

Pearson Edexcel
International Advanced Level

Accounting (Modular Syllabus)
Unit 1: The Accounting System and Costing

Wednesday 12 October 2016 – Morning

Source booklet for use with Questions 1 to 7.

Paper Reference

WAC01/01

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PEARSON

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

- 1 The Morfar Hotel is located in a scenic area of the country. The following balances were extracted from the books on 30 September 2016.

	£
Non-current assets:	
Land and buildings	400 000
Hotel equipment	50 000
Fixtures and fittings	60 000
Provisions for depreciation:	
Land and buildings	52 000
Hotel equipment	34 000
Fixtures and fittings	20 000
Refurbishment (see (1) below)	80 000
Revenue:	
Restaurant	76 000
Hotel	215 000
Restaurant inventory 1 October 2015	5 700
Restaurant purchases	31 250
General expenses	37 500
Laundry expenses	60 000
Staff wages:	
Restaurant	18 000
Hotel	93 000
Electricity and water	9 000
Rates	14 500
Trade receivables	45 000
Trade payables	64 450
Provision for doubtful debts	3 700
Capital	150 000
Drawings	9 700
6% Bank loan (repayable 2035)	300 000
Cash and bank	1 500 Dr

Additional information

- (1) The refurbishment consisted of:

	£
Building an extension to the lounge	40 000
Redecoration of the bedrooms	15 000
Hotel equipment repair	5 000
New fixtures and fittings	<u>20 000</u>
	<u>80 000</u>

- (2) Restaurant inventory at 30 September 2016, £4 450
- (3) General expenses include a payment of £17 400 interest on the bank loan.
- (4) Rates of £1 400 were prepaid.
- (5) Laundry expenses of £2 000 were owing.
- (6) 25% of both the laundry expenses and depreciation on fixtures and fittings are allocated to the restaurant.
- (7) Depreciation is charged on all non-current assets owned at the end of the year as follows:
- (i) Land was valued at £150 000 and is not depreciated. Buildings are depreciated at the rate of 2% per annum on cost
 - (ii) Hotel equipment at the rate of 25% per annum reducing balance
 - (iii) Fixtures and fittings at the rate of 15% per annum straight line.
- (8) The provision for doubtful debts is to be £5 000 at 30 September 2016.

Required:

- (a) State, giving your reasons, whether **each** of the following refurbishments will be **capital expenditure** or **revenue expenditure**:
- building an extension to the lounge
 - redecoration of the bedrooms
 - hotel equipment repair
 - new fixtures and fittings.
- (8)
- (b) Prepare for the year ended 30 September 2016 the:
- (i) Restaurant Trading Account
 - (ii) Statement of Comprehensive Income.
- (8)
- (14)
- (c) Prepare the Statement of Financial Position at 30 September 2016.
- (14)
- (d) Evaluate the decision to charge depreciation on the buildings.
- (8)

(Total for Question 1 = 52 marks)

Answer space for Question 1 is on pages 2 to 8 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

- 2 The following trial balance for Puteri was prepared by an inexperienced bookkeeper on 31 August 2016. The trial balance was incorrectly drafted and further errors were discovered requiring correction by journal entries.

**Puteri
Trial balance at 31 August 2016**

	Dr	Cr
	£	£
Revenue		100 000
Purchases	52 000	
Returns outward	4 600	
Returns inward		7 500
Discount allowed	8 600	
Discount received	5 200	
Wages	33 900	
General expenses		14 350
Capital		20 000
Drawings		6 500
Bank overdraft	8 000	
Trade receivables		10 350
Trade payables	19 300	
Computers	35 000	
Computers – provision for depreciation	_____	<u>15 200</u>
	<u>166 600</u>	<u>173 900</u>

Required:

- (a) Name and explain **three** types of error that would **not** be revealed by a trial balance. (6)
- (b) Redraft the trial balance placing the difference in a Suspense Account. (10)

The following errors were discovered requiring correction by journal entries:

- (1) Purchases of £6 300 had been recorded in the day book as £3 600
- (2) Discount received of £600 had been posted to the debit side of the Discount Allowed Account. The entry in the cash book was correct.
- (3) Drawings of £2 500 have been entered in the Wages Account.
- (4) A payment to Ning, a supplier, of £1 750, had been correctly entered in the Bank Account, but no entry had been made in the account of Ning.
- (5) A payment by cheque for general expenses of, £730, had the entries reversed in the books.
- (6) Sales of goods to Wei of, £850, had been recorded in the Revenue Account, but no entry had been made in the account of Wei.
- (7) In August, Puteri sold a computer for £2 000, which had cost £11 000. Payment was made by cheque. At the date of the disposal the accumulated depreciation was £7 800. No entries had been recorded in the books.

Required:

- (c) Prepare the:
- (i) journal entries to correct the errors (1) to (7). Narratives are **not** required (19)
 - (ii) Suspense Account after the correction of all errors. (5)
- (d) Prepare the Computer Disposal Account including the end of period transfer. (4)
- (e) Evaluate the usefulness of preparing a trial balance at the end of an accounting period. (8)

(Total for Question 2 = 52 marks)

Answer space for Question 2 is on pages 9 to 14 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3 Aish is in business as a sole trader retailing mobile phones. Aish has not maintained a full set of double entry books. The following information is available for the year ended 30 September 2016.

- (1) Sales were both for cash and on credit. Where sales have been made on credit, these have been invoiced to customers.
- (2) On 1 October 2015 Aish had an inventory of 200 mobile phones in his shop, which cost £50 each. Purchases throughout the year were on credit at £50 for each mobile phone.

During the year Aish purchased mobile phones every quarter (three months) on credit.

	Purchases	Sales
First quarter	110 phones	140 phones
Second quarter	250 phones	130 phones
Third quarter	140 phones	190 phones
Fourth quarter	130 phones	140 phones

- (3) During the year there were 8 mobile phones stolen from his shop.
- (4) 20 mobile phones became obsolete and were each sold for £60 cash. All remaining mobile phones were sold at the rate of £150 each.
- (5) 100 mobile phones were sold on credit during the year. All remaining sales were for cash.
- (6) During the year Aish received a discount of £900 from suppliers for prompt payment.
- (7) The following payments were made in cash in **each** of the 52 weeks of the year from the cash till:

	£
Rent of shop	200
Sales assistant's wages	300
Drawings	90

(8) After deducting the cash expenditure in (7), all cash takings were paid into the bank. The following analysis of the bank account is available:

	£
Receipts	
Cash sales	41 320
Credit sales receipts	16 500
Payments	
Telecom expenses	4 750
Electricity	2 300
General expenses	8 350
Suppliers of mobile phones	27 650
Shop fixtures	1 300

(9) Other assets and liabilities were valued as follows:

	1 October 2015 £	30 September 2016 £
Shop fixtures	9 400	9 100
Telecom expenses accrued	350	500
Electricity prepaid	70	110
General expenses accrued	900	–
General expenses prepaid	–	250
Trade receivables	7 350	?
Trade payables	6 500	?

Required:

(a) Calculate the value of the:

- purchases for the year ended 30 September 2016
- sales revenue for the year ended 30 September 2016
- inventory at 30 September 2016.

(8)

(b) Prepare for Aish the Statement of Comprehensive Income for the year ended 30 September 2016.

(17)

(c) Prepare control accounts to establish the value at 30 September 2016 of the:

- trade receivables
- trade payables.

(11)

Aish does not maintain a full set of double entry books.

(d) Explain **four** advantages for Aish of maintaining a full set of double entry books.

(8)

Aish currently rents his shop premises. The shop premises will shortly be for sale for £150 000

- (e) Evaluate whether Aish should consider purchasing the shop premises when they become available for sale.

(8)

(Total for Question 3 = 52 marks)

Answer space for Question 3 is on pages 15 to 19 of the question paper.

