GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Accounting

International Advanced Subsidiary
Paper 1: The Accounting System and Costing

Tuesday 15 May 2018 – 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 Source Booklet 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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P 5 1 6 2 4 A 0 1 3 6

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SECTION A

Answer BOTH questions in this section.

Source material for Question 1 is on pages 2 to 4 of the source booklet.

1 (a) Calculate the value of the maintenance spares used for the year ended 30 April 2018.

(3)

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(b) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2018

(12)

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(ii) Statement of Financial Position at 30 April 2018.

(16)

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(c) Calculate the forecast:

(i) profit or loss for the year

(5)

(ii) total cost of generating **one** megawatt hour.

(3)

(d) Explain:

(i) the term **fixed cost**

(2)

(ii) why the majority of Future Solar's costs are fixed costs.

(2)

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(e) Evaluate the expansion proposal of Future Solar.

(12)

(Total for Question 1 = 55 marks)

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Source material for Question 2 is on pages 5 to 7 of the source booklet.

2 (a) Complete the trial balance, **correcting all errors**.

(8)

Roshan
Trial balance at 30 April 2018

	Dr	**Cr**
	£	**£**
Capital		
Drawings		
Revenue		
Purchases		
Returns inwards		
Inventory – 1 May 2017		
Non-current assets (cost)		
Provision for depreciation – non-current assets		
Discount allowed		
Discount received		
Trade receivables		
Trade payables		
Allowance for doubtful debts		
Wages		
Rent and rates		
Electricity and gas		
General expenses		
Cash in hand		
Suspense		

(b) Complete the table, to calculate the revised profit/loss after the corrections of (1) to (6).

(14)

Corrected profit/(loss) for the year ended 30 April 2018

			£
Draft profit for the year			30 700
	Increase	**Decrease**	
	£	**£**	
(1) The inventory at 30 April 2018 was recorded in the financial statements as £35 500. There was an error in the inventory count, which should have shown the total as £32 700			
(2) No adjustment had been made for discount receivable owing. £3 100 had been recorded in the financial statements when this should have been £3 450			
(3) No adjustments had been made for general expenses prepaid £1 200 and owing £550			
(4) Annual depreciation on non-current assets had been charged at the rate of 25% on cost, when this should have been 15% on cost.			
(5) No adjustment had been made to the allowance for doubtful debts, which should have been maintained at 4%.			
(6) A provision should have been made for an injury claim from one of Roshan's employees. The injury claim would be for 7 weeks' loss of earnings at £180 per week plus a total loss of bonus £120. No entry had been made in the financial statements.			
Total			
Revised profit/(loss) for the year			

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(c) Prepare the following ledger accounts for the year ended 30 April 2018, showing the balance brought down at 1 May 2018:

- Allowance for Doubtful Debts Account
- Wages Account
- Electricity and Gas Account.

(9)

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(d) Explain the difference between:

(i) the accounting concepts of accruals and money measurement

(4)

(ii) bad debts and allowance for doubtful debts

(4)

(iii) social accounting and ethical accounting.

(4)

Roshan is considering computerising his accounts using information and communication technology (ICT). He believes that this will eliminate the errors in his financial statements.

(e) Evaluate the proposal that information and communication technology (ICT) will **eliminate the errors** made by his bookkeeper in recording transactions and preparing the trial balance and the financial statements.

(12)

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(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 8 and 9 of the source booklet.

3 (a) Explain why a fall in the rate of inventory turnover may lead to a fall in liquidity.

(4)

(b) Calculate for both the year ended 30 April 2017 **and** the year ended 30 April 2018 the:

- liquid (acid test) ratio
- trade receivables collection period (in days)
- percentage return on capital employed.

(12)

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(c) Comment on the liquidity of Gadhar's business at 30 April 2018.

(3)

(d) Calculate the capital introduced by Gadhar during the year ended 30 April 2018.

(2)

(e) State **three** alternative sources of funding, other than the bank loan, that Gadhar could have used to fund the purchase of the non-current assets.

(3)

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(f) Evaluate the usefulness of ratios in determining the performance of a business.

(6)

(Total for Question 3 = 30 marks)

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

Source material for Question 4 is on pages 10 to 12 of the source booklet.

