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

Tuesday 7 January 2020

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.
- All calculations must be shown.
- Answer **both** questions in Section A and **three** questions from Section B.
- 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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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) Prepare the journal entries to correct the errors found on 31 December 2019.
Narratives are not required.

(6)

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(b) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019.

(15)

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(ii) Statement of Financial Position at 31 December 2019.

(18)

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(c) Calculate the amount of Raj's initial capital and Paul's initial capital if they decide to form the partnership.

(4)

(d) Evaluate, from the point of view of Raj, his proposed partnership with Paul.

(12)

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(Total for Question 1 = 55 marks)

Source material for Question 2 is on pages 6 and 7 of the Source Booklet.

2 (a) Calculate the value of the inventory at 31 December 2019.

(8)

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(b) State, giving **one** reason, whether the inventory value would be higher, or lower, if Tam had used Last In First Out (LIFO) as his method of valuation.

(2)

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

(4)

(d) Prepare the Trade Receivables (Sales) Ledger Control Account for December 2019 showing the balances at the end of the month.

(8)

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(e) Calculate the bank balance at 31 December 2019.

(6)

(f) Prepare the **extract** from Tam's Statement of Financial Position listing all of the **current assets** at 31 December 2019.

(7)

(g) Explain the following accounting concepts, giving **one** application of their use in the preparation of the **current assets** in a Statement of Financial Position.

(i) Consistency

(4)

(ii) Prudence

(4)

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

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(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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SECTION B BEGINS ON THE NEXT PAGE.

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) State **two disadvantages** of **not** maintaining double entry books.

(2)

1 .....

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2 .....

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(b) Prepare the:

(i) summarised bank account for the year showing the balance at 31 December 2019

(8)

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(ii) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019

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(iii) Statement of Financial Position at 31 December 2019.

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Natalie is considering using information communication technology (ICT) to maintain her accounts and records.

(c) Evaluate whether Natalie should use information communication technology (ICT) to maintain her accounts and records.

(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 page 10 of the Source Booklet.

4 (a) Explain **four** features of a good credit control policy that Alex should use.

(8)

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(b) Calculate the following ratios for **both** the years ended 31 December 2018 and 31 December 2019:

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

(16)

Ratio	**31 December 2018**	**31 December 2019**
Current ratio		
Liquid (acid test) ratio		
Trade payables payment period (in days)		
Trade receivables collection period (in days)		

(c) Evaluate Alex's liquidity position at 31 December 2019.

(6)

(Total for Question 4 = 30 marks)

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QUESTION 5 BEGINS ON THE NEXT PAGE.

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

Source material for Question 5 is on pages 12 and 13 of the Source Booklet.

5 (a) Prepare the Manufacturing Account, **in columnar format,** for the year ended 31 December 2019, showing the cost of producing desks, tables and a total cost.

(20)

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(b) Explain the entries to be made in the Provision for Unrealised Profit Account if the inventory of finished goods at 31 December 2019 was valued at £660 000

(4)

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The Production Manager has decided to remunerate each production line using a group bonus scheme.

(c) Evaluate the Production Manager's decision.

(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 14 and 15 of the Source Booklet.

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

(4)

- historic cost concept

- net realisable value.

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(b) Calculate the **number of items** in the inventory for **each** of the two products at 31 December 2019.

(6)

	Printers	**Ink cartridges**
	Number	**Number**

(c) Calculate Maria's gross profit as a percentage of revenue on **each**:

(4)

- printer

- ink cartridge.

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(d) Complete the Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 December 2019.

(10)

(e) Evaluate Maria's pricing strategy for the sale of printers and ink cartridges.

(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

Tuesday 7 January 2020

Morning (Time: 3 hours) | 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 Raj is a retailer of computer software. The following balances were in his books on 31 December 2019.

	£	
Non-current assets (cost):		
Premises	80 000	
Computers and equipment	30 000	
Fixtures and fittings	16 000	
Provisions for depreciation:		
Premises	22 000	
Computers and equipment	14 000	
Fixtures and fittings	9 600	
Purchases	216 000	
Purchase returns	20 300	
Wages	40 800	
Management salaries	25 000	
Bank and cash	10 350	Dr
Inventory 1 January 2019	37 600	
Trade payables	28 350	
Trade receivables	37 500	
Capital	80 000	
Raj – Current account	6 700	Cr
Drawings	22 000	
Electricity and water	9 700	
Premises running expenses	6 900	
Advertising expenses	17 000	
Revenue	309 000	
5% bank loan	60 000	
Bank loan interest paid	1 700	
Allowance for irrecoverable debts	600	

On the 31 December 2019 Raj inspected his books and found the following errors.

(1) Purchases, £1 800, had been returned to the supplier, Global ICT. No entries for the returns had been made in the books.

(2) Drawings made by Raj, £900, had been posted to the Wages Account.

(3) The entries for the payment made by cheque for electricity, £1 150, were reversed in the books.

Required

(a) Prepare the journal entries to correct the errors found on 31 December 2019. **Narratives are not required.**

(6)

Additional information at 31 December 2019

(1) Inventory £51 100

(2) Wages £3 700 were accrued.

(3) Advertising expenses included a £4 000 payment for a campaign running from 1 November 2019 to 31 March 2020.

(4) The 5% bank loan was taken out on 1 January 2019. Half of the loan is repayable on 1 January 2020 and half on 1 January 2021.

(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.
- Computers and equipment at the rate of 25% per annum using the reducing balance method.
- Fixtures and fittings at the rate of 15% per annum using the straight line method.

(6) A debt for £2 500 is considered irrecoverable. An allowance is to be maintained on all remaining debts at 4% of trade receivables.

(7) Raj maintains a fixed capital account. All drawings and profit appropriations are made through his current account.

Required

(b) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019.

(15)

(ii) Statement of Financial Position at 31 December 2019.

(18)

Raj is considering entering into a partnership with Paul from 1 January 2020.
Paul runs a computer hardware business.

Paul's books show a capital of £80 000, but this does **not** include goodwill worth £60 000

There is no goodwill in the business of Raj and it is agreed that goodwill would **not** be maintained in the books of the proposed partnership.

Profits and losses in the proposed partnership would be shared, Raj 2/5 and Paul 3/5.

Required

(c) Calculate the amount of Raj's initial capital and Paul's initial capital if they decide to form the partnership.

(4)

(d) Evaluate, from the point of view of Raj, his proposed partnership with Paul.

(12)

(Total for Question 1 = 55 marks)

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SOURCE MATERIAL FOR QUESTION 2 BEGINS ON THE NEXT PAGE.

2 Tam is preparing his Statement of Financial Position at 31 December 2019.
The following information relates to his calculation of the current assets.

(1) Inventory

Tam calculates his inventory valuation using the First In First Out (FIFO) method.
The opening balance and inventory movements for December 2019 were:

1	December	Balance	650 items at £13 per item
3	December	Receipt	800 items at £12 per item
4–14	December	Sales	600 items
15	December	Receipt	400 items at £11 per item
16–23	December	Sales	500 items
24	December	Receipt	300 items at £10 per item
25–31	December	Sales	200 items

Required

(a) Calculate the value of the inventory at 31 December 2019.

(8)

(b) State, giving **one** reason, whether the inventory value would be higher, or lower, if Tam had used Last In First Out (LIFO) as his method of valuation.

(2)

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

(4)

(2) Trade receivables

Tam calculates his trade receivables by preparing a Trade Receivable (Sales) Ledger Control Account. The following information is available.

On 1 December 2019 the balances on the Trade Receivable (Sales) Ledger Control Account were:

£5 100 Dr
£ 240 Cr

For the month of December 2019 the summarised transactions were as follows.

1. Sales were made, £3 850 on credit and £780 for cash.
2. Sales returns totalling £420 were received including £70 from cash customers.
3. Cheques were received from credit customers totalling £4 050
4. There was an irrecoverable debt of £230
5. Discount allowed was £170
6. Interest of £60 was charged on an overdue trade receivable account.

Additional information at 31 December 2019

- There was a credit balance on a trade receivable account of £350
- The allowance for irrecoverable debts was £400

Required

(d) Prepare the Trade Receivables (Sales) Ledger Control Account for December 2019 showing the balances at the end of the month.

(8)

(3) Other receivables

Consisted of one month's prepaid rent on the premises charged at the rate of £7 200 per annum, plus prepaid expenses of £95

(4) Cash and bank

The summarised cash and bank transactions for December 2019 were as follows.

	£
Opening cash and bank balances	750
Receipts from trade receivables	4 050
Payment to trade payables	1 850
Sale of non-current assets	600
Wages	1 500
Expenses	1 350
Cash sales	780
Cash refund paid for sales returns	70

Additional information on 31 December 2019

The cash balance was £50

Required

(e) Calculate the bank balance at 31 December 2019.

(6)

(f) Prepare the **extract** from Tam's Statement of Financial Position listing all of the **current assets** at 31 December 2019.

(7)

(g) Explain the following accounting concepts, giving **one** application of their use in the preparation of the **current assets** in a Statement of Financial Position.

(i) Consistency

(4)

(ii) Prudence

(4)

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

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer THREE questions from this section.

3 Natalie started a business on 1 January 2019 as a retailer of hats. She rents premises for an office and sells the hats on the internet.

Natalie does not maintain double entry books, but the following information is available for the year ended 31 December 2019.

(1) On 1 January 2019 Natalie started the business with £2 000 in the bank and fixtures valued at £2 500

(2) All purchases were on credit. All sales are paid for at the time of order.

(3) Purchases and sales for the year were:

Purchases	7 500	hats at £7 per hat
Purchase returns	200	hats which were defective
Sales	6 600	hats at £12 per hat
Sales returns	300	hats, full refund given to customer

(4) Expenses were all paid by cheque:

Rent	£500 per month paid one month in advance
Postage on sales	£1.25 per hat paid at time of postage
Office expenses	£3 450
Internet costs	£5 050

(5) Additional fixtures were bought in March costing £1 300

(6) Natalie took £500 per month as drawings.

(7) On the 31 December 2019:

Natalie owed trade payables £10 350
The fixtures were valued at £2 700

Required

(a) State **two disadvantages** of **not** maintaining double entry books.

(2)

(b) Prepare the:

(i) summarised bank account for the year showing the balance at 31 December 2019

(8)

(ii) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019

(8)

(iii) Statement of Financial Position at 31 December 2019.

(6)

Natalie is considering using information communication technology (ICT) to maintain her accounts and records.

(c) Evaluate whether Natalie should use information communication technology (ICT) to maintain her accounts and records.

(6)

(Total for Question 3 = 30 marks)

4 Alex is in business selling electrical equipment. The following balances were recorded in the books at 31 December 2018 and 31 December 2019.

	31 December 2018		31 December 2019	
	£'000		£'000	
Revenue	200		250	
Purchases	120		140	
Inventory	22		24	
Trade payables	15		10	
Trade receivables	12		30	
Bank	6	Dr	28	Cr
Other payables	3		4	
Other receivables	5		2	

Additional information

(1) In the year ended 31 December 2018, 60% of revenue (sales) income and 75% of purchases were on credit.

(2) In the year ended 31 December 2019, 80% of revenue (sales) income and 100% of purchases were on credit.

Required

(a) Explain **four** features of a good credit control policy that Alex should use.

(8)

(b) Calculate the following ratios for **both** the years ended 31 December 2018 and 31 December 2019:

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

(16)

(c) Evaluate Alex's liquidity position at 31 December 2019.

(6)

(Total for Question 4 = 30 marks)

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SOURCE MATERIAL FOR QUESTION 5 BEGINS ON THE NEXT PAGE.

5 Keegan Manufacturing produces two products, desks and tables. Each product is made on a separate production line. Both products are manufactured from the same raw materials.

The following information was available for the year ended 31 December 2019.

Balances 1 January 2019:

	£	
Inventory		
Raw material	54 000	
Work in progress – desks	37 000	
– tables	24 000	
Provision for unrealised profit	70 000	Cr

Balances in ledger at 31 December 2019:

Purchases of raw materials	193 000
Production wages	208 000
Rent and rates	40 000
Management salaries	65 000
Sundry materials	30 000
Insurance of machinery	15 000
Electricity	16 800
Royalties – desks	20 000
Depreciation charge on machinery	30 000

Additional information available at 31 December 2019

(1) Inventory

	£
Raw material	61 000
Work in progress – desks	38 600
– tables	23 200

(2) £112 000 of raw materials was used to make desks, the balance of raw materials was used to make tables.

(3) Sundry materials were considered 60% direct and 40% indirect. Two-thirds of sundry materials were used in the production of desks and one-third in the production of tables.

(4) Other information.

	Desk	**Table**
Production line workers	8	5
Floor area occupied (sq m)	6 000	4 000
Machinery value (£'000)	60	90
Machinery capacity (kilowatt hour)	16	12

(5) Finished goods were transferred to the warehouse at cost of production plus 10%.

Required

(a) Prepare the Manufacturing Account, **in columnar format,** for the year ended 31 December 2019, showing the cost of producing desks, tables and a total cost.

(20)

(b) Explain the entries to be made in the Provision for Unrealised Profit Account if the inventory of finished goods at 31 December 2019 was valued at £660 000

(4)

The Production Manager has decided to remunerate each production line using a group bonus scheme.

(c) Evaluate the Production Manager's decision.

(6)

(Total for Question 5 = 30 marks)

6 Maria is in business buying and selling printers and ink cartridges.

The following information is a summary of her inventory movements for the three months ended 31 December 2019.

	Printers	Ink cartridges
	Number	**Number**
Inventory – 1 October 2019	16	120
Purchases	48	290
Purchase returns	–	16
Sales	50	300
Sales returns	1	–

Required

(a) Explain the meaning of the following terms as they relate to **inventory**:

- historic cost concept
- net realisable value.

(4)

(b) Calculate the **number of items** in the inventory for **each** of the two products at 31 December 2019.

(6)

For the three months ended 31 December 2019 the purchase costs and selling prices of the two products were as follows.

	Printers	Ink cartridges
	£	**£**
Purchase cost	75	10
Selling price	80	25

Required

(c) Calculate Maria's gross profit as a percentage of revenue on **each**:

- printer
- ink cartridge.

(4)

Additional information

(1) On 1 October 2019 expenses were accrued of £245

(2) Total expenses of £3 100 were paid during the three months ended 31 December 2019.

(3) On 31 December 2019 expenses of £720 were prepaid.

(4) Depreciation for the year ended 31 December 2019 was calculated to be £2 400

Required

(d) Complete the Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 December 2019.

(10)

(e) Evaluate Maria's pricing strategy for the sale of printers and ink cartridges.

(6)

(Total for Question 6 = 30 marks)

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

GradeMax

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