

**Paper Reference WAC11/01**  
**Pearson Edexcel**  
**International Advanced Level**

**Accounting**  
**International Advanced Subsidiary**  
**PAPER 1: The Accounting System and Costing**

**Time: 3 hours**

**Source Booklet**

**Do not return this Source Booklet with the Question Paper.**

Contents

Page

SECTION A

4–9        Question 1

10–17    Question 2

SECTION B

19–22    Question 3

23–26    Question 4

27–30    Question 5

31–36    Question 6

## SECTION A

**Answer BOTH questions in this section.**

**1. Linda and Rishi are in partnership as retailers.**

**Their partnership agreement states that:**

- profits and losses will be shared equally**
- there will be no partnership salaries paid**
- interest on capital is paid at 5% per annum**
- interest on drawings is charged at 8% per annum.**

**The balances on the following page were available on  
30 April 2022.**

**(continued on the next page)**

1. continued.

	£
Revenue	570 000
Inventory 1 May 2021	61 000
Purchases	390 000
Capital accounts:	
Linda	40 000
Rishi	60 000
Current accounts:	
Linda	2 000 Cr
Rishi	450 Cr
Drawings:	
Linda	15 000
Rishi	20 000
Commission receivable	6 750
Trade receivables	8 000
Allowance for irrecoverable debts	1 000
Trade payables	11 150
Cash and bank	17 350 Dr
Carriage inwards	3 600
Carriage outwards	8 100
Staff wages	57 500
General expenses	9 200
Management salaries	38 000
Non-current assets (cost):	
Computer equipment	50 000
Fixtures and fittings	28 000
Provisions for depreciation:	
Computer equipment	21 000
Fixtures and fittings	9 000
Rent and insurance	4 800
Irrecoverable debts	2 850
Advertising	7 950

(continued on the next page)

Turn over

1. continued.

## **Additional information at 30 April 2022**

**(1) Inventory £72 000**

**(2) Rent £450 is owing and insurance £800 was paid in advance.**

**(3) Depreciation is to be charged on all non-current assets owned at the end of the year.**

- **Computer equipment at the rate of 20% per annum reducing balance.**
- **Fixtures and fittings at the rate of 15% per annum straight line.**

**(4) The allowance for irrecoverable debts is to be maintained at 5% of trade receivables.**

**(continued on the next page)**

**1. continued.**

**(5) A premises refurbishment had been completed on 20 April 2022 and NO ENTRIES had been recorded in the books of account at 30 April 2022. The premises refurbishment consisted of:**

- Redecoration at a cost of £12 600. This had been paid by cheque on 28 April 2022.**
- Additional computer equipment was purchased on credit from JK Computers for £6 000.**
- Advertising newly refurbished premises £2 400.**

**A cheque for £1 800 was issued on 28 April 2022. The balance is owing to Northtown Newspapers.**

**(continued on the next page)**

1. continued.

**Required**

**(a) Explain TWO differences between  
REVENUE EXPENDITURE and  
CAPITAL EXPENDITURE.**

**(4 marks)**

**(b) State whether EACH of the following costs is  
REVENUE EXPENDITURE or  
CAPITAL EXPENDITURE.**

- Redecoration.
- Additional computer equipment.
- Advertising newly refurbished premises.

**(3 marks)**

**(c) Prepare the journal entries, including bank entries,  
to record the premises refurbishment costs in the  
books. Narratives are NOT required.**

**(4 marks)**

**(continued on the next page)**



**1. continued.**

**(d) Prepare for the year ended 30 April 2022 the:**

**(i) Statement of Profit or Loss and Other Comprehensive Income (including an appropriation section)**

**(16 marks)**

**(ii) current accounts of the partners.**

**(4 marks)**

**(e) Prepare the Statement of Financial Position at 30 April 2022.**

**(12 marks)**

**Linda and Rishi sell many of their goods on credit. They are considering changing the method of sale to cash sales ONLY.**

**(f) Evaluate the possible change of the method of sale to cash sales ONLY.**

**(12 marks)**

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

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**Turn over**

**2. Syed is in business selling clothing.**

The information below and on the next page shows some of the balances available for the year ended **30 April 2022**.

