GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Accounting

Paper 1: The Accounting System and Costing

Wednesday 12 October 2016 – Morning
Time: 3 hours

Paper Reference
WAC11/01

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 **both** questions in Section A and **three** questions 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 6 is in the enclosed source booklet.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

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PEARSON

SECTION A

Answer BOTH questions in this section. Write your answers in the spaces provided.

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

1 (a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2016.

(14)

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(b) Prepare the Statement of Financial Position at 30 September 2016.

(14)

(c) Complete the table below showing the **changes** to the profit or loss for the year ended 30 September 2017 using:

(i) Proposal 1

(8)

(ii) Proposal 2.

(7)

Effect on profit or loss

Proposal 1 – Aircraft are purchased				**Proposal 2 – Aircraft are hired**			
			£				£
Profit for the year ended 30 September 2016 (from part (a))				Profit for the year ended 30 September 2016 (from part (a))			
	Increase in profit	Decrease in profit			Increase in profit	Decrease in profit	
	£	£			£	£	
Revenue				Revenue			
Fuel				Fuel			
Aircraft maintenance				Aircraft maintenance			
Ground services expenses				Ground services expenses			
Depreciation				Depreciation			
Additional bank loan interest				Additional bank loan interest	Nil	Nil	
Hire of aircraft	Nil	Nil		Hire of aircraft			
Subtotals				Subtotals			
Projected profit or loss for the year ended 30 September 2017				Projected profit or loss for the year ended 30 September 2017			
Workings				**Workings**			

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(d) Evaluate the two proposals and make a recommendation to the owner of Weston Airways.

(12)

(Total for Question 1 = 55 marks)

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

2 (a) Prepare the trial balance of Bani at 30 September 2016 including the Suspense Account.

(15)

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(b) Prepare the:

(i) Journal entries to correct the errors (1) to (4) (narratives are **not** required)

(8)

(ii) Suspense Account after completion of the Journal entries.

(5)

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(c) Name and explain **three** types of error that will not be revealed by the trial balance.

(9)

(d) Prepare the Trade Receivables Control Account.

(6)

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Bani does not have an allowance for doubtful debts in her books. She records bad debts when they occur.

(e) Evaluate Bani's policy of recording bad debts when they occur.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer THREE 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 3, put a cross in the box ☒ .

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

3 (a) Calculate the following ratios:

- gross profit as a percentage of revenue
- percentage return on capital employed
- current ratio
- liquid (acid test) ratio.

(8)

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(b) Explain **one** possible reason for the difference between **each** of the ratios calculated in (a) and the industry average.

- Gross profit as a percentage of revenue
- Percentage return on capital employed
- Current ratio
- Liquid (acid test) ratio.

(8)

(c) State **four** non-financial factors that Agara should consider in the possible purchase of Every Day Wear.

(4)

The current owner of Every Day Wear has stated that he will sell the business to Agara for £85 000

(d) (i) Define the accounting term goodwill.

(2)

(ii) Calculate the value of the goodwill that Agara would pay if he agreed the asking price of £85 000 for Every Day Wear.

(2)

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(e) Evaluate whether Agara should purchase Every Day Wear.

(6)

(Total for Question 3 = 30 marks)

Source material for Question 4 is on pages 8 and 9 of the source booklet.

If you answer Question 4, put a cross in the box ☒ .

4 (a) Explain **two differences** between the Receipts and Payments Account and the Income and Expenditure Account.

(4)

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(b) Prepare for the year ended 31 August 2016, showing the appropriate transfer to the Income and Expenditure Account, the:

(i) Subscriptions Account

(5)

(ii) Life Membership Account.

(5)

(c) Calculate the Accumulated Fund at 31 August 2016.

(2)

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(d) Prepare the Statement of Financial Position at 31 August 2016.

(8)

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(e) Evaluate the case for the club offering life membership.

(6)

(Total for Question 4 = 30 marks)

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

If you answer Question 5, put a cross in the box ☒ .

5 (a) Explain the difference between variable and fixed costs.

(4)

(b) Give **one** example of a variable cost and a fixed cost from the purchase or network rental of mobiles phones.

(2)

(c) Complete the table below showing the cost **per month** for the usage of a mobile phone from each supplier for the Sales Manager and the Purchasing Manager.

