

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.

SECTION A

Answer BOTH questions in this section.

1. Bejam is in business selling shoes and trainers. He does not maintain a full set of double entry accounts but does maintain a bank account together with some additional records.

The information below and on the following two pages is available for the year ended **30 September 2022**.

(1)

Summarised Bank Account			
	£		£
Cash sales banked	19 600	Balance b/d	8 900
Receipts from credit customers	71 400	Payments to suppliers	58 000
Sale of equipment	1 500	Bank loan and interest	900
Refund from supplier	3 100	Motor vehicle purchase	9 000
Sale of motor vehicle	4 200	Wages	7 100
Balance c/d	<u>1 800</u>	Rent and rates	6 500
		General expenses	<u>11 200</u>
	<u>101 600</u>		<u>101 600</u>
		Balance b/d	1 800

(continued on the next page)

1. continued.

(2) Bejam paid the following from cash sales before banking.

	£
Wages	4 750
General expenses	3 250
Drawings	5 200

(3) Included in the wages recorded in the bank account were withdrawals of **£2 500** for Bejam's drawings.

(4) During the year Bejam took goods to the value of **£250** for his own use.

(continued on the next page)

1. continued.

(5) Other balances.

	1 October 2021	30 September 2022
	£	£
Computers (at valuation)	8 000	5 700
Equipment (at valuation)	11 000	7 000
Motor vehicle (at valuation)	3 000	6 300
5% bank loan (repayable over 5 years)	4 000	3 200
Inventory	10 900	8 100
Trade receivables	5 600	7 800
Trade payables	6 100	9 700
Wages	400 accrued	300 prepaid
Rent and rates	—	500 prepaid
Bank loan interest	—	90 accrued

(6) Bank loan and interest payments included the first of five annual repayments plus interest charges.

(7) A 5% allowance for irrecoverable debts is to be created.

(continued on the next page)

Turn over

1. continued.

REQUIRED

(a) Calculate the:

(i) capital at 1 October 2021

(4 marks)

(ii) revenue (sales) for the year ended 30 September 2022

(5 marks)

(iii) purchases for the year ended 30 September 2022.

(4 marks)

(b) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2022

(15 marks)

(ii) Statement of Financial Position at 30 September 2022.

(15 marks)

(continued on the next page)

1. continued.

Bejam is considering expanding his business. To do so would require £30 000 of additional funds to purchase extra non–current assets and inventory.

Bejam is considering whether to fund the expansion by offering an equal partnership to Kalib, or to obtain an 8% bank loan repayable over five years.

REQUIRED

(c) Evaluate whether Bejam should offer Kalib a partnership or obtain an 8% bank loan repayable over five years.

(12 marks)

(Total for Question 1 = 55 marks)

2. Alexandra's bookkeeper extracted the trial balance below and on the following page on **30 September 2022**.

Alexandra is aware that the bookkeeper had made some errors in drafting.

Trial Balance at 30 September 2022

	Dr	Cr
	£	£
Capital		70 000
Drawings	11 400	
Revenue		205 000
Purchases	117 000	
Returns outwards	1 900	
Inventory – 1 October 2021	27 500	
Bank overdraft	7 950	
Wages	31 500	
Rent payable		9 000
Rent receivable	4 750	
Electricity and water	5 700	
Sundry expenses	18 750	
Non–current assets (cost)	88 000	
Provision for depreciation – non–current assets	22 000	

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Turn over

2. continued.

	Dr	Cr
	£	£
Discount allowed		1 920
Discount received	4 100	
Trade receivables		13 000
Trade payables	7 270	
Allowance for irrecoverable debts	800	
Suspense		49 700
	_____	_____
	<u><u>348 620</u></u>	<u><u>348 620</u></u>

REQUIRED

- (a) Complete the corrected trial balance at 30 September 2022.
(10 marks)

(continued on the next page)

Turn over

2. continued.

AFTER the correction of the trial balance, the bookkeeper completed the financial statements, which showed a profit for the year of **£5 980**. Alexandra then found that there had been some errors in the year–end adjustments when preparing the financial statements.

- (1) The inventory at **30 September 2022** was recorded in the financial statements as **£23 600**. The inventory count had been understated and should have been **£26 100**
- (2) No adjustment had been made for **£2 000** rent receivable which was owing.
- (3) No adjustments had been made for sundry expenses accrued **£700** and for **£240** prepaid.
- (4) Annual depreciation on non-current assets owned at the end of the year had been charged at the rate of **20%** on cost, when this should have been **25%** on cost.
- (5) No adjustment had been made to the allowance for irrecoverable debts that should have been maintained at **4%** of trade receivables.
- (6) No provision had been made for an injury claim from one of Alexandra's employees. The injury claim would be for **10** weeks' loss of earnings at **£190** per week plus a total loss of bonus **£140**

REQUIRED

- (b) Calculate the revised profit for the year ended **30 September 2022**.
(13 marks)

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2. continued.