4 (a) State **two** differences between a club and a sole trader business.

(4)

1 .....

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(b) Calculate the value of the cash stolen from the manager's office on 27 April 2018.

(3)

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(c) Calculate the value of the sports equipment stolen from the shop on 27 April 2018.

(4)

(d) Calculate the total value of the insurance claim to be made to the Sports Insurance Company.

(2)

(e) Prepare the Journal entry, including narrative, recording the insurance claim made to the Sports Insurance Company.

(5)

(f) Prepare a statement showing the profit or loss on the hire of the function room for the **three months** ended 31 March 2018.

(6)

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The Kewstoke Sports Club has received a member's proposal to discontinue the hire of the function room.

(g) Evaluate the member's proposal to discontinue the hire of the function room.

(6)

(Total for Question 4 = 30 marks)

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

Source material for Question 5 is on pages 13 and 14 of the source booklet.

5 (a) Explain the following accounting concepts as they relate to the valuation of inventory:

(i) historic cost

(2)

(ii) consistency.

(2)

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(b) Calculate the inventory value at the 31 March 2018 using the First In First Out (FIFO) **perpetual inventory** method.

(8)

	Purchases from National Mint (coins)	**Sales (coins)**	**Balance**
Balance			
January			
February			
March			
Total closing value			

(c) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2018.

(6)

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(d) Calculate:

(i) the value of the inventory at 31 March 2018 using the Last In First Out (LIFO) **perpetual inventory** method

(4)

	Purchases from National Mint (coins)	**Sales (coins)**	**Balance**
Balance			
January			
February			
March			
Total closing value			

(ii) the difference in the profit for the three months ended 31 March 2018 if Brit Gold had used the Last In First Out (LIFO) **perpetual inventory** method.

(2)

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The Sales Manager of Brit Gold stated: 'We use the First In First Out (FIFO) inventory valuation because our profit **is always greater**.'

(e) Evaluate the Sales Manager's statement.

(6)

(Total for Question 5 = 30 marks)

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

Source material for Question 6 is on pages 15 and 16 of the source booklet.

6 (a) State the rules that would apply to the following where there is **no** partnership agreement:

- interest on partners' loans
- partners' salaries
- share of profit or loss.

(3)

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(b) Prepare, for the year ended 30 April 2018, the:

(i) appropriation section of the Statement of Profit or Loss and Other Comprehensive Income

(7)

(ii) capital accounts of Asanka, Bhulo and Padman

(7)

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(iii) current accounts of Asanka, Bhulo and Padman.

(7)

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(c) Evaluate the use of a formal partnership agreement.

(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
International Advanced Subsidiary
Paper 1: The Accounting System and Costing

Tuesday 15 May 2018 – Morning
Source Booklet

Paper Reference
WAC11/01

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SECTION A

Answer BOTH questions in this section.

1 Future Solar generates electricity from solar panels placed on its land. The electricity generated is then sold to a single customer, National Distribution, for £150 per megawatt hour.

The following balances were available at 30 April 2018.

	£
Non-current assets (at cost):	
Land and buildings	800 000
Solar panels and equipment	600 000
Computers and fixtures	72 000
Provisions for depreciation:	
Land and buildings	85 000
Solar panels and equipment	120 000
Computers and fixtures	16 000
Inventory – maintenance spares 1 May 2017	23 400
Purchases of maintenance spares	152 500
Trade payables	32 150
Trade receivables	69 000
Wages of maintenance staff	110 000
Management salaries	280 000
Capital	1 250 000
Drawings	25 000
Cash and bank	19 100
Selling expenses	9 500
Computer expenses	16 750
Revenue	750 000
Administration expenses	34 900
General expenses	41 000

Additional information at 30 April 2018

(1) Inventory of maintenance spares was counted and valued at £27 300

(2) A cash purchase of maintenance spares in March 2018, £1 750, had not been recorded in the books.

(3) Amounts owing: maintenance staff wages £5 700, management salaries £11 200

(4) General expenses prepaid £1 400

(5) On 20 April 2018 computers costing £12 000 were sold for £1 500 cash. On 1 May 2017 the computers had a carrying value of £6 000. No entries recording the sale had been made in the books.

