Centre No.						Paper Reference	Surname	Initial(s)
Candidate No.						W A C 0 1 / 0 1	Signature	

Paper Reference(s)

WAC01/01

Pearson Edexcel

International Advanced Level

Accounting (Modular Syllabus)

Unit 1: The Accounting System and Costing

Friday 10 January 2014 – Morning

Time: 3 hours

Examiner's use only

Team Leader's use only

Question Number	Leave Blank
1	
2	
3	
4	
5	
6	
7	
Total	

Materials required for examination	Items included with question papers
Nil	Source booklet

Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.
Check that you have the correct question paper.
Answer FIVE questions, choosing TWO from Section A and THREE from Section B.
Indicate which question you are answering by marking the box (☒).
If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).
All calculations must be shown.
Write your answers in the spaces provided in this question paper.
Do not return the insert with the question paper.

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. **(2)**.
There are 7 questions in this question paper. The total mark for this paper is 200.
There are 40 pages in this question paper. Any blank pages are indicated.
Calculators may be used.
The source material for use with questions 1 to 7 is in the enclosed source booklet.

Advice to Candidates

Write your answers neatly and in good English.

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Turn over

PEARSON

Leave blank

SECTION A

Answer TWO questions from this section.

If you answer question 1, put a cross in this box ☒ .

Source material for question 1 is on pages 2 and 3 of the source booklet.

1. (a) Prepare the Journal at 1 January 2013, including narratives, to:

(i) open the books of the partnership

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(3)

(ii) remove goodwill from the books of the partnership.

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(b) Prepare for the year ended 31 December 2013, the:

(i) Statement of Comprehensive Income and Appropriation Account

Leave blank

(15)

Leave blank

(ii) Capital accounts of the partners

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(iii) Current accounts of the partners.

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(4)

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(c) Prepare the Statement of Financial Position at 31 December 2013.

Leave blank

(15)

Leave blank

(d) Evaluate the decision of the partners to **not** charge depreciation for land and buildings.

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(8)

(Total 52 marks)

Q1

Leave blank

If you answer question 2, put a cross in this box ☒ .

Source material for question 2 is on pages 4 and 5 of the source booklet.

2. (a) Calculate the corrected value of the inventory at 31 December 2013 after the above adjustments (1) to (5) are made.

(10)

P 4 3 1 8 2 A 0 9 4 0

Leave blank

(b) Calculate the capital of Gary at 1 January 2013.

(3)

Leave blank

(c) Prepare the:

(i) Statement of Comprehensive Income for the year ended 31 December 2013

Leave blank

(13)

Leave blank

(ii) Statement of Financial Position at 31 December 2013.

Leave blank

(12)

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(d) Calculate for Gary, the current ratio at:

(i) 1 January 2013

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(ii) 31 December 2013.

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(e) Evaluate the liquidity of Gary's business.

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Q2

(Total 52 marks)

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If you answer question 3, put a cross in this box ☒ .

Source material for question 3 is on pages 6 and 7 of the source booklet.

3. (a) Prepare the Manufacturing Account for the year ended 31 December 2013.

Leave blank

(18)

Leave blank

(b) Prepare the following ledger accounts for the year ended 31 December 2013:

(i) Office Computers Account

(6)

Leave blank

(ii) Office Computers Provision for Depreciation Account.

(8)

Leave blank

(c) Prepare the Statement of Comprehensive Income for the year ended 31 December 2013, showing clearly the gross profit and the profit for the year.

(12)

Leave blank

(d) Evaluate the use of the straight-line method of depreciation for office computers.

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(8)

(Total 52 marks)

Q3

TOTAL FOR SECTION A: 104 MARKS

Leave blank

SECTION B

Answer THREE questions from this section.

If you answer question 4, put a cross in this box ☒ .

Source material for question 4 is on page 8 of the source booklet.

4. (a) Prepare the Journal correcting the errors in (3) above. Narratives are **not** required.

(8)

Leave blank

(b) Prepare the Purchases Ledger Control Account for the year ended 31 December 2013.

(16)

Leave blank

(c) Suggest **two** possible reasons for a debit balance in the Purchases Ledger Control Account.

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(4)

(d) Evaluate the use of control accounts.

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(4)

(Total 32 marks)

Q4

Leave blank

If you answer question 5, put a cross in this box ☒ .