(16)

Company	Sales Manager	Purchasing Manager
National Telecom		
One2one Link		
Speed Call		

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(d) Recommend which supplier of mobile phones is the most cost effective for the:

- Sales Manager
- Purchasing Manager.

(2)

The business is considering apportioning the cost of mobile phones between its departments.

(e) Evaluate the proposal of apportioning business mobile phone costs.

(6)

(Total for Question 5 = 30 marks)

Source material for Question 6 is on page 12 of the source booklet.

If you answer Question 6, put a cross in the box ☒ .

6 (a) Explain the difference between capital expenditure and revenue expenditure.

(4)

(b) Explain how capital expenditure will be treated in the financial statements.

(4)

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(c) Identify **one** accounting concept that:

(i) supports a change in the method of depreciation on computers

(1)

(ii) does **not** support a change in the method of depreciation on computers.

(1)

(d) Calculate the:

(i) difference due to the change in method of depreciation on computers for the years ended 30 September 2014 and 30 September 2015

(6)

(ii) depreciation on computers for the year ended 30 September 2016.

(2)

(e) Prepare the Computers – Provision for Depreciation Account for the years ending 30 September 2014, 30 September 2015 and 30 September 2016.

(6)

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(f) Evaluate Palak's decision to change the method for depreciating computers from the straight line method to the reducing balance method.

(6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS

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GradeMax

Pearson Edexcel
International Advanced Level

Accounting
Paper 1: The Accounting System and Costing

Wednesday 12 October 2016 – Morning
Source Booklet

Paper Reference
WAC11/01

Do not return this source booklet with the question paper.

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PEARSON

SECTION A

Answer BOTH questions in this section.

1 Weston Airways operates an airline service between cities using two 15-seater aircraft.

The following balances were recorded in the books on 30 September 2016:

	£	
Revenue from passenger sales	1 500 000	
Salaries: Aircrew	275 000	
Administration	82 000	
Landing charge expenses	90 000	
Fuel	140 000	
Ground services expenses	210 000	
Non-current assets (cost):		
Aircraft	600 000	
Computers and fixtures	58 000	
Provisions for depreciation:		
Aircraft	500 000	
Computers and fixtures	18 000	
Aircraft maintenance	315 000	
Marketing	70 000	
Administration expenses	145 000	
Rent	50 000	
6% Bank loan (repayable 30 June 2020)	200 000	
Bank loan interest	9 000	
Trade receivables	47 000	
Trade payables	59 000	
Cash and bank	486 000	Dr
Capital	300 000	

Additional information at 30 September 2016

(1) Accruals:

- aircrew salaries £13 000
- fuel £20 000

(2) Marketing includes £20 000 for a campaign to run from 1 July 2016 to 31 December 2016.

(3) Some bank loan interest was outstanding. The bank loan commenced 1 October 2015.

(4) Depreciation is charged as follows:

- aircraft at the rate of 8% per annum using the straight line method
- computers and fixtures at the rate of 20% per annum using the reducing balance method.

Required

(a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2016.

(14)

(b) Prepare the Statement of Financial Position at 30 September 2016.

(14)

The owner of Weston Airways is aware that its two existing aircraft are old and need replacing.

The owner proposes to replace the two existing aircraft with two larger 20-seater aircraft for the year ended 30 September 2017.

The projections for the replacements are as follows:

- passenger numbers will increase by 10%. Market research shows that each passenger will also pay 8% more to fly in the new aircraft
- the aircraft will use 30% less fuel
- aircraft maintenance will be 40% less
- ground services expenses will rise by 20%
- all other expenses will remain unchanged
- the two existing aircraft will be sold for £100 000 each.

There are two proposals for financing the two replacement aircraft.

Proposal 1

Purchase the two aircraft at a cost of £900 000 each. The aircraft will depreciate at 8% per annum using the straight line method. Weston Airways would take out an additional £1 500 000 8% bank loan to finance the aircraft.

Proposal 2

Hire the two aircraft for a period of 12 years at a charge of £125 000 per annum for each aircraft. Weston Airways would not have to charge annual depreciation or take out an additional bank loan.