	£
Revenue	240 000
Inventory 1 May 2021	12 000
Purchases	96 000
Rent	25 000
General expenses (including bank loan interest)	71 000
Capital	120 000
8% bank loan	50 000
Trade payables	15 000
Trade receivables	18 000

(continued on the next page)

Turn over

**2. continued.**

**Additional information**

**(1) Inventory 30 April 2022 £18 000**

**(2) All purchases were on credit.**

**(3) 90% of revenue (sales) were on credit.**

**(4) The 8% bank loan was taken out on 1 May 2021.**

**(5) Depreciation for the year £14 000.**

**(continued on the next page)**

**2. continued.**

**Required**

**(a) Calculate the following ratios. Express your answers to two decimal places.**

**(i) Inventory turnover (in times per year).  
(2 marks)**

**(ii) Gross profit as a percentage of revenue.  
(2 marks)**

**(iii) Profit for the year as a percentage of revenue.  
(2 marks)**

**(iv) Percentage return on capital employed.  
(2 marks)**

**(v) Trade payables payment period (in days).  
(2 marks)**

**(vi) Trade receivables collection period (in days).  
(2 marks)**

**(continued on the next page)**

**Turn over**

2. continued.

Syed compared his calculations with information available for the previous year ended 30 April 2021. The comparison is shown below.

	Year ended 30 April 2021	Year ended 30 April 2022
Inventory turnover (in times per year)	7·20 times	Calculated in (a)
Gross profit as a percentage of revenue	52%	Calculated in (a)
Profit for the year as a percentage of revenue	13%	Calculated in (a)
Percentage return on capital employed	35·20%	Calculated in (a)
Trade payables payment period (in days)	39 days	Calculated in (a)
Trade receivables collection period (in days)	31 days	Calculated in (a)
Current ratio	1·80:1	2·40:1
Liquid (acid test) ratio	0·80:1	0·90:1

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Turn over

**2. continued.**

**Required**

**(b) Explain a possible reason for the changes in any TWO ratios for EACH of the following for the year ended 30 April 2022.**

**(i) Profitability of the business.**

**(4 marks)**

**(ii) Liquidity of the business.**

**(4 marks)**

**(continued on the next page)**

**2. continued.**

**Syed is considering expanding his business and has made projections for the next year ending 30 April 2023. The projections are as follows.**

- (1) Due to an increase in sales volume, revenue will increase by 25%.**
- (2) Due to bulk buying, the cost of ALL sales units will be 10% lower than last year.**
- (3) Annual depreciation will remain at £14 000 until revenue reaches £280 000 when it will increase to £19 000.**
- (4) Rent will remain at the current level.**
- (5) General expenses (including bank loan interest) will be £30 000 plus 15 pence (£0·15) for every £1 of revenue.**

**(continued on the next page)**

2. continued.

## **Required**

**(c) Explain the difference between:**

**(i) FIXED costs and VARIABLE costs**

**(4 marks)**

**(ii) SEMI–FIXED costs and SEMI–VARIABLE costs.**

**(4 marks)**

**(d) State ONE example from Syed's costs of the following.**

- Fixed cost**
- Variable cost**
- Semi–fixed cost**
- Semi–variable cost.**

**(4 marks)**

**(continued on the next page)**



**2. continued.**

**(e) Prepare the Forecast Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2023.**

**(5 marks)**

**A friend of Syed's has suggested that when planning the expansion of his business he should also consider social accounting aspects in addition to profit when operating his business.**

**(f) Explain THREE ways in which Syed could consider SOCIAL ACCOUNTING in operating his business.**

**(6 marks)**

**(g) Evaluate the use of profitability ratios as the ONLY way of judging the success of a business.**

**(12 marks)**

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

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**TOTAL FOR SECTION A = 110 MARKS**

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**Turn over**

## **SECTION B**

**Answer THREE questions from this section.**

3. The balances shown below were extracted from the books of the Hillside Sports Club on 30 April 2022.

	£
Subscriptions received	2 950
Trade payables	1 850
Rent payable	1 500
Telephone charges	320
Equipment (cost)	4 510
Equipment – provision for depreciation	1 100
Bank overdraft	70
Equipment repairs	600
Disposal account (profit on sale)	150
Sale of dance tickets	2 100
Catering cost for dance	390
Hire of band for dance	500
Donations received	300
Sundry expenses	1 450
Accumulated fund	To be calculated

(continued on the next page)

Turn over

**3. continued.**

**Required**

- (a) Prepare the trial balance for the Hillside Sports Club at 30 April 2022 including the balance of the accumulated fund at that date.**

**(9 marks)**

**(continued on the next page)**

3. continued.

### **Additional information at 30 April 2022**

**(1) Subscriptions paid in advance for year commencing 1 May 2022 £200**

**(2) Subscriptions still due for year ended 30 April 2022 £860**

**(3) The dance organised by the club had the following sums outstanding.**

**Sale of dance tickets to members £580 was still owed.**

**Catering cost – 70% of the total catering cost was still owed.**

**Hire of band – 60% of the total band cost was still owed.**

**(4) Equipment repairs included £250 for the purchase of new equipment.**

**(5) The equipment was revalued at £3 310.**

**(6) Sundry expenses £420 is owing and £130 was paid in advance.**

**(continued on the next page)**

**Turn over**

**3. continued.**

**Required**

**(b) Calculate the profit or loss of the dance.**

**(5 marks)**

**(c) Prepare the Income and Expenditure Account for the year ended 30 April 2022.**

**(10 marks)**

**(d) Evaluate the financial position of the Hillside Sports Club.**

**(6 marks)**

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

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4. Marvin prepares control accounts at the end of each month. On **30 April 2022** the information below and on the next two pages was available.

Trade Receivables Ledger Control Account	
Balances 1 April 2022	<b>£8 700 Dr</b> <b>£250 Cr</b>

(continued on the next page)

4. continued.

Summary of transactions for April 2022

Details	£	Notes
Sales	11 500	£2 600 of sales were for cash, the balance was on credit.
Cheques received from trade receivables	8 350	Cheques included £420 from B Luck which was 'dishonoured' by the bank on 28 April 2022.
Sales returns	800	Included £250 of cash sales returns.
Discount allowed	350	
Interest charged for overdue accounts	80	
Contra	50	Balance of £50 owing by G Weeks 'set off' against Trade Payables Ledger Control balance.
Irrecoverable debts	730	Includes debt of B Luck

(continued on the next page)



4. continued.

<b>Balances 1 May 2022</b>	<b>Debit balance to be calculated</b>
	<b>£400 Cr</b>

## Required

- (a) State **FOUR** reasons why Marvin might prepare control accounts.  
(4 marks)
- (b) Prepare the Trade Receivables Ledger Control Account for the month of April **2022**.  
(10 marks)
- (c) Prepare the extract from the Statement of Financial Position showing the trade receivables balance at **30 April 2022**.  
(3 marks)

(continued on the next page)

Turn over

**4. continued.**

The transactions below relate to the account of B Luck, one of Marvin's customers.

<b>1 April 2022</b>	<b>B Luck owed Marvin a balance of £420</b>
<b>18 April 2022</b>	<b>B Luck sent a cheque to Marvin for £420</b>
<b>20 April 2022</b>	<b>Sold goods to B Luck on credit £120</b>
<b>28 April 2022</b>	<b>Cheque sent on 18 April was 'dishonoured' by the bank.</b>
<b>30 April 2022</b>	<b>Debt of B Luck declared irrecoverable.</b>
<b>25 May 2022</b>	<b>B Luck offered 25 pence (£0·25) in the pound on his outstanding debt in final settlement. This was accepted by Marvin.</b>

## **Required**

**(d) Prepare the B Luck Account in the books of Marvin.  
(7 marks)**

**(e) Evaluate whether it is ever possible for Marvin to avoid ALL irrecoverable debts.  
(6 marks)**

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

5. The information below and on the next two pages shows some of the balances extracted from the books of Harptree Manufacturing on 30 April 2022.

The business has manufacturing and administrative departments.

	£
Purchases of raw materials	134 250
Opening inventory:	
Raw materials	20 500
Work in progress	42 100
Production wages	165 750
Rent and rates	27 000
Electricity and power	7 200
Production expenses	9 000
Management salaries	75 000
Royalty payments	10 200
Canteen costs	18 000
Non-current asset depreciation	33 000
Provision for unrealised profit – 1 May 2021	6 700

(continued on the next page)

Turn over

5. continued.