The information below related to two of Alexandra’s ledger accounts.

	Balance 1 October 2021	Payments/receipts by cheque	Balance 30 September 2022	Transfer to income statement
	£	£	£	£
Rent payable	650 Cr	9 650	600 Cr	To be calculated
Rent receivable	250 Dr	5 000	To be calculated	6 750

REQUIRED

(c) Prepare the following ledger accounts for the year ended 30 September 2022.

- (i) Rent Payable Account
(4 marks)
- (ii) Rent Receivable Account.
(4 marks)

(continued on the next page)

2. continued.

(d) Explain the following terms, giving ONE example of how each term would be applied when preparing the financial statements of Alexandra's business.

- **Materiality concept**
- **Business entity concept**
- **Money measurement concept**
- **Annual depreciation charge**
- **Allowance for irrecoverable debts**
- **Accounting ethics.**

(12 marks)

A friend of Alexandra stated that

‘A balanced trial balance must ensure that the business transactions in the books of account have been recorded correctly.’

(e) Evaluate this statement.

(12 marks)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer THREE questions from this section.

3. Job Lott manufactures metal components.

It has two production departments: machining and finishing.

It also has two service departments: stores and administration.

The information below and on the following page is available for the year ended 30 September 2022.

(1) Allocated overheads for EACH department will be:

	£
Machining	50 000
Finishing	30 000
Stores	25 000
Administration	27 500

(2) The use of the two service departments has been estimated to be as follows:

	MACHINING	FINISHING	STORES	ADMINISTRATION
Stores	60%	30%	–	10%
Administration	50%	30%	20%	–

(continued on the next page)

3. continued.

(3) Annual hours for each department are estimated to be:

	Total hours worked	Proportion chargeable to customers' jobs
Machining	5 600	75%
Finishing	2 425	80%

REQUIRED

(a) (i) Explain the term JOB COSTING.

(2 marks)

(ii) Identify TWO types of industry that might use job costing.

(2 marks)

(b) Calculate the TOTAL overheads using the CONTINUOUS ALLOTMENT METHOD, after the reapportionment of the service department overheads to the production departments.

(12 marks)

(c) Calculate the hourly overhead recovery rate, to the nearest pence, for the:

(i) Machining department

(2 marks)

(ii) Finishing department.

(2 marks)

(continued on the next page)

3. continued.

In the previous year, ended 30 September 2021, the overhead for the Finishing Department was UNDER–ABSORBED by £3 800

**(d) (i) Explain the meaning of the term UNDER–ABSORBED.
(2 marks)**

**(ii) Identify TWO possible reasons for the Finishing Department overheads being under–absorbed.
(2 marks)**

The raw materials used to make metal components are issued to production using the last in first out (LIFO) method.

**(e) Evaluate the use of the last in first out (LIFO) method when issuing raw materials to production.
(6 marks)**

(Total for Question 3 = 30 marks)

4. Venture Capital is considering the purchase of a mining business, Primary Metals.

The information below is available at 30 September 2022.

Primary Metals

Summary Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2022

	£	£
Revenue		820 000
Cost of sales	400 000	
Wages and salaries	250 000	
Loan interest	25 000	
Depreciation	40 000	
Rent	18 000	
General expenses	<u>75 000</u>	
		<u>(808 000)</u>
Profit for the year		<u><u>12 000</u></u>

Additional information at 30 September 2022

(1) Capital £300 000

(2) 5% five-year bank loan £500 000

(continued on the next page)

4. continued.

REQUIRED

(a) Calculate the following for Primary Metals. Give your answers to the nearest two decimal places.

(i) Gross profit as a percentage of revenue.

(2 marks)

(ii) Profit for the year as a percentage of revenue.

(2 marks)

(iii) Percentage return on capital employed.

(2 marks)

(continued on the next page)

4. continued.

If Venture Capital purchases Primary Metals, it has the following proposals.

- Purchase volumes of materials will increase by **50%**. These will **ALL** be purchased at a **25%** price reduction for materials from mines that are not controlled by any government legislation.
- The gross profit as a percentage of revenue will be **40%**.
- **50** staff will be made redundant saving **£100 000** per year. The remaining staff will be awarded a **4%** increase in wages and salaries.
- Borrowing will increase by **£200 000** with a **6%** five-year bank loan to purchase new non-current assets.
- Depreciation will increase to **£65 000** per annum. Rent will remain unchanged.
- General expenses will be reduced by **£15 000** per annum by buying from the cheapest supplier rather than buying locally.

REQUIRED

- (b) Prepare the Forecast Statement of Profit or Loss and Other Comprehensive Income for Primary Metals, for the year ended **30 September 2023**, if the purchase goes ahead.