Required

(c) Complete the table in your Question Paper showing the **changes** to the profit or loss for the year ended 30 September 2017 using:

(i) Proposal 1

(8)

(ii) Proposal 2.

(7)

(d) Evaluate the two proposals and make a recommendation to the owner of Weston Airways.

(12)

(Total for Question 1 = 55 marks)

2 The following balances remained in the books of Bani on 30 September 2016. Bani knows that there are some errors in the books and that she will need to open a suspense account.

	£
Revenue (credit sales)	62 300
Returns inwards	1 150
Inventory	5 350
Purchases	25 100
Trade receivables	6 750
Trade payables	8 200
Non-current assets (cost)	25 000
Provision for depreciation	7 500
General expenses	9 300
Bad debts	450
Rent receivable	1 400
Bank overdraft	600
Drawings	6 460

Required

(a) Prepare the trial balance of Bani at 30 September 2016 including the Suspense Account.

(15)

On inspection of the books Bani found the following errors:

(1) Goods purchased for £950 had been recorded as £590 in the Purchases Account.

(2) Rent receivable, £400, had been correctly recorded in the Rent Receivable Account, but no entry had been made in the Bank Account.

(3) General expenses of £65 had been credited to the General Expenses Account.

(4) Drawings of £50 had been recorded in the Drawings Account as £500

Required

(b) Prepare the:

(i) Journal entries to correct the errors (1) to (4) (narratives are **not** required)

(8)

(ii) Suspense Account after completion of the Journal entries.

(5)

Bani has been advised that there may still be some errors in her books that will not be revealed by the trial balance.

(c) Name and explain **three** types of error that will not be revealed by the trial balance.

(9)

Bani prepared a Trade Receivables Control Account to check the closing balance of her trade receivables.

Using relevant balances from the trial balance, together with the following information:

	£
Trade receivables 1 October 2015	5 630
Receipts from credit customers by cheque	59 580

Required

(d) Prepare the Trade Receivables Control Account.

(6)

Bani does not have an allowance for doubtful debts in her books. She records bad debts when they occur.

(e) Evaluate Bani's policy of recording bad debts when they occur.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer THREE questions from this section.

3 Agara is considering the purchase of a retail clothing business, Every Day Wear.

The following were the summarised financial statements of Every Day Wear for the year ended 30 September 2016.

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2016

	£
Revenue	150 000
Cost of sales	90 000
Expenses	53 000
Depreciation	5 000
Bank loan interest	4 000
Loss for the year	(2 000)

Statement of Financial Position at 30 September 2016

	£
Non-current assets (carrying value)	40 000
Inventory	63 000
Trade receivables	27 000
Total assets	130 000
Capital	60 000
Bank loan (repayable 2020)	40 000
Trade payables	25 000
Bank overdraft	5 000
Total capital and liabilities	130 000

Required

(a) Calculate the following ratios:

- gross profit as a percentage of revenue
- percentage return on capital employed
- current ratio
- liquid (acid test) ratio.

(8)

Additional information

Industry average for the year ending 30 September 2016:

- gross profit as a percentage of revenue 30%
- percentage return on capital employed 8%
- current ratio 1.80:1
- liquid (acid test) ratio 0.85:1

Required

(b) Explain **one** possible reason for the difference between **each** of the ratios calculated in (a) and the industry average.

- Gross profit as a percentage of revenue
- Percentage return on capital employed
- Current ratio
- Liquid (acid test) ratio

(8)

(c) State **four** non-financial factors that Agara should consider in the possible purchase of Every Day Wear.

(4)

The current owner of Every Day Wear has stated that he will sell the business to Agara for £85 000

(d) (i) Define the accounting term goodwill.

(2)

(ii) Calculate the value of the goodwill that Agara would pay if he agreed the asking price of £85 000 for Every Day Wear.

(2)

(e) Evaluate whether Agara should purchase Every Day Wear.

(6)

(Total for Question 3 = 30 marks)

4 The following information is available for the Sandy Bay Social Club for the year ended 31 August 2016.

(1) Annual subscriptions:

		1 September 2015	31 August 2016
		£	£
• balances	subscriptions in advance	350	530
	subscriptions in arrears	900	700

- during the year annual subscriptions received and banked were £4 250
- £630 of the subscriptions in arrears at 1 September 2015 were received, the balance was irrecoverable.

