) number of bicycle frames manufactured

(3)

(ii) prime cost per bicycle frame manufactured.

(3)

(d) Evaluate the use of Last In First Out (L.I.F.O) as a method of valuing inventory.

(4)

(Total for Question 5 = 32 marks)

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

Source material for question 6 is on pages 12 and 13 of the source booklet.

6 (a) Where there is no partnership agreement, state how the following would be treated:

(i) Partners' salaries
(ii) Partners' loans
(iii) Share of profits or losses
(iv) Interest on drawings

(4)

(b) Prepare the:

(i) Capital Accounts of Poon and Quan

(8)

(ii) Bank Account

(5)

(iii) Quan's opening Statement of Financial Position at 1 March 2015.

(11)

(c) Evaluate the decision of Quan to keep goodwill in his books.

(4)

(Total for Question 6 = 32 marks)

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

Source material for question 7 is on page 14 of the source booklet.

7 (a) Explain the:

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

(4)

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

(4)

(b) Calculate the:

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

(5)

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

(4)

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

(11)

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

(d) Evaluate this statement.

(4)

(Total for Question 7 = 32 marks)

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

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GradeMax

Pearson Edexcel
International Advanced Level

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Do not return the insert with the question paper.

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

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

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

Additional information at 30 April 2015:

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

Required:

(a) Prepare the:

(i) Restaurant Trading Account for the year ended 30 April 2015

(10)

(ii) Income and Expenditure Account for the year ended 30 April 2015

(18)

(iii) Statement of Financial Position at 30 April 2015.

(16)

(b) Evaluate the usefulness of a provision for doubtful debts on subscriptions.

(8)

(Total for Question 1 = 52 marks)

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

SOURCE MATERIAL FOR USE WITH QUESTION 2

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

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

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

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

Required:

(a) Prepare the:

(i) Journal entries to correct the errors (1) to (5). Narratives are **not** required

(12)

(ii) Suspense Account after the correction of the errors (1) to (5).

(4)

(b) Calculate the profit for the year after the correction of all errors.

(10)

(c) Prepare the Statement of Financial Position at 31 March 2015, after the correction of all errors.

(18)

(d) Evaluate the usefulness of draft financial statements, before the correction of errors.

(8)

(Total for Question 2 = 52 marks)

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

SOURCE MATERIAL FOR USE WITH QUESTION 3

3 Nural is considering buying a restaurant. He has found two restaurants that are for sale, each at a purchase price of £100 000. Nural has sufficient funds available to purchase one of the restaurants. The two restaurants are the:

1. Garden Restaurant – Opened nine years ago, the Restaurant is in an area of the Town Centre which has many other competing restaurants

2. New Restaurant – Opened one year ago, the Restaurant is in a residential area on the outskirts of the Town.

The following summarised information is available:

Statements of Comprehensive Income for the year ended 31 March 2015

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

Statements of Financial Position at 31 March 2015

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

Additional information:

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

Required:

(a) Calculate for the Garden Restaurant **and** for the New Restaurant the following :
   (i) gross profit as a percentage of revenue
   (ii) return on capital employed percentage (using the closing capital)
   (iii) current ratio
   (iv) trade payables payment period (in days)
   (v) non-current assets to revenue ratio
   (vi) value of the goodwill included in the purchase price of £100 000.

(24)

(b) Suggest **two** possible reasons for the differences between the ratios for the Garden Restaurant and for the New Restaurant under each of the following headings:
   (i) Profitability
   (ii) Liquidity
   (iii) Use of assets.

(12)

(c) Explain the importance to Nural of calculating the non-current assets to revenue ratio.

(4)

(d) Suggest **four** non-financial factors that Nural should consider before making a decision to purchase either the Garden Restaurant or the New Restaurant.

(4)

(e) Evaluate which restaurant, if any, Nural should purchase.

(8)

(Total for Question 3 = 52 marks)

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

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

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

Opening balances on 1 February

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

Additional information for the month of February 2015:

1. Totals for the month of February

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

2. There was no credit balance on the Sales Ledger Control Account at 28 February 2015.

3. The bad debt written-off in February related to the debt of Chumi, who was only able to pay £600 of his debt. The balance was irrecoverable.

4. The provision for doubtful debts is to be maintained at 4% of trade receivables at 28 February 2015.

Required:

(a) Distinguish between bad debts and a provision for doubtful debts.

(4)

(b) Suggest **two** possible reasons for the opening credit balance on the Sales Ledger Control Account at 1 February 2015.

(2)

(c) Prepare the:

(i) Sales Ledger Control Account for the month of February 2015

(10)

(ii) journal entry recording the writing off of the bad debt of Chumi

(6)

(iii) Provision for Doubtful Debts Account for the month of February 2015.

(6)

(d) Evaluate the use of control accounts.

(4)

(Total for Question 4 = 32 marks)

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

SOURCE MATERIAL FOR USE WITH QUESTION 5

5 Khin manufactures bicycle frames from metal tubing. The following information relates to the month of March 2015:

1. Each bicycle frame requires 3 metres of metal tubing.
2. The inventory of metal tubing at 1 March 2015 was 600 metres costing £1.20 per metre.
3. Receipts of metal tubing for March:

   3 March 1 800 metres @ £1.30 per metre

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

   5 March 2 000 metres

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

Required:

(a) Calculate the value of the closing inventory of metal tubing at 31 March 2015.

(10)

(b) Prepare the Prime Cost section of the Manufacturing Account for the month ending 31 March 2015.

(12)

(c) Calculate for March 2015, the:

(i) number of bicycle frames manufactured

(3)

(ii) prime cost per bicycle frame manufactured.

(3)

(d) Evaluate the use of Last In First Out (L.I.F.O) as a method of valuing inventory.

(4)

(Total for Question 5 = 32 marks)

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

SOURCE MATERIAL FOR USE WITH QUESTION 6

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

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

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

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

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

Required:

(a) Where there is no partnership agreement, state how the following would be treated:
(i) Partners' salaries
(ii) Partners' loans
(iii) Share of profits or losses
(vi) Interest on drawings

(4)

(b) Prepare the:

(i) Capital Accounts of Poon and Quan

(8)

(ii) Bank Account

(5)

(iii) Quan's opening Statement of Financial Position at 1 March 2015.

(11)

(c) Evaluate the decision of Quan to keep goodwill in his books.

(4)

(Total for Question 6 = 32 marks)

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

SOURCE MATERIAL FOR USE WITH QUESTION 7

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

- Balances at 1 April 2015:

Inventory at cost	£25 000
Trade receivables	£18 000
Trade payables	£15 500

- Transactions between 1 April and 20 April 2015:

Receipts from trade receivables	£138 000
Payments to trade payables	£69 000
Cash purchases	£25 800

- Balances at 20 April 2015:

Remaining inventory at cost	£14 300
Trade receivables	£20 000
Trade payables	£16 700

- Lucia uses a 'mark-up' of 40%.

Required:

(a) Explain the:

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

(4)

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

(4)

(b) Calculate the:

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

(5)

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

(4)

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

(11)

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

(d) Evaluate this statement.

(4)

(Total for Question 7 = 32 marks)

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

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