(10 marks)

(continued on the next page)

4. continued.

(c) Calculate the following forecasts for the year ending **30 September 2023**, to the nearest two decimal places.

(i) Profit for the year as a percentage of revenue.

(2 marks)

(ii) Percentage return on capital employed.

(2 marks)

(d) Explain **FOUR** ways in which the principles of **SOCIAL ACCOUNTING** might **NOT** be applied if the Venture Capital proposals are implemented.

(4 marks)

(e) Evaluate the proposed purchase from the viewpoint of Primary Metals.

(6 marks)

(Total for Question 4 = 30 marks)

5. Ciara had traded as a sole trader for many years. On 30 September 2021 her assets and liabilities were as follows.

	£
Trade receivables	11 500
Trade payables	16 300
Goodwill	15 000
Inventory	13 000
Bank overdraft	6 500
Non-current assets	17 500
Provision for depreciation – non-current assets	14 000
Ciara's current account	200 Cr

REQUIRED

- (a) Calculate the capital of Ciara on 30 September 2021.
(2 marks)

(continued on the next page)

5. continued.

On 1 October 2021 Ciara converted her business into a partnership with Dennis.

The partnership agreement stated that:

- **Dennis would bring capital of £20 000 into the business. This would consist of a motor vehicle £5 000, inventory £3 000 and the balance by cheque.**
- **Goodwill would be removed from the books of the partnership.**
- **Profits and losses would be shared three–fifths Ciara: two–fifths Dennis.**
- **Dennis would be paid a salary of £7 500 per annum.**
- **There would be NO interest charged on drawings or paid on capital.**

REQUIRED

- (b) Prepare the capital accounts for EACH of Ciara and Dennis on 1 October 2021.**
(4 marks)

(continued on the next page)

5. continued.

On 1 October 2021 the partners also completed the following business actions.

- A 5% bank loan for £16 000 was taken out. This is repayable in ten years.
- Non–current assets that had cost £8 000 were sold for their carrying value of £1 500 and were replaced by new non–current assets at a cost of £13 000. Payment was received and paid by cheque.
- Trade payables of £4 500 were paid by cheque.
- Outdated inventory of £4 800 was sold at cost. Payment was received by cheque.

REQUIRED

(c) Prepare the summarised Bank Account at 1 October 2021.
(7 marks)

(d) Prepare the Statement of Financial Position of the new partnership at 1 October 2021.
(8 marks)

In the year ended 30 September 2022 Dennis was appropriated £4 400 as his share of the profit.

(e) Calculate the partnership profit for the year ended 30 September 2022.
(3 marks)

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5. continued.

Ciara and Dennis are considering having floating capital accounts.

(f) Evaluate the use of floating capital accounts for partners.

(6 marks)

(Total for Question 5 = 30 marks)

6. Farca is in business trading in goods on credit. The following was the ledger account of one of his customers, Coldstore Traders, for July. Farca is aware that there are a number of errors in the account.

Coldstore Traders Account

DATE	DETAILS	£	DATE	DETAILS	£
2022			2022		
1 July	Balance b/d	4 300	4 July	Bank	1 170
4 July	Discount allowed	30	25 July	Fixtures and fittings	900
8 July	Sales	420	31 July	Balance c/d	<u>7 980</u>
17 July	Sales	<u>5 300</u>			
		<u>10 050</u>			<u>10 050</u>
1 August	Balance b/d	7 980			

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6. continued.

The following errors were discovered.

- (1) 4 July The discount allowed on the payment by Coldstore Traders had been credited in the cash book of Farca.**
- (2) 8 July A credit sale of goods to Collinge, £420, had been entered into the account of Coldstore Traders.**
- (3) 17 July Sales of £6 500 to Coldstore Traders had been correctly entered in the books of prime entry of Farca. The transaction had been posted to the ledgers as £5 300**
- (4) 21 July Returns of £530 made by Coldstore Traders were NOT recorded.**
- (5) 25 July New fixtures and fittings on credit from Scudamore, £900, had been posted to the account of Coldstore Traders.**

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6. continued.

REQUIRED

- (a) Prepare the journal entries correcting the errors. Narratives are NOT required.
(10 marks)
- (b) Identify the types of error in EACH of (1) to (5).
(5 marks)
- (c) Calculate the corrected closing balance of Coldstore Traders on 31 July 2022.
(5 marks)
- (d) Explain TWO differences between an ERROR OF REVERSAL and an ERROR OF COMPENSATION.
(4 marks)

The sales manager made the following statement.

‘If we bought and sold all goods for cash, there would be no errors in the books.’

- (e) Evaluate the sales manager’s statement.
(6 marks)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 200 MARKS

END OF PAPER