## Additional information at 30 April 2022

(1) Inventory value:

Raw material **£18 900**

Work in progress **£38 700**

Finished goods **£48 300**

(2) **60%** of production expenses are direct and **40%** are indirect.

(3) Other information:

	Manufacturing	Administration
Floor area occupied (sq m)	1 400	400
Employees (number)	30	20
Non-current asset capacity (kw h)	600	300
Non-current asset book value (£000)	700	400

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Turn over

**5. continued.**

- (4) A manufacturing profit of 15% is added to the cost before transfer to the Statement of Profit or Loss and Other Comprehensive Income Account.**

## **Required**

**(a) Explain the following terms:**

- overhead allocation**
- overhead apportionment.**

**(4 marks)**

**(b) Prepare for the year ended 30 April 2022, the:**

**(i) Manufacturing Account**

**(16 marks)**

**(ii) Provision for Unrealised Profit Account.**

**(4 marks)**

**(continued on the next page)**

**5. continued.**

**Harptree Manufacturing has a single production line for its products. Production workers are remunerated on a day work basis.**

**The Management of Harptree Manufacturing is considering changing the method of remuneration for production workers to a group bonus scheme basis.**

- (c) Evaluate the proposed change in the remuneration method.  
(6 marks)**

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

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6. The information below and on the next page is available for the equipment of Highgate Construction.

<b>1 May 2021</b>	Balances brought down
	Equipment <b>£240 000</b>
	Equipment — provision for depreciation <b>£45 000</b>

### **Purchases and sales of equipment during year**

<b>1 August 2021</b>	Sold equipment for <b>£9 000</b> cash. The equipment had cost <b>£24 000</b> and had a <b>£16 900</b> provision for depreciation when sold.
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<b>1 November 2021</b>	Purchased equipment at a cost of <b>£32 000</b> on credit from CT and Partners.
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<b>1 January 2022</b>	Purchased equipment at a cost of <b>£16 000</b> paying by cheque.
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6. continued.

## **Additional information**

- Depreciation on equipment is charged at the rate of **15% per annum straight line.**
- Charged pro rata to the months of ownership for equipment bought or sold.

**(continued on the next page)**



6. continued.

## **Required**

**(a) Explain how the following accounting concepts and conventions would be applied in the recording of non-current assets and charging depreciation.**

**(i) Historic cost  
(2 marks)**

**(ii) Consistency  
(2 marks)**

**(iii) Going concern  
(2 marks)**

**(b) Calculate the total depreciation charge on equipment for the year ended 30 April 2022.  
(4 marks)**

**(continued on the next page)**

**6. continued.**

**(c) Prepare, for the year ended 30 April 2022, the:**

**(i) Equipment Account**

**(4 marks)**

**(ii) Equipment – Provision for Depreciation Account**

**(3 marks)**

**(iii) Disposal Account.**

**(4 marks)**

**(continued on the next page)**

**6. continued.**

**At a monthly Management Meeting the Sales Manager made the statement below.**

**‘I do not think that we are using the right method of depreciation for our equipment. If we look at one piece of equipment, the digging machine that cost £30 000, the carrying value and the market value for the last three years do seem to be quite different. Is it better for us to use a revaluation method for the depreciation of all equipment?’**

<b>Year ended 30 April</b>	<b>Carrying value £</b>	<b>Market value £</b>
<b>2019</b>	<b>25 500</b>	<b>20 000</b>
<b>2020</b>	<b>21 000</b>	<b>12 000</b>
<b>2021</b>	<b>16 500</b>	<b>10 000</b>

**(continued on the next page)**

**6. continued.**

**(d) State THREE DISADVANTAGES of using the revaluation method for charging depreciation.  
(3 marks)**

**(e) Evaluate whether Highgate Construction should continue to use the straight—line method for depreciating the equipment.  
(6 marks)**

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

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**TOTAL FOR SECTION B = 90 MARKS**

**TOTAL FOR PAPER = 200 MARKS**

**END OF PAPER**

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