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QUESTION 4 BEGINS ON THE NEXT PAGE.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

- 4** Hottenham United is a football club in the National League. On 1 October 2015 it started a supporters club with £5 000 cash, which was paid into a bank account. The following is the summarised information for the year ended 30 September 2016.
- (1) Supporters were required to join the club via the internet and were then sent a membership pack and an invoice for a £15 subscription fee for the year. The number of supporters joining was 3 500. At 30 September 2016, subscriptions from 300 supporters were in arrears and 200 supporters had paid their subscriptions in advance for a second year.
 - (2) The supporters club decided to write off any subscriptions not paid by 30 September 2016 as bad debts.
 - (3) A supporters club secretary was appointed on 1 October 2015 at a salary of £15 000 per annum. Expenses paid by cheque were: telephone and postage £4 000, rent £3 000, general office expenses £1 850
 - (4) At 30 September 2016, £500 was prepaid for rent and £300 was owed for general office expenses.
 - (5) On 1 October 2015 office furniture was purchased for £1 200 cash. A computer and photocopier were purchased on the same date for £5 500 on credit from Office Supplies. It is estimated that the office furniture will have a life of 10 years. The computer and photocopier were valued at £4 000 on 30 September 2016.
 - (6) During the year a cheque of £5 000 was paid to Office Supplies.
 - (7) A monthly supporters newsletter was circulated to all members at an annual cost of £9 000 for printing and delivery.
 - (8) During the year the supporters club raffled two tickets to a Hottenham United cup tie. The cost of the tickets was £200 and 450 supporters entered the raffle each paying £1

Required:

- (a) Prepare for the Hottenham United Supporters Club for the year ended 30 September 2016:
 - (i) Receipts and Payments Account (8)
 - (ii) Income and Expenditure Account showing clearly the profit or loss made on the raffle of the cup tie tickets. (12)
- (b) Prepare for Hottenham United Supporters Club the Statement of Financial Position at 30 September 2016. (8)

(c) Evaluate the subscription debts policy of the Hottenham United Supporters Club.

(4)

(Total for Question 4 = 32 marks)

Answer space for Question 4 is on pages 20 to 23 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5 Hutton Manufacturing makes two products: the Standard and the Deluxe. The following information is available for the year ended 30 September 2016.

- (1) The Standard and Deluxe products use the same raw material. On 1 October 2015, the inventory of raw material was 6 000 units at a value of £12 per unit.
- (2) During the year the following purchases of raw material were made:

Oct–Dec	10 000 units @ £13
Jan–Mar	8 000 units @ £14
Apr–Jun	14 000 units @ £15
Jul–Sept	7 000 units @ £16
- (3) During the year, 37 000 units of raw material were issued to production. Inventory is issued to production using the First In First Out (FIFO) method and the closing inventory is valued on a **periodic** basis.
- (4) One unit of raw material will make either **one** Standard product or **one** Deluxe product. During the year, £350 000 of raw materials were used in the production of the Standard product.
- (5) During the year, 30 000 Standard products and 10 000 Deluxe products were produced.
- (6) The factory has two production lines, one to make the Standard product and one to make the Deluxe product. Twenty five production workers made Standard products and 10 production workers made Deluxe products.
- (7) Manufacturing wages are paid on a day-work rate plus bonus basis. Production workers were employed 40 hours per week for 50 weeks of the year. The rate of pay was £5 per hour. A bonus payment of £1 per product was paid to the workers on the production line for the output produced by that line.
- (8) Manufacturing overheads were allocated to the production lines of the Standard product and the Deluxe product on the following basis:

	Standard £	Deluxe £	Total £
Management salaries	145 000	100 000	245 000
Premises costs	100 000	80 000	180 000
Depreciation	60 000	60 000	120 000

(9) Work in progress:

	Standard £	Deluxe £
1 October 2015	65 000	25 000
30 September 2016	40 000	14 000

(10) The Standard product was sold for £40 and the Deluxe product for £50.

