

Please check the examination details below before entering your candidate information

Candidate surname

Other names

Pearson Edexcel
International
Advanced Level

Centre Number

Candidate Number

--	--	--	--	--

--	--	--	--	--

Wednesday 30 October 2019

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 ►

P58473A

©2019 Pearson Education Ltd.

1/1/1/1/1/1/1




Pearson

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) Calculate the capital introduced into the new partnership on 1 October 2018 by:

- Alvor
- Bernie.

(6)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



After calculating the partners' initial capital it was agreed that goodwill would **not** remain in the books of the partnership.

(b) Prepare the Statement of Financial Position at the start of business on 1 October 2018.

(6)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Area with horizontal dotted lines for writing the Statement of Financial Position.



(c) Prepare the Statement of Profit or Loss and Other Comprehensive Income, including an appropriation section, for the year ended 30 September 2019.

(19)

Area with horizontal dotted lines for writing the answer.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Handwriting practice area with 20 horizontal dotted lines.



(d) Explain whether **each** of the following costs are variable, fixed, semi-fixed or semi-variable:

(6)

- supervision salaries

.....

.....

.....

.....

.....

.....

.....

.....

- rent

.....

.....

.....

.....

.....

.....

.....

.....

- telephone and communications.

.....

.....

.....

.....

.....

.....

.....

.....



(e) Calculate the projected profit or loss for the year ending 30 September 2020.

(6)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Area with horizontal dotted lines for writing the answer.



Alvor believes that there are many benefits to preparing projections of future income and costs. Bernie does not believe that the process provides any benefits.

- (f) Evaluate whether it is useful to prepare projections of income and costs for future years.

(12)

Area with horizontal dotted lines for writing.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Handwriting practice area with 30 horizontal dotted lines.

(Total for Question 1 = 55 marks)



Source material for Question 2 is on pages 6 and 7 of the Source Booklet.

- 2** (a) Prepare, for the year ended 31 August 2019, the:
- (i) Receipts and Payments Account

(10)

Area with horizontal dotted lines for writing the Receipts and Payments Account.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(ii) Subscriptions Account

(5)

(iii) Rent and Insurance Account

(5)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



P 5 8 4 7 3 A 0 1 1 3 6

(iv) Trading Account showing the profit or loss on the annual dance

(4)

Area with horizontal dotted lines for writing the Trading Account.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(v) Income and Expenditure Account.

(11)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Area with horizontal dotted lines for writing the Income and Expenditure Account.



(b) Explain, using **one** example from the Income and Expenditure Account prepared in (a)(v), the:

(i) accruals concept

(2)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(ii) prudence concept.

(2)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....



DO NOT WRITE IN THIS AREA

The Annual General Meeting of the club was called to present the financial statements. Two members asked questions.

George asked whether the club had been ethical in preparing its financial statements.

(c) Explain the meaning of the term **ethics in accounting**.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....



A second member, Atqiya, recommended that the club should evaluate the purchase of a computer and a computer software package to maintain the accounting records and prepare the financial statements.

- (d) Evaluate the use of information communication technology (ICT) in maintaining Kenton Lawn Tennis Club's accounting records and preparing the financial statements.

(12)

Area with horizontal dotted lines for writing the answer.



DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS



P 5 8 4 7 3 A 0 1 7 3 6

SECTION B

Answer THREE questions from this section.

Indicate which question you are answering by marking a cross . 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 .

Source material for Question 3 is on pages 8 and 9 of the Source Booklet.

3 (a) Calculate the depreciation charge for the year ended 30 September 2019 for **each type of non-current asset.**

(i) Motor vehicles

(3)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(ii) Plant and equipment

(3)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(iii) Loose tools.

(3)

.....

.....

.....

.....

.....

.....

.....

(b) Complete the schedule of non-current assets below.

(13)

Schedule of Non-current Assets at 30 September 2019

	Motor vehicles	Plant and equipment	Loose tools
	£	£	£
Cost at 30 September 2018	200 000	500 000	25 000
Additions for year			
Disposals for year			
Total non-current asset cost			
Depreciation			
Provision at 30 September 2018	(60 000)	(160 000)	(10 000)
Depreciation on non-current asset disposals			
Depreciation for the year ended 30 September 2019			
Total accumulated depreciation			
Carrying value at 30 September 2019			

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(c) State **two** reasons why the revaluation method may be the most appropriate method of depreciation for a non-current asset.

