

Pearson Edexcel International Advanced Level

Thursday 12 October 2023

Morning (Time: 3 hours)

Paper
reference

WAC11/01

Accounting

International Advanced Subsidiary

UNIT 1: The Accounting System and Costing

Source Booklet

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SECTION A

Answer BOTH questions in this section.

- 1 Artem and Bipul are in partnership sharing profits and losses in the ratio 3:2. Artem is paid a salary of £6 000 per annum but Bipul receives no salary. Interest will be paid on capital and charged on drawings.

The following balances remained in the books of account on 30 September 2023 after preparing the trading account.

| | £ |
|--|---------|
| Cash and bank | 14 000 |
| 5 % bank loan | 50 000 |
| Bank loan interest paid | 1 400 |
| Capital accounts: | |
| Artem | 35 000 |
| Bipul | 20 000 |
| Current accounts: | |
| Artem | 600 Dr |
| Bipul | 250 Cr |
| Commission allowed | 4 000 |
| Commission received | 8 100 |
| Drawings: | |
| Artem (excluding salary) | 12 000 |
| Bipul | 9 000 |
| General expenses | 9 700 |
| Gross profit | 101 040 |
| Inventory 30 September 2023 | 38 200 |
| Irrecoverable debts | 900 |
| Motor vehicle running expenses | 7 100 |
| Non-current assets (at cost): | |
| Equipment | 25 000 |
| Motor vehicles | 40 000 |
| Fixtures and fittings | 9 000 |
| Non-current assets – (provision for depreciation): | |
| Equipment | 10 000 |
| Motor vehicles | 14 000 |
| Fixtures and fittings | 6 100 |
| Allowance for irrecoverable debts | 3 100 |
| Rent paid | 16 500 |
| Salary paid – Artem | 6 000 |
| Selling expenses | 6 800 |
| Trade payables | 22 410 |
| Trade receivables | 46 500 |
| Wages | 23 300 |



Additional information at 30 September 2023

- (1) Selling expenses of £1 700 were prepaid.
- (2) One month's rent of £1 500 was owing.
- (3) Commission allowed of £500 had been posted in error to the debit of the commission received account.
- (4) The 5% bank loan had been increased on 1 April 2023 by £20 000
- (5) Equipment costing £6 000 was traded in part exchange at its carrying value of £2 500 on 20 December 2022 for replacement equipment costing £7 500. The balance was settled by cheque. No entries had been made in the books.
- (6) Depreciation will be charged on all non-current assets owned on 30 September 2023 at the rate of:
 - Equipment 15% per annum using the reducing balance method.
 - Motor vehicles 20% per annum using the straight line method.
 - Fixtures and fittings 10% per annum using the straight line method.
- (7) A further £1 500 is to be written off as irrecoverable debts.
- (8) The allowance for irrecoverable debts was to be maintained at 4% of trade receivables.
- (9) On 1 April 2023 Artem had increased her capital by £5 000 by cheque and Bipul had increased his capital by £2 000 in cash.
- (10) Interest on drawings and interest on capital for the year was calculated as follows.

| | Interest on capital paid | Interest on drawings charged |
|-------|---------------------------------|-------------------------------------|
| Artem | £1 400 | £720 |
| Bipul | £800 | £540 |

Required

- (a) Prepare the Statement of Profit Loss and Other Comprehensive Income (including an appropriation account) for the year ended 30 September 2023. (17)
- (b) Prepare the ledger accounts for the year ended 30 September 2023.
- (i) Capital account of Bipul (3)
- (ii) Current account of Artem. (4)
- (c) Prepare the Statement of Financial Position at 30 September 2023. (19)
- (d) Evaluate the decision of Artem and Bipul to bring additional capitals into the business rather than increasing the bank loan further. (12)

(Total for Question 1 = 55 marks)



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- 2 Costas is in business making and selling pre-packed sandwiches. He sells his sandwiches to local businesses that have a credit account and direct to other customers who pay in cash.

Costas does not keep full accounting records but has the following information available.

(1) Summarised cash book for the year ended 30 September 2023

| | £ | | £ |
|-----------------------|----------------|----------------------------|----------------|
| Balance b/d | 2 700 | Cash purchases | |
| Cash sales | 48 400 | of raw materials | 9 800 |
| Receipts from | | Payments to trade | |
| trade receivables | 36 200 | payables for raw materials | 34 900 |
| 8% bank loan | 15 000 | General expenses | 8 900 |
| Delivery vehicle sale | 2 700 | Rent | 19 500 |
| Commission received | 850 | Wages | 17 000 |
| | | Bank loan interest paid | 250 |
| | | Delivery vehicle purchased | 9 000 |
| | | Balance c/d | <u>6 500</u> |
| | <u>105 850</u> | | <u>105 850</u> |