(2) Life membership subscriptions:

- balance 1 September 2015 £30 400
- during the year life membership subscriptions received and banked were £1 600
- the Sandy Bay Social Club transfers 10% of the Life Membership Subscription Account balance at the end of the year to the Income and Expenditure Account.

(3) Balances at 31 August 2016:

	£
Subscriptions in advance	530
Subscriptions in arrears	700
Life membership subscriptions	?
Clubhouse (at book value)	55 000
5% Bank loan (repayable 30 June 2025)	6 000
Trade payables	825
Bank	1 950 Dr
Accrued expenses	235

Required

(a) Explain **two differences** between the Receipts and Payments Account and the Income and Expenditure Account.

(4)

(b) Prepare for the year ended 31 August 2016, showing the appropriate transfer to the Income and Expenditure Account, the:

(i) Subscriptions Account

(5)

(ii) Life Membership Account.

(5)

(c) Calculate the Accumulated Fund at 31 August 2016.

(2)

(d) Prepare the Statement of Financial Position at 31 August 2016.

(8)

(e) Evaluate the case for the club offering life membership.

(6)

(Total for Question 4 = 30 marks)

5 Martino has been asked to make recommendations for the purchase and network rental of mobile phones.

He has obtained the following information from three suppliers:

Company	Mobile phone purchase price	Monthly contract network rental	Call costs
National Telecom	£120	£50 per month for a period of 12 months.	2 pence (£0.02) per minute for the first 500 minutes per month. 10 pence (£0.10) per minute for all minutes over 500 minutes per month.
One2one Link	£260	£10 per month for a period of 20 months.	15 pence (£0.15) per minute for all minutes per month.
Speed Call	£90	£45 per month for a period of 15 months.	8 pence (£0.08) per minute for all minutes per month.

Additional information

(1) Mobile phones purchased will have no resale value at the end of the contract period.

(2) Mobile phones are only required by two managers, whose projected usage is:

- Sales Manager – 600 minutes per month
- Purchasing Manager – 300 minutes per month.

Required

(a) Explain the difference between variable and fixed costs.

(4)

(b) Give **one** example of a variable cost and a fixed cost from the purchase or network rental of mobiles phones.

(2)

(c) Complete the table in your Question Paper showing the cost **per month** for the usage of a mobile phone from each supplier for the Sales Manager and the Purchasing Manager.

(16)

(d) Recommend which supplier of mobile phones is the most cost effective for the:

- Sales Manager
- Purchasing Manager.

(2)

The business is considering apportioning the cost of mobile phones between its departments.

(e) Evaluate the proposal of apportioning business mobile phone costs.

(6)

(Total for Question 5 = 30 marks)

6 Palak has reviewed his policy for the depreciation of computers. He has decided to change from the straight line method to the reducing balance method. He provided the following information:

(1) Purchased computers on 1 October 2013 at a cost of £25 000

(2) His policy for depreciating computers for the years ended 30 September 2014 and 30 September 2015 was to depreciate at the rate of 10% per annum using the straight line method.

(3) His policy for depreciating computers for the year ended 30 September 2016 will be to depreciate at the rate of 20% per annum using the reducing balance method.

(4) The difference due to the change in depreciation method on computers for the years ended 30 September 2014 and 30 September 2015 will be charged to the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2016.

Required

(a) Explain the difference between capital expenditure and revenue expenditure.

(4)

(b) Explain how capital expenditure will be treated in the financial statements.

(4)

(c) Identify **one** accounting concept that:

(i) supports a change in the method of depreciation on computers

(1)

(ii) does **not** support a change in the method of depreciation on computers.

(1)

(d) Calculate the:

(i) difference due to the change in method of depreciation on computers for the years ended 30 September 2014 and 30 September 2015

(6)

(ii) depreciation on computers for the year ended 30 September 2016.

(2)

(e) Prepare the Computers – Provision for Depreciation Account for the years ending 30 September 2014, 30 September 2015 and 30 September 2016.

(6)

(f) Evaluate Palak's decision to change the method for depreciating computers from the straight line method to the reducing balance method.

(6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS