GradeMax

Pearson Edexcel International Advanced Level

# Tuesday 12 May 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.**

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## SECTION A

**Answer BOTH questions in this section.**

**1** All Fruit is a manufacturer and retailer of high quality jam. The following information is available for the year ended 30 April 2020.

| | £ |
|---|---|
| Inventory at 1 May 2019 | |
| Raw materials | 41 500 |
| Finished goods | 60 000 |
| Revenue | 720 000 |
| Wages | |
| Production | 93 000 |
| Administrative | 37 650 |
| Management salaries | 210 000 |
| Purchases of raw materials | 160 000 |
| Production expenses | |
| Direct | 26 500 |
| Indirect | 11 900 |
| Marketing expenses | 52 000 |
| Rent and rates | 25 000 |
| Insurance | 6 000 |
| Commission received | 5 600 |
| Electricity and water | 8 000 |
| Non-current assets (cost) | |
| Production equipment | 130 000 |
| Office computers | 70 000 |
| Office fixtures | 14 000 |
| Provisions for depreciation | |
| Production equipment | 78 000 |
| Office computers | 18 000 |
| Office fixtures | 2 800 |
| Trade receivables | 55 000 |
| Irrecoverable debts | 6 150 |
| Trade payables | 68 400 |
| Cash and bank | 7 250 Dr |
| Provisions for | |
| Unrealised profit | 10 000 |
| Irrecoverable debts | 1 500 |
| Capital | 125 000 |
| Drawings | 15 350 |

**Additional information at 30 April 2020**

(1) Inventory

| | |
|---|---|
| Raw materials | £33 000 |
| Finished goods | £54 000 |

(2) There was no inventory of work in progress.

(3) Marketing expenses, £4 800, were prepaid.

(4) Electricity, £2 000, was accrued.

(5) Depreciation is charged on all non-current assets owned at the end of the year as follows.
- Production equipment at the rate of 20% per annum on cost.
- Computer equipment at the rate of 25% per annum using the reducing balance method.
- Office fixtures at the rate of 10% per annum using the straight line method.

(6) Expenses are to be apportioned between production and administration as follows.

| Expense | Basis of apportionment | Production | Administration |
|---|---|---|---|
| Management salaries | Number of managers | 2 | 5 |
| Rent and rates | Floor area (sq m) | 9 000 | 1 000 |
| Insurance | Estimate | 60% | 40% |
| Electricity and water | Estimate | 80% | 20% |

(7) The provision for irrecoverable debts is to be maintained at 4% of trade receivables.

(8) Finished goods are transferred from production to the warehouse at production cost plus 20%.

**Required**

(a) Prepare the Manufacturing Account for the year ended 30 April 2020.

**(13)**

In the year ended 30 April 2020 All Fruit produced 20 000 cases of jam. Each case contains 12 jars.

(b) Calculate the:

(i) cost of producing **one jar** of jam for the year ended 30 April 2020

**(2)**

(ii) closing balance of the provision for unrealised profit at 30 April 2020.

**(2)**

(c) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2020

**(15)**

(ii) Statement of Financial Position at 30 April 2020.

**(11)**

A major supermarket chain would like All Fruit to supply an additional 15 000 cases (180 000 jars) per year at a price of £1.80 per jar.

(d) Evaluate whether All Fruit should produce and supply the additional 15 000 cases to the supermarket.

**(12)**

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

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**QUESTION 2 BEGINS ON PAGE 6.**

**2** The following were the summarised financial statements of Conco for the year ended 31 December 2019.

**Statement of Profit or Loss and Other Comprehensive Income**

| | £ |
|---|---|
| Revenue | 150 000 |
| Cost of sales | (100 000) |
| Expenses and depreciation | (52 000) |
| Loss for the year | (2 000) |

**Statement of Financial Position at 31 December 2019**

| **Assets** | **£** |
|---|---|
| Non-current (cost £70 000) | 67 000 |
| Inventory | 11 600 |
| Trade receivables | 6 400 |
| | 85 000 |
| **Capital and liabilities** | |
| Capital | 10 000 |
| Five-year 8% bank loan | 50 000 |
| Trade payables | 16 000 |
| Bank overdraft | 9 000 |
| | 85 000 |

**Additional information**

(1) 80% of sales were made on credit.

(2) Purchases of £104 000 were on credit.

(3) The five-year 8% bank loan was taken out on 1 January 2018.

**Required**

(a) Calculate the:

(i) percentage return on capital employed

**(2)**

(ii) liquid (acid test) ratio

**(2)**

(iii) trade receivables collection period (in days)

**(2)**

(iv) trade payables payment period (in days).

**(2)**

(b) Explain the term **liquidity**.

**(2)**

(c) Comment on the liquidity of Conco at 31 December 2019 using your calculations in (a).

**(4)**

On 1 January 2020 Jafna purchased Conco for a purchase price of £80 000. The purchase included **all** the assets and liabilities of Conco **excluding** the bank overdraft and the five-year 8% bank loan.

**Required**

(d) Calculate the value of the goodwill paid by Jafna when purchasing Conco.

**(2)**

Jafna purchased Conco with the objectives of:

- improving liquidity
- improving profitability.

**During the three-month period ended 31 March 2020**

(1) Jafna opened a business bank account with £10 000 additional capital.

(2) Half of the inventory on 1 January 2020 was outdated and this was sold for £3 000. Payment was received by cheque.

(3) Purchases of £35 000 were made on credit.

(4) All goods for sale were marked-up by 50%.

(5) **Excluding** the outdated inventory, sales of £48 000 were made. £6 000 was paid by cheque and the remainder was sold to credit customers.

(6) A debt of £800 became irrecoverable.

(7) Expenses of £7 000 were paid by cheque.

(8) Jafna withdrew £500 per month from the bank account as drawings.

(9) Cheques received from trade receivables totalled £31 000

(10) Cheques paid to trade payables totalled £40 000

**At 31 March 2020**

- Jafna calculated his depreciation on non-current assets for the three-month period to be £1 700
- Expenses of £750 were accrued and £325 were prepaid.

**Required**

(e) Calculate, by completing the table on page 14 in your question paper, the value at 31 March 2020 of the:

(i) inventory

**(4)**

(ii) trade payables

**(3)**

(iii) trade receivables

**(4)**

(iv) bank.

**(7)**

(f) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2020.

**(5)**

(g) Calculate, at 31 March 2020, the:

(i) current ratio

**(2)**

(ii) percentage return on capital employed.

**(2)**

(h) Evaluate whether Jafna achieved his objectives to improve liquidity and improve profitability.

**(12)**

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

**TOTAL FOR SECTION A = 110 MARKS**

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**SOURCE MATERIAL FOR SECTION B BEGINS ON PAGE 10.**

## SECTION B

**Answer THREE questions from this section.**

**3** The following balances were recorded in the books of Speedy Deliveries on 1 May 2019.

| | £ |
|---|---|
| Non-current assets (cost) | |
| Motor vehicle | 16 000 |
| Computer equipment | 20 000 |
| Provisions for depreciation | |
| Motor vehicles | **To be calculated** |
| Computer equipment | 5 000 |

The motor vehicle had been purchased on 1 May 2017.

**Depreciation policy**

(1) The depreciation policy of Speedy Deliveries had been to charge depreciation on all non-current assets **owned at the end of each year** at the rate of:

- motor vehicles 15% using the straight line method
- computer equipment 25% using the reducing balance method.

(2) On 30 April 2020 Speedy Deliveries reviewed its depreciation policy and decided to charge depreciation on the motor vehicle at the rate of 25% using the reducing balance method.

This would be backdated to the date of purchase of the motor vehicle with an adjustment to be made in the Motor Vehicle Provision for Depreciation Account.

**Required**

(a) Calculate the adjustment to be made for **each** of the years ended 30 April 2018 and 30 April 2019 to introduce the new depreciation policy.

**(3)**

**Purchase and sales of computer equipment for the year ended 30 April 2020**

| | |
|---|---|
| 1 September 2019 | Sold computer equipment, costing £3 600 and with a £1 000 carrying value, for a payment by cheque of £850 |
| 10 September 2019 | Purchased computer equipment, £6 000, on credit from Bell Computers. |

**Required**

(b) State **two** causes of depreciation for computer equipment.

**(2)**

(c) Explain the following accounting concepts as they relate to the depreciation of non-current assets:

- going concern
- consistency.

**(4)**

(d) Calculate the depreciation to be charged for the year ended 30 April 2020 for the:

(i) motor vehicle

**(2)**

(ii) computer equipment.

**(3)**

(e) Prepare for the year ending 30 April 2020 the following ledger accounts:

(i) Computer Equipment Account

**(5)**

(ii) Disposal Account.

**(5)**

Speedy Deliveries decided to depreciate its non-current assets using the reducing balance method.

(f) Evaluate Speedy Deliveries using the reducing balance method for its non-current assets.

**(6)**

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

**4** Sanjay and Tara are in partnership. The partnership agreement allows for interest on capital, interest on drawings and partners' salaries of £7 500 for each partner. The remaining profits or losses are shared in the ratio Sanjay two thirds: Tara one third.

**The following information is available for the year ended 30 April 2020**

(1) Balances 1 May 2019.

| | **Sanjay** | **Tara** |
|---|---|---|
| | **£** | **£** |
| Capital accounts | 80 000 | 30 000 |
| Current accounts | 400 Dr | 750 Cr |

(2) Capital account changes during the year.

1 November 2019 Sanjay converted £20 000 of his capital into a 10-year 6% loan to the partnership.

He also withdrew £10 000 of his capital from the partnership by cheque.

1 December 2019 The partners decided that the goodwill balance of £18 000 should **not** remain in the books and this was written off.

1 January 2020 Tara introduced additional capital consisting of computer equipment valued at £4 000 and a cheque for £8 000

(3) Profit for the year was £23 660

(4) Other balances at 30 April 2020.

| | **Sanjay** | **Tara** |
|---|---|---|
| | **£** | **£** |
| Interest on capital | 225 | 170 |
| Drawings (excluding salaries) | 4 500 | 7 000 |
| Interest on drawings | 405 | 630 |
| Partnership salaries – paid | 7 500 | 7 500 |

**Required**

(a) Explain how the 10-year 6% loan of £20 000 from Sanjay and the interest on the loan would be recorded in the:

- Statement of Profit or Loss and Other Comprehensive Income
- Appropriation Account
- Statement of Financial Position.

**(6)**

(b) Calculate, for the year ended 30 April 2020, the:

(i) percentage interest charged on the drawings of the partners

**(2)**

(ii) amount of share of profit (£) paid to Sanjay and to Tara.

**(5)**

(c) Prepare, for the year ended 30 April 2020, the:

(i) Capital Accounts of **Sanjay and Tara**

**(6)**

(ii) Current Account of **Sanjay**.

**(5)**

(d) Evaluate trading as a partnership rather than as a sole trader.

**(6)**

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

**5** Alvo Products assembles a range of products in its factory. The products are assembled by operators on production lines.

The management of Alvo Products has been varying the number of operators on the Standard model production line in April. Three options for production line operator numbers were as follows:

| | **Option 1** | **Option 2** | **Option 3** |
|---|---|---|---|
| Number of operators | 8 | 10 | 12 |
| Hours worked (per operator) | 50 | 45 | 45 |
| Total output (units) | 5 600 | 7 200 | 8 100 |

**Required**

(a) Explain the term **labour productivity**.

**(2)**

(b) Advise management which of the three options gives the best output per hour, showing all calculations.

**(7)**

On another production line, which makes the Super model, all operators are paid on a day work basis. For Week 1 the following information is available:

| | **Skilled** | **Unskilled** |
|---|---|---|
| Number of operators | 8 | 4 |
| Hours worked (per operator) | 49 | 49 |
| Basic rate per hour (£) | 6 | 4 |

**Additional information**

(1) All operators work a standard 40-hour week before overtime is paid.

(2) Overtime is paid at time plus one third.

(3) During Week 1 the production output of Super models was a total of 2 400

**Required**

(c) Calculate the **total labour cost** of operating the Super model production line for Week 1.

**(7)**

The management of Alvo Products is considering introducing a group bonus scheme on the Super model production line. Operators would receive the same basic rate and overtime rate for hours worked. A bonus of 20 pence (£0.20) per Super model produced would be paid and divided equally amongst all operators on the Super model production line.

It is estimated that if a group bonus scheme was introduced the hours worked by skilled and unskilled workers would have been 43 hours in Week 1. The Week 1 output of Super models would have been the same at 2 400 units.

**Required**

(d) Calculate the forecast:

(i) **total labour cost** of operating the Super model production line in Week 1 if a group bonus scheme was implemented.

**(5)**

(ii) gross pay of **one unskilled operator** in Week 1 if a group bonus scheme was implemented.

**(3)**

(e) Evaluate the use of a group bonus scheme by the management of Alvo Products.

**(6)**

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

**6** Akma prepared a trial balance on 30 April 2020. Although the trial balance agreed, Akma found that there were errors in the books. These were as follows.

(1) A computer repair, £645, had been posted to the Computers Account.

(2) A sales return from Shelley had been recorded correctly, in the Sales Returns Day Book as £47 but had been posted to the ledgers as £74

(3) A sale of goods on credit, £130, to Javid had **not** been recorded in the books.

(4) A receipt of £2 100 paid by a customer, Michael, had been posted to the account of Maria.

(5) Discount received from Christina, £25, had been credited to her account and posted as discount allowed in the books.

(6) There were two errors in the expense accounts.

The payment of an electricity bill, £90, had been recorded correctly in the Bank Account but was recorded as £80 in the Electricity Account.

A payment for motor expenses, £130, had been recorded correctly in the Bank Account but had been recorded as £140 in the Motor Expenses Account.

**Required**

(a) Explain the term **suspense account**.

**(2)**

(b) Identify the type of error in **each** of (1) to (6).

**(6)**

(c) Prepare the journal entries to correct the errors in (1) to (6). Narratives are **not** required.

**(16)**

(d) Evaluate whether the use of information and communication technology (ICT) would **eliminate all errors** in the books of Akma.

**(6)**

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

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

GradeMax

Please check the examination details below before entering your candidate information

| Candidate surname | Other names |
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**Pearson Edexcel**
**International**
**Advanced Level**

Centre Number | | | | | |

Candidate Number | | | | |

# Tuesday 12 May 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.
- 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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## 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 Manufacturing Account for the year ended 30 April 2020.

**(13)**

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(b) Calculate the:

(i) cost of producing **one jar** of jam for the year ended 30 April 2020.

**(2)**

(ii) closing balance of the provision for unrealised profit at 30 April 2020.

**(2)**

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(c) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2020

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(ii) Statement of Financial Position at 30 April 2020.

**(11)**

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A major supermarket chain would like All Fruit to supply an additional 15 000 cases (180 000 jars) per year at a price of £1.80 per jar.

(d) Evaluate whether All Fruit should produce and supply the additional 15 000 cases to the supermarket.

**(12)**

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

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**QUESTION 2 BEGINS ON PAGE 12.**

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

**2** (a) Calculate the:

(i) percentage return on capital employed

**(2)**

(ii) liquid (acid test) ratio

**(2)**

(iii) trade receivables collection period (in days)

**(2)**

(iv) trade payables payment period (in days).

**(2)**

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(b) Explain the term **liquidity**.

**(2)**

(c) Comment on the liquidity of Conco at 31 December 2019 using your calculations in (a).

**(4)**

On 1 January 2020 Jafna purchased Conco for a purchase price of £80 000. The purchase included **all** the assets and liabilities of Conco **excluding** the bank overdraft and the five-year 8% bank loan.

(d) Calculate the value of the goodwill paid by Jafna when purchasing Conco.