Other balances

| | 1 October 2022 | 30 September 2023 |
|---------------------------------|-------------------|----------------------|
| | £ | £ |
| Trade receivables | 4 650 | 3 850 |
| Trade payables | 7 300 | 3 500 |
| Inventory of raw materials | 1 100 | 1 450 |
| Wages owing | 350 | 800 |
| General expenses prepaid | 950 | – |
| General expenses owing | – | 2 400 |
| 8% bank loan | – | 15 000 |
| Equipment (at valuation) | 11 650 | 10 100 |
| Delivery vehicle (at valuation) | 4 000 | 8 300 |
| Rent | – | to be calculated |



- (2) Costas took £200 per week cash drawings before paying cash sales receipts into the bank.
- (3) Irrecoverable debts of £2 100 are to be written off.
- (4) One month's rent had been paid in advance.
- (5) The 8% bank loan was taken out on 1 January 2023 and is for a period of five years.
- (6) Costas always has only one delivery vehicle at a time.

Required

- (a) Calculate for the year ended 30 September 2023 the:
 - (i) total sales (6)
 - (ii) purchases of raw materials. (4)
- (b) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2023. (11)

Costas is reviewing the cost of making each sandwich. The current costs are:

Sandwich

Raw materials

| | |
|-----------|---|
| Bread | £1.50 for 20 slices (Two slices per sandwich) |
| Fillings | £6.00 for 1 500 grams (100 grams of filling per sandwich) |
| Packaging | £5.00 for 100 boxes (One box per sandwich) |

Labour

| | |
|-------------------|------------------------|
| Make the sandwich | 3 minutes per sandwich |
| Pack the sandwich | 2 minutes per sandwich |

Wages are at the rate of £9 per hour

Overheads

£1.20 per sandwich

Required

- (c) Calculate the **total cost** of making **one** sandwich ready for sale. (7)

Costas currently remunerates on a day work basis his workers who make the sandwiches.

He is considering changing the workers' remuneration from day work to piecework.



Required

(d) Explain the terms:

(i) day work (2)

(ii) piecework. (2)

If Costas changes his remuneration method from day work to piecework he has estimated that:

- the raw material purchase prices would remain the same but there would be a 10% wastage of all raw materials.
- Labour
 - workers who make sandwiches would make 30 per hour and would be paid £0.30 per sandwich
 - workers who pack sandwiches would pack 40 per hour and would be paid £0.15 per sandwich.
- Overheads would reduce by 20%.

Required

(e) Calculate the **total cost** of making **one** sandwich ready for sale using piecework as the method of remuneration. (5)

Brett is a worker who packs sandwiches. It is projected that for period three Brett will work 45 hours including five hours overtime at time and one third.

During period three he will pack 2 700 sandwiches.

Required

(f) Calculate the total wage that would be earned by Brett for period three using:

(i) day work (3)

(ii) piecework. (3)

(g) Evaluate the possible change of remuneration from day work to piecework from the viewpoint of Costas. (12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS



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SECTION B

Answer **THREE** questions from this section.

- 3** Andreas is in business buying and selling goods on credit. The following balances were available for August 2023.

| | £ |
|-----------------------------------|----------|
| Trade receivables 1 August 2023 | 4 500 |
| Sales revenue | 14 730 |
| Sales returns | 1 500 |
| Discount allowed | 230 |
| Irrecoverable debt | 1 050 |
| Allowance for irrecoverable debts | 600 |

Additional information for August 2023

- (1) Sales revenue for the month of August included cash receipts totalling £2 600
- (2) Bank receipts from trade receivables totalled £10 900
- (3) A cheque for £130 banked on 3 August was dishonoured on 26 August.
- (4) A refund of £60 was paid to a trade receivable for an overcharge.
- (5) Interest of £25 had been charged to a trade receivable for late payment.
- (6) The contra sum of £620 had been set-off with the Trade Payables Ledger Control Account.
- (7) Trade receivables on 31 August 2023 included a credit balance of £360

Required

- (a) State **three** ways in which the preparation of control accounts could be useful to Andreas in running his business.
- (b) Prepare the Trade Receivables Ledger Control Account for the month ended 31 August 2023.

(3)

(11)



In July 2023 Andreas had recorded a debt owed by Polis as an irrecoverable debt when Polis was declared bankrupt.

On 15 September 2023 a cheque was received for £90 as final settlement of Polis's debt.

Required

(c) Prepare the Journal entries in the books of account to record the £90 receipt on 15 September 2023. Narratives are **not** required. (6)

(d) State **four** ways in which Andreas might use credit control to reduce the possibility of incurring irrecoverable debts in the future. (4)

A friend has advised that Andreas should sell all goods for cash only.