(2)

1

2

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

The Sales Manager of Elmo Construction stated, "I believe that we should calculate annual depreciation on all non-current assets using the straight line method."

(d) Evaluate whether the straight line method is suitable for all non-current assets.

(6)

Area with horizontal dotted lines for writing the answer to question (d).

(Total for Question 3 = 30 marks)



P 5 8 4 7 3 A 0 2 1 3 6

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

Source material for Question 4 is on pages 10 and 11 of the Source Booklet.

4 (a) Explain the difference between **profit** and **profitability**.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(b) Calculate, for the year ended 30 September 2019, the:

(8)

- gross profit as a percentage of revenue

- net profit for the year as a percentage of revenue

- return on capital employed

- trade payables payment period.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(c) Prepare the Projected Statement of Profit or Loss and Other Comprehensive Income for the year ending 30 September 2020.

(6)

Rahman

Projected Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2020

	£	£
Revenue		
Inventory 1 October 2019		
Purchases		
Inventory 30 September 2020		
Cost of sales		
Gross profit		
Wages		
Depreciation		
Bank loan interest		
General expenses		
Profit for the year		

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(d) Calculate, for the year ending 30 September 2020, the projected:

(4)

- net profit for the year as a percentage of revenue

.....

.....

.....

.....

.....

- return on capital employed.

.....

.....

.....

.....

.....

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(e) Calculate the value of the trade payables at 30 September 2020 if Rahman is to achieve a trade payables payment period of 30 days.

(2)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(f) Evaluate the use of considering **only financial factors** when judging the success of a business.

(6)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Area with horizontal dotted lines for writing the answer.

(Total for Question 4 = 30 marks)



P 5 8 4 7 3 A 0 2 7 3 6

If you answer Question 5 put a cross in the box .

Source material for Question 5 is on pages 12 and 13 of the Source Booklet.

- 5 (a) Complete the **Option 1** table showing the **total cost** of the delivery van in **each** of Year 1, Year 2 and Year 3, if the delivery van is purchased.

(14)

Option 1

	Year 1	Year 2	Year 3
	£	£	£
Depreciation			
Servicing			
Repairs			
Insurance			
Fuel			
Total cost			

.....

.....

.....

.....

.....

.....

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(b) Complete the **Option 2** table showing the **total cost** of the delivery van in **each** of Year 1, Year 2 and Year 3, if the delivery van is hired.

(4)

Option 2

	Year 1	Year 2	Year 3
	£	£	£
Hire			
Insurance			
Fuel			
Total cost			

DO NOT WRITE IN THIS AREA



(c) State the effect that both **Option 1** and **Option 2** would have upon the:

(6)

- cash payments made by Frost Bakeries in Year 1

.....

.....

.....

.....

.....

.....

- profit for the year in Year 3

.....

.....

.....

.....

.....

.....

.....

.....

- total cost of running the delivery van over the three years.

.....

.....

.....

.....

.....

.....

.....

.....

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(d) Evaluate whether Frost Bakeries should choose **Option 1** or **Option 2**.

(6)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Area with horizontal dotted lines for writing the answer.

(Total for Question 5 = 30 marks)



P 5 8 4 7 3 A 0 3 1 3 6

If you answer Question 6 put a cross in the box .

Source material for Question 6 is on pages 14 and 15 of the Source Booklet.

6 (a) Explain the meaning of the terms:

(i) an error of commission

(2)

.....

.....

.....

.....

(ii) an error of principle.

(2)

.....

.....

.....

.....

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(b) Prepare the Journal entries, including bank entries, to record the correction of errors (1) to (4) in the books. Narratives are **not** required.

(8)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Area with horizontal dotted lines for writing journal entries.



(c) Calculate the revised profit for the year ended 30 September 2019, after the correction of all errors.