(6) Depreciation is charged on all non-current assets owned at the end of the year as follows:

- No depreciation is charged on land, cost £250 000. Buildings are depreciated at the rate of 2% per annum on cost.
- Solar panels and equipment have an economic life of 25 years with no residual value. Depreciation is to be charged using the straight line method.
- Computers and fixtures at the rate of 25% per annum using the reducing balance method.

(7) Cash drawings of £3 000 made by the owner had not been recorded in the books.

Required

(a) Calculate the value of the maintenance spares used for the year ended 30 April 2018.

(3)

(b) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2018

(12)

(ii) Statement of Financial Position at 30 April 2018.

(16)

Future Solar is considering expanding its operation by purchasing more land and installing more solar panels and equipment. The owner has forecast that the additional cost would be, £800 000. To finance the expansion a 20-year 6% bank loan would be needed for £750 000

When the expanded facilities are operational the following forecasts are made for a full year.

(1) A total of 8 000 megawatt hours of electricity will be generated and sold to National Distribution.

(2) National Distribution will pay a price per megawatt hour that will be 10% lower than in the year ended 30 April 2018.

(3) The total costs for the year (**before** bank loan interest) will be:

Fixed – £880 000
Variable £12 per megawatt hour.

Required

(c) Calculate the forecast:

(i) profit or loss for the year

(5)

(ii) total cost of generating **one** megawatt hour.

(3)

(d) Explain:

(i) the term **fixed cost**

(2)

(ii) why the majority of Future Solar's costs are fixed costs.

(2)

(e) Evaluate the expansion proposal of Future Solar.

(12)

(Total for Question 1 = 55 marks)

2 Roshan's bookkeeper extracted the following trial balance on 30 April 2018.

	Dr	Cr
	£	£
Capital		60 000
Drawings	11 900	
Revenue		205 000
Purchases	125 000	
Returns inwards		800
Inventory – 1 May 2017	31 000	
Non-current assets (cost)	64 000	
Provision for depreciation – non-current assets		36 000
Discount allowed		1 680
Discount received	3 100	
Trade receivables		19 000
Trade payables		15 650
Allowance for doubtful debts	400	
Wages	27 000	
Rent and rates	8 500	
Electricity and gas	4 600	
General expenses	23 500	
Cash in hand		3 170
Suspense	42 300	
	341 300	341 300

Roshan was aware that the bookkeeper had made some errors in drafting the trial balance.

Required

(a) Complete the trial balance in your question paper, **correcting all errors**.

(8)

After the correction of the trial balance, the bookkeeper completed the financial statements, which showed a profit for the year of £30 700. Roshan then identified that there had been some errors in the year-end adjustments.

(1) The inventory at 30 April 2018 was recorded in the financial statements as £35 500. There was an error in the inventory count, which should have shown the total as £32 700

(2) No adjustment had been made for discount receivable owing. £3 100 had been recorded in the financial statements when this should have been £3 450

(3) No adjustments had been made for general expenses prepaid £1 200 and owing £550

(4) Annual depreciation on non-current assets had been charged at the rate of 25% on cost, when this should have been 15% on cost.

(5) No adjustment had been made to the allowance for doubtful debts, which should have been maintained at 4%.

(6) A provision should have been made for an injury claim from one of Roshan's employees. The injury claim would be for 7 weeks' loss of earnings at £180 per week plus a total loss of bonus of £120. No entry had been made in the financial statements.

Required

(b) Complete the table in the question paper, to calculate the revised profit/loss after the corrections of (1) to (6).

(14)

The following information related to three of Roshan's ledger accounts.

	Balance 1 May 2017	Payments by cheque	Balance 1 May 2018	Transfer to statement of profit or loss and other comprehensive income
	£	£	£	£
Allowance for doubtful debts	400	Nil	To be calculated	To be calculated
Wages	650 Cr	27 650	175 Cr	To be calculated
Electricity and gas	250 Dr	4 350	360 Cr	To be calculated

Required

(c) Prepare the following ledger accounts for the year ended 30 April 2018, showing the balance brought down at 1 May 2018:

- Allowance for Doubtful Debts Account
- Wages Account
- Electricity and Gas Account.

(9)

(d) Explain the difference between:

(i) the accounting concepts of accruals and money measurement

(4)

(ii) bad debts and allowance for doubtful debts

(4)

(iii) social accounting and ethical accounting.