(e) Evaluate Andreas selling goods only for cash. (6)

(Total for Question 3 = 30 marks)



4 Sunshine Partners has provided the following information from its financial statements for the year ended 30 September 2023.

| | £000's |
|-------------------------------|---------------|
| Revenue | 600 |
| Cost of sales | 360 |
| Expenses | 220 |
| | |
| Non-current assets | 660 |
| Inventory – 30 September 2023 | 85 |
| Trade receivables | 120 |
| | |
| Capital | 720 |
| 5% bank loan (10 year) | 80 |
| Trade payables | 50 |
| Bank overdraft | 15 |

Additional information

Inventory – 1 October 2022 £75 000

All revenue sales / purchases are on credit.

Required

(a) State **one** reason for calculating each of the following:

(i) use of assets ratios (2)

(ii) profitability ratios. (2)

(b) Calculate for Sunshine Partners the:

(i) gross profit as a percentage of revenue (2)

(ii) percentage return on capital employed (2)

(iii) non-current assets to revenue ratio (2)

(iv) inventory turnover (times per year) (2)

(v) trade receivables collection period (days) (2)

(vi) trade payables payment period (days). (2)



Sunshine Partners also provided additional information for the previous two years.

| | Year ended 30 September 2021 | Year ended 30 September 2022 |
|---|---|---|
| Gross profit as a percentage of revenue | 30% | 32% |
| Percentage return on capital employed | 10% | 6% |
| Non-current assets to revenue | £0.75 for every £1 | £0.83 for every £1 |
| Inventory turnover | 4.0 times | 4.2 times |
| Trade receivables collection period | 40 days | 60 days |
| Trade payables payment period | 60 days | 55 days |

Required

(c) Comment upon the ratios calculated in part (b) **and for the previous two years** under the following headings. Select **two** ratios for each of the following:

(i) control of cash movements (4)

(ii) profitability. (4)

(d) Evaluate the use of social accounting in the decision-making of a business. (6)

(Total for Question 4 = 30 marks)



- 5 Banuja started a business making wooden garden furniture on 1 October 2022. He decided that to start with he would concentrate on making and selling a single product, the garden seat.

Banuja started the business with manufacturing equipment of £2 000 and a bank balance of £4 000

Banuja has no training in accounting, but at the end of the first year of trading on 30 September 2023 he prepared the following profit statement.

| | £ | £ |
|----------------------------------|--------------|----------------|
| Sales receipts | | 16 800 |
| Raw materials purchased and paid | 5 000 | |
| Wages paid | 9 000 | |
| Production expenses paid | 3 800 | |
| Selling expenses paid | <u>2 300</u> | |
| | | (20 100) |
| Loss | | <u>(3 300)</u> |

Additional information at 30 September 2023

- (1) During the year 100 garden seats were manufactured of which 90 had been sold to retailers at a price of £200 each.
- (2) The inventory of unused raw materials was valued at a cost of £500
- (3) Wages included £5 000 drawings by Banuja.
- (4) Production expenses of £700 were prepaid.
- (5) Selling expenses of £450 were owing.
- (6) Manufacturing equipment was valued at £1 600
- (7) There was no production work in progress.
- (8) Trade receivables were £1 200



Required

(a) Explain the following accounting concepts and conventions:

(i) business entity (2)

(ii) realisation (2)

(iii) accruals. (2)

(b) Calculate the:

(i) total production cost for the year ended 30 September 2023 (6)

(ii) profit for the year ended 30 September 2023 (5)

(iii) bank balance at 30 September 2023. (7)

Banuja is considering employing a part-time bookkeeper to manage his accounts.

(c) Evaluate Banuja employing a part-time bookkeeper. (6)

(Total for Question 5 = 30 marks)



6 Casey prepared a trial balance on 30 September 2023. Although the totals of the trial balance failed to agree he did proceed to calculate a draft profit for the year of £7 900

On further inspection of his books of account he found the following errors had been made.

- (1) Elena, a credit customer of Casey, had returned goods costing £520 as damaged. No entries had been made in the books of account.
- (2) Drawings of £450 had been posted to the Wages Account.
- (3) Commission receivable, £250, had been correctly entered in the Cash Book and had been debited to the Commission Receivable Account.
- (4) An insurance premium of £105 had been correctly entered in the account of Pearson Insurance but had been recorded as £150 in the Insurance Account.
- (5) An irrecoverable debt of £720 had been correctly recorded in the account of Chalini but no other entry had been made.

Required

- (a) Explain how the following errors occur:
 - (i) an error of original entry (2)
 - (ii) an error of principle. (2)
- (b) Prepare the journal entries to correct the errors (1) to (5). Narratives are **not** required. (10)
- (c) Prepare the Suspense Account showing the **original difference** in the trial balance. (4)
- (d) Calculate the revised profit for the year ended 30 September 2023 **after the correction** of all errors. (6)
- (e) Evaluate whether Casey should calculate a draft profit when it is known that there are errors in the books of account. (6)

(Total for Question 6 = 30 marks)

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