(6)

Kobi

Calculation of revised profit for the year ended 30 September 2019

	£	£	£
Profit for the year			25 000
	Increase	Decrease	
(1) The closing inventory had been undervalued by £3 500			
(2) Kobi had taken additional drawings of £400 from the bank. No entries had been made in the books.			
(3) Rent owing at the end of the year of £700 had not been taken into account in calculating the profit.			
(4) A payment received from a credit customer, Basher, £7 200 had not been recorded in the books.			
Revised profit for the year			

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(d) Prepare the revised Statement of Financial Position at 30 September 2019 **after** the correction of all errors. Complete the table.

(6)

Kobi

Revised Statement of Financial Position at 30 September 2019

	Draft		Revised
	£	Workings	£
ASSETS			
Non-current assets (carrying value)	30 000		
Current assets			
Inventory	17 000		
Trade receivables	14 000		
Other receivables	<u>1 500</u>		
	<u>32 500</u>		
Total assets	<u>62 500</u>		
CAPITAL AND LIABILITIES			
Capital	32 500		
Profit for the year	<u>25 000</u>		
	57 500		
Drawings	<u>(15 000)</u>		
	42 500		
Current liabilities			
Trade payables	9 000		
Other payables	1 000		
Bank overdraft	<u>10 000</u>		
	<u>20 000</u>		
Total capital and liabilities	<u>62 500</u>		

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Kobi is considering recording the goodwill of his business in the Statement of Financial Position.

(e) Evaluate Kobi recording **goodwill** in his Statement of Financial Position.

(6)

Area with horizontal dotted lines for writing the answer.

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 200 MARKS



Pearson Edexcel International Advanced Level

Wednesday 30 October 2019

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.

Turn over ►

P58473A

©2019 Pearson Education Ltd.

1/1/1/1/1/1/1/1



Pearson

SECTION A

Answer BOTH questions in this section.

- 1 Alvor and Bernie had traded as sole traders for many years. On 1 October 2018 they formed a partnership sharing profits and losses in the ratio of 2:1. The partners agreed that Alvor would be paid a salary of £10 000 per annum and Bernie £6 000 per annum. There would be no interest paid on capital but interest would be charged on the closing balance of drawings (excluding salary) at the rate of 10% per annum.

The sole trader businesses of both Alvor and Bernie had the following assets and liabilities on 1 October 2018.

	Alvor	Bernie
	£	£
Non-current assets (carrying value)	14 000	21 000
Trade payables	3 800	5 400
Trade receivables	6 000	11 600
5% bank loan (repayable 2022)	–	12 000
Goodwill	18 000	–
Other receivables	300	900
Other payables	1 200	500
Inventory	7 000	8 600
Bank	4 500 Dr	6 100 Cr

All assets and liabilities would be brought into the partnership after the following adjustments:

- (1) Alvor would keep a motor vehicle with a carrying value of £5 000 for his own use.
- (2) Bernie's trade receivables included £1 600, which were considered irrecoverable. An allowance for irrecoverable debts of 5% was to be created on all the remaining trade receivables of Alvor and Bernie.
- (3) Alvor's inventory included outdated items that cost £4 000 and had a net realisable value of £2 500

Required

- (a) Calculate the capital introduced into the new partnership on 1 October 2018 by:

- Alvor
- Bernie.

(6)

After calculating the partners' initial capital it was agreed that goodwill would **not** remain in the books of the partnership.

- (b) Prepare the Statement of Financial Position at the start of business on 1 October 2018.

(6)

After the first year of trading as a partnership, the following balances, with the exception of the capital accounts, were extracted from the books of Alvor and Bernie on 30 September 2019.

	£
Revenue	300 000
Non-current assets (at carrying value)	
Motor vehicles	16 000
Computers	9 000
Fixtures and fittings	5 000
Electricity and water	5 650
Telephone and communications	6 150
Supervision salaries	24 000
Rent	16 700
Purchases	148 000
Wages	38 300
Inventory 1 October 2018	Calculated in part (a)
Trade payables	7 800
Trade receivables	41 000
5% bank loan (repayable 2022)	12 000
Allowance for irrecoverable debts	Calculated in part (a)
Carriage inwards	7 900
Bank	3 450 Dr
General expenses	7 400
Commission receivable	11 750
Insurance	1 800
Computer repairs	2 900
Drawings (including salaries paid):	
Alvor	12 000
Bernie	14 000

Additional information at 30 September 2019

- (1) Inventory £17 600
- (2) Commission receivable, £900, owing.
- (3) Electricity and water prepaid, £800
- (4) Rent prepaid, £6 700
- (5) Wages, £2 300, owing.
- (6) No interest had been paid on the bank loan in the year and is owing.
- (7) Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
 - motor vehicles at the rate of 20% per annum using the reducing balance method
 - computers by revaluation. The computers have a current market value of £7 500
 - fixtures and fittings, which had cost £8 000, at the rate of 10% per annum using the straight line method.
- (8) The allowance for irrecoverable debts is to be maintained at 5% of trade receivables.