**(2)**

(e) Calculate, by completing the table, the value at 31 March 2020 of the:

(i) inventory

**(4)**

(ii) trade payables

**(3)**

(iii) trade receivables

**(4)**

(iv) bank.

**(7)**

| **Balance 1 January 2020** | **Workings** | **Balance 31 March 2020** |
|---|---|---|
| Inventory<br>£11 600 | | |
| Trade payables<br>£16 000 | | |
| Trade receivables<br>£6 400 | | |
| Bank<br>£0 | | |

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(f) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2020.

**(5)**

(g) Calculate, at 31 March 2020, the:

(i) current ratio

**(2)**

(ii) percentage return on capital employed.

**(2)**

(h) Evaluate whether Jafna achieved his objectives to improve liquidity and improve profitability.

**(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 10 and 11 of the Source Booklet.**

**3** (a) Calculate the adjustment to be made to the depreciation of the motor vehicle for **each** of the years ended 30 April 2018 and 30 April 2019 in order to introduce the new depreciation policy.

**(3)**

| **Motor vehicles** | **Depreciation to be charged** | | **Adjustment** |
|---|---|---|---|
| | **Straight line** | **Reducing balance** | |
| Year ended | £ | £ | £ |
| 30 April 2018 | | | |
| 30 April 2019 | | | |
| | | | |

(b) State **two** causes of depreciation for computer equipment.

**(2)**

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(c) Explain the following accounting concepts as they relate to the depreciation of non-current assets:

**(4)**

- going concern

- consistency.

(d) Calculate the depreciation to be charged for the year ended 30 April 2020 for the:

(i) motor vehicle

**(2)**

(ii) computer equipment.

**(3)**

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(e) Prepare for the year ending 30 April 2020 the following ledger accounts:

(i) Computer Equipment Account

**(5)**

(ii) Disposal Account.

**(5)**

Speedy Deliveries decided to depreciate its non-current assets using the reducing balance method.

(f) Evaluate Speedy Deliveries using the reducing balance method for its non-current assets.

**(6)**

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

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**QUESTION 4 BEGINS ON PAGE 24.**

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

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

**4** Sanjay and Tara are in partnership. The partnership agreement allows for interest on capital, interest on drawings and a salary of £7 500 for each partner. The remaining profits or losses are shared in the ratio Sanjay two thirds: Tara one third.

(a) Explain how the 10-year 6% loan of £20 000 from Sanjay and the interest on the loan would be recorded in the:

**(6)**

- Statement of Profit or Loss and Other Comprehensive Income

- Appropriation Account

- Statement of Financial Position.

(b) Calculate, for the year ended 30 April 2020, the:

(i) percentage interest charged on the drawings of the partners

**(2)**

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(ii) amount of share of profit (£) paid to Sanjay and to Tara.

**(5)**

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(c) Prepare, for the year ended 30 April 2020, the:

(i) Capital Accounts of **Sanjay and Tara**.

**(6)**

(ii) Current Account of **Sanjay**.

**(5)**

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(d) Evaluate trading as a partnership rather than as a sole trader.

**(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 14 and 15 of the Source Booklet.**

**5** (a) Explain the term **labour productivity**.

**(2)**

(b) Advise management which of the three options gives the best output per hour, showing all calculations.

**(7)**

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(c) Calculate the **total labour cost** of operating the Super model production line for Week 1.

**(7)**

(d) Calculate the forecast:

(i) **total labour cost** of operating the Super model production line in Week 1 if a group bonus scheme was implemented.

**(5)**

(ii) gross pay of **one unskilled operator** in Week 1 if a group bonus scheme was implemented.

**(3)**

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(e) Evaluate the use of a group bonus scheme by the management of Alvo Products.

**(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 page 16 of the Source Booklet.**

**6** (a) Explain the term **suspense account**.

**(2)**

(b) Identify the type of error in **each** of (1) to (6).

**(6)**

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(c) Prepare the journal entries to correct the errors in (1) to (6). Narratives are **not** required.

**(16)**

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(d) Evaluate whether the use of information and communication technology (ICT) would **eliminate all errors** in the books of Akma.

(6)

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

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

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