(4)

Roshan is considering computerising his accounts using information and communication technology (ICT). He believes that this will eliminate the errors in his financial statements.

(e) Evaluate the proposal that information and communication technology (ICT) will **eliminate the errors** made by his bookkeeper in recording transactions and preparing the trial balance and the financial statements.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer THREE questions from this section.

3 Gadhar is in business as a sole trader. He decided to expand his business by investing in the replacement of his outdated non-current assets. The replacement took place in June 2017.

The following are the summarised Statements of Financial Position on 30 April 2017 (**before** the replacement of the non-current assets) and on 30 April 2018 (**after** the replacement of the non-current assets).

Summarised Statements of Financial Position at:

	30 April 2017	30 April 2018
	£	£
Non-current assets (carrying value)	10 000	85 000
Inventory	25 000	31 000
Trade receivables	12 000	26 000
Bank	10 000	–
	57 000	142 000
Capital	35 000	50 000
10-year bank loan	–	40 000
Trade payables	22 000	36 000
Bank overdraft	–	16 000
	57 000	142 000

Additional information

(1) Sales:
- year ended 30 April 2017 – £175 200 on credit
- year ended 30 April 2018 – total sales £300 000 of which £60 000 were for cash.

(2) Profit:
- year ended 30 April 2017 – £17 500
- year ended 30 April 2018 – £17 700

(3) Drawings for the year ended 30 April 2018 – £15 500

(4) Bank interest for the year ended 30 April 2018 – £3 900

Required

(a) Explain why a fall in the rate of inventory turnover may lead to a fall in liquidity.

(4)

(b) Calculate for both the year ended the 30 April 2017 **and** the year ended 30 April 2018 the:

- liquid (acid test) ratio
- trade receivables collection period (in days)
- percentage return on capital employed.

(12)

(c) Comment on the liquidity of Gadhar's business at 30 April 2018.

(3)

(d) Calculate the capital introduced by Gadhar during the year ended 30 April 2018.

(2)

(e) State **three** alternative sources of funding, other than the bank loan, that Gadhar could have used to fund the purchase of the non-current assets.

(3)

(f) Evaluate the usefulness of ratios in determining the performance of a business.

(6)

(Total for Question 3 = 30 marks)

4 There was a 'break-in' and theft at the Kewstoke Sports Club on 27 April 2018, when cash from the manager's office and sports equipment from the shop were stolen.

The following information is available.

(1) Balances 1 April 2018

Cash £250
Inventory of sports equipment in the shop £3 500

(2) Cash receipts and payments – 1 April to 27 April 2018

	£
Receipts from hire charges	525
Wages	400
Cleaning	190
Cash refund made to customer	25
Subscriptions paid by members	310
Sundry payments	120

(3) All the cash was stolen from the manager's office in the theft.

(4) Sports equipment sales and purchases – for 1 April to 27 April 2018

Revenue (Sales)	£4 200
Purchases	£3 200

(5) The inventory of sports equipment remaining **after the theft** was valued at £2 300

(6) All sports equipment is sold with a 25% gross profit as a percentage of revenue (profit margin).

(7) The Kewstoke Sports Club is insured with the Sports Insurance Company for the theft of all sums, excluding the first £200 of any claim for stolen cash.

Required

(a) State **two** differences between a club and a sole trader business.

(4)

(b) Calculate the value of the cash stolen from the manager's office on 27 April 2018.

(3)

(c) Calculate the value of the sports equipment stolen from the shop on 27 April 2018.

(4)

(d) Calculate the total value of the insurance claim to be made to the Sports Insurance Company.

(2)

(e) Prepare the Journal entry, including narrative, recording the insurance claim made to the Sports Insurance Company.

(5)

The Kewstoke Sports Club has a function room that it hires to the public for a daily hire rate of £250 per day. The following information is available for the three months ended 31 March 2018.

(1) The Kewstoke Sports Club hired the function room to the public for five days in January, four days in February and six days in March.

(2) The following expenses were incurred in the three months ended 31 March 2018:

Rates	£2 340
Wages	£5 600
Advertising	£2 200
Heating	£40 per day when the function room is hired to the public.