Required:

(a) Prepare for the year ended 30 September 2016, in **columnar format**, the Manufacturing Account. The **three** columns should be headed Standard product, Deluxe product and Total. (14)

(b) Calculate the cost of producing:

- **one** Standard product
- **one** Deluxe product. (4)

Hutton Manufacturing is considering stopping production of the Deluxe product which it considers to be unprofitable. The Production Manager is concerned at this development and believes that if overheads were apportioned to production lines, instead of being allocated to production lines, this would show that the Deluxe product was profitable.

Additional information

	Standard	Deluxe
• Employees (number)	25	10
• Floor area occupied (sq m)	4 500	1 500
• Equipment value (£'000)	150	90

(c) Calculate the total overhead that would be charged to each production line **if overheads were apportioned** instead of being allocated. (8)

(d) Calculate the increase or decrease in the cost of **one** Deluxe product if overheads were apportioned to production lines as calculated in (c). (2)

(e) Evaluate whether Hutton Manufacturing should stop production of the Deluxe product. (4)

(Total for Question 5 = 32 marks)

Answer space for Question 5 is on pages 24 to 29 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

- 6 Gupta prepares a Statement of Comprehensive Income at the end of each month. The following information is available from his books for the month of August 2016.

(1) On 1 August 2016 the following account balances remained in the books:

	£
General expenses	230 Cr
Rent receivable	800 Dr
Provision for doubtful debts	4 000 Cr

(2) The general expenses records show the following:

Cheque payments	£
2 August	525
18 August	495
26 August	310

Refund by cheque

9 August	60
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On 31 August it was estimated that £325 was owed for general expenses.

(3) Rent receivable records show the following:

Cheque receipts	£
5 August	500
20 August	1 000

The rent receivable for August was £2 000

(4) A provision for doubtful debts is to be maintained from the following schedule of trade receivables:

Age of debt (months)	Trade receivables (£)	Provision (%)
0–1	23 000	4
1–3	16 500	10
Over 3	4 250	20

A debt from a customer sold goods two months ago for £600, is now considered irrecoverable.

Required:

- (a) Explain the meaning of a Debit balance on the Rent Receivable Account on 1 August. (4)
- (b) Prepare the following ledger accounts for the month of August 2016. Each account should include the appropriate transfer to the Statement of Comprehensive Income. The ledger accounts should be balanced and the balance brought down. (16)
- General Expenses Account
 - Rent Receivable Account
 - Provision for Doubtful Debts Account
- (c) Explain how the following accounting concepts would be applied when preparing a Statement of Comprehensive Income. Give **one** example for **each** concept: (8)
- accrual
 - going concern
 - consistency
 - prudence.
- (d) Evaluate the use of principles and concepts in accounting. (4)

(Total for Question 6 = 32 marks)

Answer space for Question 6 is on pages 30 to 34 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

- 7 Ng has been in business for many years buying and selling goods on credit. He is having difficulty in meeting the payments to his trade payables and the bank refuses to allow him an overdraft. The following information relates to the last two trading years ended 30 September 2015 and 30 September 2016.

	30 September 2015 £	30 September 2016 £
Revenue	300 000	420 000
Cost of sales	150 000	210 000
Expenses (including loan interest)	130 000	170 000
Net profit for the year	20 000	40 000
Non-current assets	60 000	95 000
Inventory	30 000	24 000
Trade receivables	20 000	40 000
Bank	20 000	1 000
Trade payables	30 000	50 000
10% loan (long term)	50 000	40 000
Capital	50 000	70 000

Additional information

Inventory at 1 October 2014, £20 000

Required:

- (a) Calculate for the years ended 30 September 2015 and 30 September 2016 the:
- percentage gross profit to revenue
 - rate of inventory turnover
 - return on capital employed
 - trade receivables collection period in days
 - current ratio
 - liquid (acid test) ratio.
- (24)
- (b) State **four** ways in which Ng could improve his bank balance.
- (4)
- (c) Evaluate the financial position of Ng.
- (4)

(Total for Question 7 = 32 marks)

Answer space for Question 7 is on pages 35 to 38 of the question paper.