Required

(c) Prepare the Statement of Profit or Loss and Other Comprehensive Income, including an appropriation section, for the year ended 30 September 2019. (19)

(d) Explain whether **each** of the following costs are variable, fixed, semi-fixed or semi-variable:

- supervision salaries
- rent
- telephone and communications.

(6)

Alvor and Bernie are preparing some projections of income and costs for the following year ending 30 September 2020.

(1) Revenue will increase by 50%.

(2) Variable cost will be 40 pence (£0.40) for every £1 of projected revenue.

(3) Fixed costs of £40 000 will increase by 15%.

(4) Semi-fixed costs. A fixed element of £60 000 will increase by £16 000 when revenue reaches £200 000 and by a further £16 000 when revenue reaches £400 000

(5) Semi-variable costs. A fixed element of £30 000 will increase by 10 pence (£0.10) for every £1 of projected revenue.

Required

(e) Calculate the projected profit or loss for the year ending 30 September 2020. (6)

Alvor believes that there are many benefits to preparing projections of future income and costs. Bernie does not believe that the process provides any benefits.

(f) Evaluate whether it is useful to prepare projections of income and costs for future years. (12)

(Total for Question 1 = 55 marks)

BLANK PAGE

2 The following information is available for the Kenton Lawn Tennis Club.

(1) Summarised bank transactions for the year ended 31 August 2019

	£
Subscriptions received	15 970
Wages	7 550
Purchase of equipment	2 750
Donations received from members	500
Sale of equipment	900
Rent and insurance	2 390
Sale of tickets for the annual dance	3 200
Expenses for the annual dance	950
Catering expenses for the annual dance	250
General expenses	4 830

(2) Balances at:

	1 September 2018 £	31 August 2019 £
Non-current assets (carrying value)		
Property	15 800	15 400
Equipment	8 150	9 400
Bank	75 Dr	To be calculated
Subscriptions – in arrears	810	720
– in advance	900	940
Amounts owing to the club		
Rent prepaid	400	310
By members for annual dance tickets	–	430
Refund for annual dance expenses	–	125
Amounts accrued by the club		
Wages	850	600
Insurance	180	–
Catering for the annual dance	–	2 100

(3) The subscriptions in arrears on 1 September 2018 related to nine members of the club. Five of those members paid the annual subscription of £90 in full, in October 2018. The remaining debts were to be written off.

(4) An allowance for irrecoverable debts is to be created. The club has 180 members each paying £90 per annum subscription. It is projected that six members will not pay their subscriptions next year.

Required

- (a) Prepare, for the year ended 31 August 2019, the:
- (i) Receipts and Payments Account (10)
 - (ii) Subscriptions Account (5)
 - (iii) Rent and Insurance Account (5)
 - (iv) Trading Account showing the profit or loss on the annual dance (4)
 - (v) Income and Expenditure Account. (11)
- (b) Explain, using **one** example from the Income and Expenditure Account prepared in (a)(v), the:
- (i) accruals concept (2)
 - (ii) prudence concept. (2)

The Annual General Meeting of the club was called to present the financial statements. Two members asked questions.

George asked whether the club had been ethical in preparing its financial statements.

- (c) Explain the meaning of the term **ethics in accounting**. (4)

A second member, Atqiya, recommended that the club should evaluate the purchase of a computer and a computer software package to maintain the accounting records and prepare the financial statements.

- (d) Evaluate the use of information communication technology (ICT) in maintaining Kenton Lawn Tennis Club's accounting records and preparing the financial statements. (12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer **THREE** questions from this section.

- 3 The following is an extract from the Statement of Financial Position of Elmo Construction at 30 September 2018.

Non-current asset	Cost	Accumulated depreciation	Carrying value
	£	£	£
Motor vehicles	200 000	60 000	140 000
Plant and equipment	500 000	160 000	340 000
Loose tools	25 000	10 000	15 000
Total	725 000	230 000	495 000

- During the year ended 30 September 2019, the following non-current asset transactions took place.
 - New motor vehicles were purchased at a cost of £35 000
 - Used motor vehicles, with a cost of £25 000, were sold for their book value of £8 000
 - New plant and equipment was purchased at a cost of £120 000
 - Used plant and equipment with a cost of £40 000, which had been fully depreciated, was scrapped. The plant and equipment had no scrap value.
 - New loose tools were purchased at a cost of £9 000. All loose tools were valued on 30 September 2019 at £16 000
- Elmo Construction has the following depreciation policy for non-current assets owned at the end of the year.
 - Motor vehicles – 20% per annum using the straight line method.
 - Plant and equipment – 25% per annum using the reducing balance method.
 - Loose tools – using the revaluation method.

Required

- (a) Calculate the depreciation charge for the year ended 30 September 2019 for **each** type of non-current asset.

- (i) Motor vehicles (3)
- (ii) Plant and equipment (3)
- (iii) Loose tools. (3)

(b) Complete the schedule of non-current assets in your question paper. (13)

(c) State **two** reasons why the revaluation method may be the most appropriate method of depreciation for a non-current asset. (2)

The Sales Manager of Elmo Construction stated, "I believe that we should calculate annual depreciation on all non-current assets using the straight line method."

(d) Evaluate whether the straight line method is suitable for all non-current assets. (6)

(Total for Question 3 = 30 marks)

- 4 Rahman buys and sells goods on credit. His summarised Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2019 is shown below:

Rahman

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2019

	£	£
Revenue		240 000
Inventory 1 October 2018	15 000	
Purchases	<u>160 000</u>	
	175 000	
Inventory 30 September 2019	<u>(35 000)</u>	
Cost of sales		<u>(140 000)</u>
Gross profit		100 000
Wages	70 000	
Depreciation	10 000	
Bank loan interest	1 000	
General expenses	<u>17 000</u>	
		<u>(98 000)</u>
Profit for the year		<u><u>2 000</u></u>

Additional information

- (1) Purchases are all on credit.
- (2) The owner has a fixed capital of £40 000
- (3) Rahman has a five year bank loan of £10 000, taken out on 1 October 2018. The bank loan is repayable in five annual instalments paid on 30 September.
- (4) Trade payables were £15 000 on 30 September 2019.
- (5) Assume 365 days in the year.

Required

- (a) Explain the difference between **profit** and **profitability**. (4)
- (b) Calculate, for the year ended 30 September 2019, the:
 - gross profit as a percentage of revenue
 - net profit for the year as a percentage of revenue
 - return on capital employed
 - trade payables payment period. (8)

Rahman is considering changing his business strategy and selling more expensive goods in the following year ending 30 September 2020. He has prepared the following projections.

- (1) The mark-up will be 50%.
- (2) Revenue will be £360 000
- (3) Purchases are all on credit.
- (4) Inventory at 30 September 2020 will be £50 000
- (5) Wage costs will rise by 10%.
- (6) Depreciation and general expenses will remain unchanged.
- (7) An additional five year bank loan of £10 000 will be required. This will be taken out on 1 October 2019 and will be repayable in five equal instalments on 30 September each year.
- (8) The total bank loan interest for the year will be £2 000

Required

- (c) Prepare the Projected Statement of Profit or Loss and Other Comprehensive Income for the year ending 30 September 2020. (6)
- (d) Calculate, for the year ending 30 September 2020, the projected:
- net profit for the year as a percentage of revenue
 - return on capital employed. (4)
- (e) Calculate the value of the trade payables at 30 September 2020 if Rahman is to achieve a trade payables payment period of 30 days. (2)
- (f) Evaluate the use of considering **only financial factors** when judging the success of a business. (6)

(Total for Question 4 = 30 marks)

5 Frost Bakeries requires a new delivery van on 1 January 2020. It is considering two options:

Option 1 Purchase the new delivery van

Option 2 Hire the new delivery van

The delivery van will travel 20 000 kilometres per annum making deliveries.

