GradeMax

Please check the examination details below before entering your candidate information

| Candidate surname | Other names |
|---|---|

**Pearson Edexcel**
**International Advanced Level**

Centre Number | Candidate Number

# Friday 2 November 2018

Morning (Time: 3 hours) | Paper Reference **WAC11/01**

# Accounting

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

**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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## SECTION A

**Answer BOTH questions in this section.**

**Source material for Question 1 is on pages 2 to 5 of the source booklet.**

**1** (a) Prepare the:

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

**(13)**

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

**(12)**

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(b) Prepare the Bank Account of Pence Stores for the month of October 2018.

**(9)**

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(c) Prepare the Forecast Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2019.

**(9)**

(d) Evaluate the decision of the owner to change the nature of the business from a grocery retailer to a coffee shop.

**(12)**

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**(Total for Question 1 = 55 marks)**

**Source material for Question 2 is on pages 6 to 8 of the source booklet.**

**2** (a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2018.

**(15)**

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(b) Calculate the following ratios at 30 September 2018:

- current ratio
- liquid ratio (acid test)
- trade receivables collection period (in days)
- trade payables payment period (in days).

**(8)**

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(c) Comment briefly on **each** of the ratios calculated in question 2 (b).

**(4)**

Padma is worried that her bank balance has fallen from £7 045 to an overdraft of £1 500 during the year.

(d) State **three** possible reasons why Padma's bank balance has fallen during the year.

**(3)**

1

2

3

(e) Complete the table showing the total production cost **and** the production cost per bag at the two production levels.

**(10)**

| | **Option 1** | **Option 2** |
|---|---|---|
| | **Production** | |
| | **1 000 bags** | **3 000 bags** |
| | **£** | **£** |
| Raw materials | | |
| Labour | | |
| Supervision and quality control | | |
| Production overheads | | |
| **Total production cost** | | |
| **Cost per bag (£)** | | |
| **Workings** | | |

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(f) Identify whether the following costs incurred by Padma are variable, semi-variable, semi-fixed or fixed costs.

- Raw material
- Labour
- Supervision and quality control

**(3)**

Padma currently purchases bags for £35 each.

(g) Evaluate whether Padma should continue purchasing bags or start manufacturing bags.

**(12)**

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**(Total for Question 2 = 55 marks)**

**TOTAL FOR SECTION A = 110 MARKS**

## SECTION B

**Answer THREE questions in 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 10 and 11 of the source booklet.**

**3** (a) Complete the table showing adjustments and the corrected Statement of Profit or Loss and Other Comprehensive Income.

**(20)**

| | Draft | Adjustment | Corrected |
|---|---|---|---|
| | £ | | £ |
| Revenue | 85 000 | | |
| Cost of sales | 39 000 | | |
| Gross profit | 46 000 | | |
| Less | | | |
| Wages and salaries | 18 400 | | |
| Rent and rates | 4 000 | | |
| Bank interest and charges | 3 000 | | |
| Depreciation | 7 500 | | |
| General expenses | 5 900 | | |
| Allowance for doubtful debts increase | 100 | | |
| | 38 900 | | |
| Profit for the year | 7 100 | | |

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(b) Explain the use of the following in correcting errors in the ledger:

- Suspense Account
- the Journal.

**(4)**

(c) Evaluate the preparation of a draft Statement of Profit or Loss and Other Comprehensive Income when it is known that there are errors in the ledger.

**(6)**

**(Total for Question 3 = 30 marks)**

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**Source material for Question 4 is on pages 12 and 13 of the source booklet.**

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

**4** (a) Prepare the following at 31 August 2018, including year-end transfers where appropriate.

(i) Journal entries, **including** narratives and bank entries:

- bad debt of Smith and Sons
- recovery of part of the debt written off from Arca.

**(8)**

(ii) Bad Debts Account

**(5)**

(iii) Bad Debts Recovered Account

**(3)**

(iv) Allowance for Doubtful Debts Account.

**(4)**

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(b) Explain **four** elements of good credit control.

**(4)**

1 .....

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A friend of Lohit stated, 'I do not know why you use an allowance for doubtful debts account. It is better to write off the bad debts when they actually occur.'

(c) Evaluate the friend's statement.

**(6)**

**(Total for Question 4 = 30 marks)**

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**Source material for Question 5 is on pages 14 and 15 of the source booklet.**

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

**5** (a) Prepare the Manufacturing Account, in **columnar format**, for the month of July 2018, showing the cost of production of tables and the cost of production of chairs. (A total column is not required).

**(20)**

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(b) Explain the difference between **inventory valuation** and **inventory rotation**.

**(4)**

The accountant has advised Lee Manufacturing to use **perpetual** inventory valuation instead of **periodic** inventory valuation for its raw materials.

(c) Evaluate the accountant's advice.

**(6)**

**(Total for Question 5 = 30 marks)**

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**Source material for Question 6 is on pages 16 and 17 of the source booklet.**

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

**6** (a) Explain the following as they relate to inventory:

- net realisable value
- the accounting concept of historic cost
- the accounting concept of realisation.

**(6)**

(b) Calculate the total value of the inventory on 1 July 2018.

**(3)**

(c) Complete the table showing the calculation of the total value of the inventory on 31 July 2018.

**(7)**

| | | **Inventory** | **Purchases** | **Sales** | **Inventory** | **Total value** |
|---|---|---|---|---|---|---|
| | | 1 July | | | 31 July | 31 July |
| | | Quantity | Quantity | Quantity | Quantity | £ |
| Cookers | Clearance | 5 | --- | | | |
| | New | --- | | | | |
| Fridges | Clearance | 8 | --- | | | |
| | New | --- | | | | |
| Washing machines | Clearance | 10 | --- | | | |
| | New | --- | | | | |
| | | | | | | |

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(d) Prepare the trading section of the Statement of Profit or Loss and Other Comprehensive Income for the month ended 31 July 2018.

**(8)**

(e) Evaluate the use of accounting concepts and conventions in the preparation of financial statements.

**(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

# Friday 2 November 2018

Morning | Paper Reference **WAC11/01**

# Accounting

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

**Source Booklet**

**Do not return this Source Booklet with the question paper.**

*Turn over* ▶

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## SECTION A

**Answer BOTH questions in this section.**

**1** Pence Stores is a grocery retailer. The following balances were extracted from the books on 30 September 2018.

| | £ |
|---|---|
| Non-current assets (cost) | |
| Premises | 150 000 |
| Equipment | 24 000 |
| Fixtures and fittings | 20 000 |
| Provisions for depreciation | |
| Premises | 47 000 |
| Equipment | 8 000 |
| Fixtures and fittings | 12 000 |
| Trade payables | 36 800 |
| Revenue | 430 000 |
| Purchases | 285 000 |
| Trade receivables | 6 150 |
| Wages | 82 000 |
| Rates | 12 000 |
| Carriage inwards | 1 500 |
| Carriage outwards | 9 650 |
| Inventory – 1 October 2017 | 22 000 |
| Insurance | 7 200 |
| Equipment repairs | 2 450 |
| Capital | 120 000 |
| Drawings | 16 350 |
| Bank | 5 900 Dr |
| General expenses | 14 300 |
| Commission receivable | 4 700 |

**Additional information at 30 September 2018:**

(1) Inventory £17 100

(2) The owner had taken £400 of goods for his own use. This had not been recorded in the books.

(3) Rates of £900 were prepaid.

(4) Commission receivable of £1 300 was outstanding.

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

- premises at the rate of 2% per annum on cost
- equipment at the rate of 25% per annum using the reducing balance method
- fixtures and fittings at the rate of 10% using the straight line method.

**Required**

(a) Prepare the:

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

**(13)**

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

**(12)**

The annual profit made by Pence Stores has been declining over recent years as competition increases from larger retailers. As a result, the owner of Pence Stores has decided to convert his store into a coffee shop, the details are as follows:

- The grocery store will close on 30 September 2018. The new coffee shop will open, after the premises have been altered, on 1 November 2018
- The premises alterations will cost £20 000. Half will be paid by cheque in October and half in November
- All equipment will be sold for £7 800, and a cheque will be received in October
- Half of the fixtures and fittings will be sold for £800, payment will be received by cheque in October. The remaining half will be used in the new coffee shop
- New fixtures and fittings, costing £8 500, will be purchased and paid for by cheque in October
- The grocery inventory will be sold at cost, payment will be received by cheque in October
- Half of the trade payables on 30 September 2018 will be paid by cheque in October and half in November
- All the money owing to the business for trade receivables on 30 September 2018 will be received by cheque during October
- Four staff members will be made redundant at a total cost of £9 000. Payment will be made by cheque in October
- Running costs of £8 000 for October (wages, rates, etc.) will be paid by cheque in October
- The owner of Pence Stores has agreed an overdraft with the bank of £20 000

**Required**

(b) Prepare the Bank Account of Pence Stores for the month of October 2018.

**(9)**

The new coffee shop will open on 1 November 2018. The owner has made the following estimates for the year ended 30 September 2019.

- Revenue – 1 500 customers per week will use the coffee shop for the remaining 47 weeks of the year. Each customer will spend £5 per week.
- The gross profit margin will be 80%.
- Total running costs for the year (**excluding** depreciation/loss on sale of non-current assets and redundancy costs) will be £90 000
- The premises alterations for the coffee shop will be treated as capital expenditure.

**Required**

(c) Prepare the Forecast Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2019.

**(9)**

(d) Evaluate the decision of the owner to change the nature of the business from a grocery retailer to a coffee shop.

**(12)**

**(Total for Question 1 = 55 marks)**

**2** Padma buys and sells leather bags. She does not maintain a set of double entry books. The following information was available for the year ended 30 September 2018.

(1) Balances at

| | 1 October 2017 | 30 September 2018 |
|---|---|---|
| | £ | £ |
| Inventory | 3 600 | 4 400 |
| Non-current assets | 7 000 | 14 500 |
| Trade payables | 3 900 | 6 100 |
| 5% bank loan (repayable 2020) | - | 10 000 |
| Bank | 7 045 Dr | 1 500 Cr |
| Trade receivables | 5 250 | 8 700 |
| Wages accrued | 570 | - |
| Insurance prepaid | 600 | 200 |
| Rent receivable prepaid | 75 | - |

(2) Bank summary

| | £ |
|---|---|
| Receipts from trade receivables | 48 750 |
| Payments to trade payables | 15 300 |
| Wages paid | 19 420 |
| Cash purchases | 3 200 |
| Rent, rates and insurance paid | 9 900 |
| Rent received | 900 |
| Commission received | 2 450 |
| General expenses paid | 1 900 |
| Non-current asset purchase | 11 000 |

(3) The 5% bank loan (repayable 2020) was taken out on 1 January 2018. No interest had been paid on the bank loan at 30 September 2018.

(4) Wages included £6 000 paid to Padma.

**Required**

(a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2018.

**(15)**

(b) Calculate the following ratios at 30 September 2018:

- current ratio
- liquid ratio (acid test)
- trade receivables collection period (in days)
- trade payables payment period (in days).

**(8)**

(c) Comment briefly on **each** of the ratios calculated in question 2 (b).

**(4)**

Padma is worried that her bank balance has fallen from £7 045 to an overdraft of £1 500 during the year.

(d) State **three** possible reasons why Padma's bank balance has fallen during the year.

**(3)**

Padma is considering manufacturing bags instead of buying them. She has found suitable premises for manufacturing and is considering two options.

Option 1 Manufacture 1 000 bags per year selling them to her customers.

Option 2 Manufacture 3 000 bags per year selling 1 000 to her customers and selling the remainder to other retailers.

Forecast costs of manufacture:

(1) Raw material will be £4 per bag.

(2) Labour will be £5 000 per annum plus £5 per bag.

(3) Supervision and quality control will be £9 000 up to production of 2 000 bags at which point a second supervisor will be required costing a further £9 000

(4) Production overheads will be £8 000 per annum at a production of 1 500 bags and £10 000 at 2 500 bags.

**Required**

(e) Complete the table showing the total production cost **and** the production cost per bag at the two production levels.

**(10)**

(f) Identify whether the following costs incurred by Padma are variable, semi-variable, semi-fixed or fixed costs.

- Raw material
- Labour
- Supervision and quality control

**(3)**

Padma currently purchases bags for £35 each.