The total floor area of the Kewstoke Sports Club is 900 sqm. The function room area is 150 sqm.

It is estimated that 20% of the wages and 75% of the advertising are related to the function room.

(3) Depreciation on the function room fixtures is charged on the revaluation method. The valuations, purchases and sales of function room fixtures for the three months ended 31 March 2018, were:

	£
Valuation 1 January 2018	4 300
Additions	1 200
Disposals	600
Valuation 31 March 2018	4 700

Required

(f) Prepare a statement showing the profit or loss on the hire of the function room for the **three months** ended 31 March 2018.

(6)

The Kewstoke Sports Club has received a member's proposal to discontinue the hire of the function room.

(g) Evaluate the member's proposal to discontinue the hire of the function room.

(6)

(Total for Question 4 = 30 marks)

5 Brit Gold buys gold coins from the National Mint and sells them to customers. The price of gold in the three months January to March 2018 fluctuated owing to economic conditions.

The following information is available for Brit Gold for the three months January to March 2018.

(1) Inventory of gold coins 1 January 2018, 200 coins with a **total** value of £180 000

(2) Purchases of coins from the National Mint and sales to customers.

	Purchases from National Mint (coins)	**Sales (coins)**
January	200 @ £950	110
February	250 @ £980	220
March	150 @ £1050	200

(3) Brit Gold uses the First In First Out (FIFO) **perpetual inventory** method of valuation.

(4) Revenue for the three months ended 31 March 2018 totalled £550 000

(5) Total expenses, including depreciation, were £12 200 per month.

Required

(a) Explain the following accounting concepts as they relate to the valuation of inventory:

(i) historic cost

(2)

(ii) consistency.

(2)

(b) Calculate the inventory value at the 31 March 2018 using the First In First Out (FIFO) **perpetual inventory** method.

(8)

(c) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2018.

(6)

(d) Calculate:

(i) the value of the inventory at 31 March 2018 using the Last In First Out (LIFO) **perpetual inventory** method

(4)

(ii) the difference in the profit for the three months ended 31 March 2018 if Brit Gold had used the Last In First Out (LIFO) **perpetual inventory** method.

(2)

The Sales Manager of Brit Gold stated: 'We use the First In First Out (FIFO) inventory valuation because our profit is **always greater**.'

(e) Evaluate the Sales Manager's statement.

(6)

(Total for Question 5 = 30 marks)

6 Asanka and Bhulo are in partnership sharing profits and losses equally. The following balances were in the books on 30 April 2017.

Capital accounts:	£
Asanka	30 000
Bhulo	25 000

Current accounts:		
Asanka	600	Cr
Bhulo	1 500	Dr

Additional information

(1) On 1 May 2017 Asanka and Bhulo agreed to admit Padman as a partner.
An agreement was prepared for the new partnership as follows:
- Padman would introduce capital of £20 000 by cheque.
- Goodwill was valued at £18 000. This would **not** be retained in the books of the new partnership.
- Asanka would withdraw £10 000 of his capital. This would be paid by cheque on 1 May 2017.
- Interest will be charged on drawings taken at 5% per annum.
- Asanka would be paid interest on his remaining capital at 8% per annum.
- No interest on capital would be paid to Bhulo or Padman.
- Salaries for the year would be paid to Bhulo £8 000 and Padman £10 000
- The profit (loss) sharing ratio of Asanka, Bhulo and Padman would be 2:4:3

(2) Balances in the books at 30 April 2018:
- Profit for the year £45 585
- Salaries and drawings:

	Partners' salaries accrued	Drawings taken
	£	£
Asanka	–	5 800
Bhulo	500	6 500
Padman	1 000	8 000

Required

(a) State the rules that would apply to the following where there is **no** partnership agreement:

- interest on partners' loans
- partners' salaries
- share of profit or loss.

(3)

(b) Prepare, for the year ended 30 April 2018, the:

(i) appropriation section of the Statement of Profit or Loss and Other Comprehensive Income

(7)

(ii) capital accounts of Asanka, Bhulo and Padman

(7)

(iii) current accounts of Asanka, Bhulo and Padman.

(7)

(c) Evaluate the use of a formal partnership agreement.

(6)

(Total for Question 6 = 30 marks)

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