Option 1

The following cost information is available for the delivery van **if purchased** on 1 January 2020.

(1) The delivery van will cost £14 000 and have an economic life of three years at the end of which it will be sold for its residual value of £5 600

The depreciation policy is to use the straight line method.

(2) A maintenance service will be required every 10 000 kilometres, this will cost £150 except at the first 10 000 kilometres and 50 000 kilometres where the cost will be:

First 10 000 kilometres service	Free
At 50 000 kilometres service	£400

(3) General repairs

Tyres will need replacing every 25 000 kilometres and will cost £300 for a set of tyres.

Other repair costs will be £100 in Year 1, £500 in Year 2 and £1 200 in Year 3.

(4) Insurance

There will be a fixed cost of £500 per annum plus £10 per 1 000 kilometres travelled above 10 000 kilometres per annum.

The cost of insurance will rise by 5% in Year 3.

(5) Fuel

The delivery van will travel 10 kilometres per 1 litre of fuel in Year 1. As the delivery van becomes older this will reduce to 8 kilometres per 1 litre of fuel in Year 2 and Year 3. Fuel will cost 60 pence (£0.60) per litre.

Required

(a) Complete the **Option 1** table in the question paper showing the **total cost** of the delivery van in **each** of Year 1, Year 2 and Year 3, if the delivery van is purchased.

(14)

Option 2

The following cost information is available for the delivery van **if hired** on 1 January 2020.

- (1) Frost Bakeries will agree to make a payment of £350 **per month** for three years. The monthly payment will cover depreciation, servicing and repair costs.
- (2) The only additional costs that Frost Bakeries will pay will be the cost of insurance and fuel. These will be at the same rate as in Option 1.

Required

- (b) Complete the **Option 2** table in the question paper showing the **total cost** of the delivery van in **each** of Year 1, Year 2 and Year 3, if the delivery van is hired. (4)
- (c) State the effect that both **Option 1** and **Option 2** would have upon the:
 - cash payments made by Frost Bakeries in Year 1
 - profit for the year in Year 3
 - total cost of running the delivery van over the three years. (6)
- (d) Evaluate whether Frost Bakeries should choose **Option 1** or **Option 2**. (6)

(Total for Question 5 = 30 marks)

- 6 Kobi prepared the draft financial statements of his business on 30 September 2019. The following information is available.

Draft Statement of Financial Position at 30 September 2019

	£
ASSETS	
Non-current assets (carrying value)	30 000
Current assets	
Inventory	17 000
Trade receivables	14 000
Other receivables	<u>1 500</u>
	<u>32 500</u>
Total assets	<u>62 500</u>
CAPITAL AND LIABILITIES	
Capital	32 500
Profit for the year	<u>25 000</u>
	57 500
Drawings	<u>(15 000)</u>
	42 500
Current liabilities	
Trade payables	9 000
Other payables	1 000
Bank overdraft	<u>10 000</u>
	<u>20 000</u>
Total capital and liabilities	<u>62 500</u>

After the preparation of the financial statements, Kobi found that the following errors remained in his books:

- (1) The closing inventory had been undervalued by £3 500
- (2) Kobi had taken additional drawings of £400 from the bank. No entries had been made in the books.
- (3) Rent owing at the end of the year of £700 had **not** been taken into account in calculating the profit.
- (4) A payment received by cheque from a credit customer, Basher, of £7 200 had **not** been recorded in the books.

Required

- (a) Explain the meaning of the terms:
 - (i) an error of commission (2)
 - (ii) an error of principle. (2)
 - (b) Prepare the Journal entries, including bank entries, to record the correction of errors (1) to (4) in the books. Narratives are **not** required. (8)
 - (c) Calculate the revised profit for the year ended 30 September 2019, after the correction of all errors. Complete the table in your question paper. (6)
 - (d) Prepare the revised Statement of Financial Position at 30 September 2019 **after** the correction of all errors. Complete the table in your question paper. (6)
- Kobi is considering recording the goodwill of his business in the Statement of Financial Position.
- (e) Evaluate Kobi recording **goodwill** in his Statement of Financial Position. (6)

(Total for Question 6 = 30 marks)

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

BLANK PAGE