(g) Evaluate whether Padma should continue purchasing bags or start manufacturing bags.

**(12)**

**(Total for Question 2 = 55 marks)**

**TOTAL FOR SECTION A = 110 MARKS**

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**QUESTION 3 BEGINS ON THE NEXT PAGE.**

## SECTION B

**Answer three questions from this section.**

**3** Argit extracted a trial balance on 31 August 2018 and prepared a **draft** Statement of Profit or Loss and Other Comprehensive Income that showed a profit for the year of £7 100

On the 31 August 2018 **after** completion of the draft Statement of Profit or Loss and Other Comprehensive Income, the following balances remained in the ledger.

| | £ |
|---|---|
| Inventory | 3 800 |
| Wages and salaries | 1 900 Dr |
| Rent and rates | 1 100 Dr |
| Bank interest and charges | 500 Cr |
| Non-current assets (cost) | 30 000 |
| Provision for depreciation Non-current assets | 8 000 |
| General expenses | 200 Cr |
| Trade receivables | 9 800 |
| Allowance for doubtful debts | 400 |

Argit was aware that the trial balance contained several errors and the **draft** Statement of Profit or Loss and Other Comprehensive Income required adjustments.

The following errors were found:

(1) Cash sales of £3 600 had **not** been recorded in the books.

(2) Cash sales of £4 500 had been posted to the ledger as £5 400

(3) Inventory at 31 August was valued incorrectly. The value should have been £4 350

(4) Wages at 31 August 2018 of £1 900 were recorded incorrectly as they were accrued not prepaid.

(5) A salary bonus payment of £250 had not been recorded in the books.

(6) Rent and rates had been calculated incorrectly. The rent was prepaid £800 and the rates were accrued £300 at the 31 August 2018.

(7) A provision of £3 000 for bank interest and charges had been made in the financial statements. The actual sums were bank charges £1 750 and bank charges £90

(8) Depreciation on non-current assets had been calculated at the rate of 25% using the straight line method instead of 25% using the reducing balance method.

(9) General expenses included a payment of £600 interest on a loan for Argit's personal use. Business expenses of £75 paid by Argit, had not been recorded in the books.

(10) The allowance for doubtful debts was to be maintained at 5% of trade receivables.

**Required**

(a) Complete the table showing adjustments and the corrected Statement of Profit or Loss and Other Comprehensive Income.

**(20)**

(b) Explain the use of the following in correcting errors in the ledger:

- Suspense Account
- the Journal.

**(4)**

(c) Evaluate the preparation of a draft Statement of Profit or Loss and Other Comprehensive Income when it is known that there are errors in the ledger.

**(6)**

**(Total for Question 3 = 30 marks)**

**4** Lohit is in business buying and selling goods on credit. The following information relates to his bad and doubtful debts for the year ended 31 August 2018.

(1) Balance of Allowance for Doubtful Debts Account on 1 September 2017 was £1 100

(2) Bad debts

| | Customer | Balance owed | Payment received |
|---|---|---|---|
| 4 January 2018 | Jegan | £800 | £300 |
| 30 March 2018 | Smith and Sons | £3 000 | £0.60 in the £ |
| 19 May 2018 | Nuri | £500 | £0.30 in the £ |
| 3 June 2018 | Ng | £250 | Nil |

(3) Bad debts recovered

The balance of £400 owed by Arca had been written off on 20 July 2016. A cheque for part payment of the debt was received for £250 on 15 June 2018.

(4) Schedule of trade receivables 31 August 2018

| Age of debt | Amount | Allowance for doubtful debts |
|---|---|---|
| Up to 30 days | £12 500 | 2% |
| 31 – 60 days | £6 000 | 5% |
| Over 60 days | £1 500 | 20% |

**Required**

(a) Prepare the following at 31 August 2018, including year-end transfers where appropriate.

(i) Journal entries, **including** narratives and bank entries:

- bad debt of Smith and Sons
- recovery of part of the debt written off from Arca.

**(8)**

(ii) Bad Debts Account

**(5)**

(iii) Bad Debts Recovered Account

**(3)**

(iv) Allowance for Doubtful Debts Account.

**(4)**

(b) Explain **four** elements of good credit control.

**(4)**

A friend of Lohit stated, 'I do not know why you use an allowance for doubtful debts account. It is better to write off the bad debts when they actually occur.'

(c) Evaluate the friend's statement.

**(6)**

**(Total for Question 4 = 30 marks)**

**5** Lee Manufacturing makes two products, chairs and tables. Each product is made on a separate production line. The following information is available for the month of July 2018.

(1) Raw materials

The tables and chairs are made using the same type of wood raw material. Different sets of fittings are added to the tables and chairs to make the finished product.

| | **Wood for table and chairs** | **Table fittings** | **Chair fittings** |
|---|---|---|---|
| Inventory 1 July 2018 | 200 metres @ £100 per metre | 90 sets @ £25 each | 400 sets @ £10 each |
| Receipts | 200 metres @ £120 per metre | 150 sets @ £30 each | 200 sets @ £12 each |
| Issues | 250 metres | 200 sets | 300 sets |

- Lee Manufacturing uses the First In First Out (FIFO) method of **periodic** inventory valuation.
- In July, 150 metres of wood were used in the manufacture of tables and the remainder was used in the manufacture of chairs.

(2) Labour

- Five workers on the table production line worked 160 hours **each** in the month. Workers were each paid £6 per hour of which 90% was recorded as direct and 10% was recorded as indirect.
- Eight workers on the chair production line worked 175 hours **each** in the month. Workers were each paid £6 per hour for 160 hours and time and a third for 15 hours. 75% was recorded as direct and 25% recorded as indirect.

(3) Overheads

- Production supervisors salary was £3 900 and is to be apportioned on the numbers of workers supervised.
- Depreciation for the month was £6 600 of which £2 400 was apportioned to the production of tables.
- Other overheads totalled £7 500 and were apportioned 40% tables, 60% chairs.

(4) Work in progress

| | **Tables** | **Chairs** |
|---|---|---|
| 1 July 2018 | £4 000 | £5 200 |
| 31 July 2018 | £3 850 | £6 160 |

**Required**

(a) Prepare the Manufacturing Account, in **columnar format**, for the month of July 2018, showing the cost of production of tables and the cost of production of chairs. (A total column is not required).

**(20)**

(b) Explain the difference between **inventory valuation** and **inventory rotation**.

**(4)**

The accountant has advised Lee Manufacturing to use **perpetual** inventory valuation instead of **periodic** inventory valuation for its raw materials.

(c) Evaluate the accountant's advice.

**(6)**

**(Total for Question 5 = 30 marks)**

**6** Ameer purchased a business that buys and sells electrical household goods. When taking over the business, Ameer realised that the existing inventory was obsolete. He therefore decided to have a clearance sale of the existing inventory and replace it with a new, up-to-date inventory.

The following information is available for July 2018.

(1) Inventory on 1 July 2018

| | Cost<br>£ | Clearance sale price<br>£ |
|---|---|---|
| 5 Cookers | 180 each | 190 each |
| 8 Fridges | 90 each | 60 each |
| 10 Washing machines | 160 each | 170 each |

(2) Purchases of new inventory during July

| | Cost<br>£ |
|---|---|
| 12 Cookers | 200 each |
| 10 Fridges | 100 each |
| 15 Washing machines | 200 each |

Ameer will 'mark-up' all **new inventory** for resale by 20%.

(3) Sales for July 2018

| | Clearance inventory | New inventory |
|---|---|---|
| | Number sold | Number sold |
| Cookers | 3 | 8 |
| Fridges | 5 | 6 |
| Washing machines | 4 | 12 |

**Required**

(a) Explain the following as they relate to inventory:

- net realisable value
- the accounting concept of historic cost
- the accounting concept of realisation.

**(6)**

(b) Calculate the total value of the inventory on 1 July 2018.

**(3)**

(c) Complete the table showing the calculation of the total value of the inventory on 31 July 2018.

**(7)**

(d) Prepare the trading section of the Statement of Profit or Loss and Other Comprehensive Income for the month ended 31 July 2018.

**(8)**

(e) Evaluate the use of accounting concepts and conventions in the preparation of financial statements.

**(6)**

**(Total for Question 6 = 30 marks)**

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

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