Source material for question 5 is on page 9 of the source booklet.

5. (a) Distinguish between **allocation** and **apportionment** as used in overhead recovery.

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Simply Luxury is considering allocating Head Office overheads for each store on the most appropriate basis.

(b) (i) Using the most appropriate basis, calculate the Head Office overheads for each store.

Leave blank

(16)

Leave blank

(ii) Calculate the revised profit/loss for each store for the year.

(8)

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It has been suggested that the profit for the year of Simply Luxury would increase if the Weststead store is closed.

(c) Evaluate this statement.

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Q5

(Total 32 marks)

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If you answer question 6, put a cross in this box ☒ .

Source material for question 6 is on page 10 of the source booklet.

6. (a) Calculate, for the year ended 30 November 2013, the:

(i) Percentage mark-up

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

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The owner of the Value Store had stated that he planned to use a mark-up of 25% for the year.

(b) Suggest **two** possible reasons for any variance in the mark-up between planned and actual.

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(4)

The purchase price of the business is £200 000. Nemesh would fund the purchase by using his £100 000 personal savings plus a £100 000 8% bank loan. He estimates that his expenses for the first year of trading would be £60 000 (including depreciation and bank loan interest).

(c) (i) Distinguish between **owner's capital** and **capital employed**.

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(ii) State the formula used when calculating return on capital employed.

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(3)

(iii) Calculate the return on capital employed if Nemesh purchases the Value Store.

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Nemesh finds that the net tangible assets of the business are £150 000.

(d) (i) Name the term used to describe the £50 000 that Nemesh must pay above the value of the net tangible assets.

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(1)

(ii) Explain **two** reasons why Nemesh might make this payment to the seller.

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(4)

(e) Evaluate whether Nemesh should purchase the Value Store.

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(4)

Q6

(Total 32 marks)

Leave blank

If you answer question 7, put a cross in this box ☒ .

Source material for question 7 is on page 11 of the source booklet.

7. (a) Prepare the Trial Balance of Bourne Cricket Club at 31 December 2013, after all adjustments have been made.

Leave blank

(16)

Leave blank

(b) (i) Prepare the Subscriptions Account for the year ended 31 December 2013.

(8)

Leave blank

(ii) Explain why subscriptions require adjustment for sums paid in advance and in arrears.

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(4)

The Committee of the Bourne Cricket Club has been considering offering a five-year membership at a discount as an alternative to the current annual membership. The Treasurer informed members at the Annual General Meeting that in his opinion the five-year discounted membership would bring no benefits to the Club.

(c) Evaluate the Treasurer's statement.

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(4)

Q7

(Total 32 marks)

TOTAL FOR SECTION B: 96 MARKS
TOTAL FOR PAPER: 200 MARKS

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Paper Reference(s)

WAC01/01

Pearson Edexcel

International Advanced Level

Accounting (Modular Syllabus)

Unit 1 – The Accounting System and Costing

Friday 10 January 2014 – Morning

Source booklet for use with Questions 1 to 7.

Do not return the insert with the question paper.

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Anthi and Keri started a partnership on 1 January 2013. On that date the partners placed the following assets and liabilities into the business:

Anthi

Goodwill	£75 000
Delivery vehicle	£9 000
Inventory	£16 000
Trade receivables	£7 000
Trade payables	£15 000

Keri

Land and building	£80 000

Additional information:

(1) The partnership agreement stated that:
- Goodwill would **not** be maintained in the books of the partnership
- Interest on capital would be paid at the rate of 5% per annum
- Anthi would receive a salary of £15 000 per annum
- Profits and losses would be shared three fifths Anthi, two fifths Keri
- All appropriations would be recorded in a current account for each partner.

(2) On 1 July 2013, Keri paid an additional £20 000 capital into the business bank account.

(3) The partnership received a £50 000, 8% bank loan on 1 April 2013. The loan is repayable in five equal annual instalments on the 1 April of each year. The first repayment will be made on 1 April 2014.

(4) Balances, other than partners' capital and current accounts, at 31 December 2013 were:

	£
Inventory	63 000
Gross profit	103 350
Land and buildings (at cost)	80 000
Delivery vehicles (at cost)	19 000
Fixtures and fittings (at cost)	14 000
Trade payables	25 900
Trade receivables	18 300
8% Bank loan	50 000
Cash and bank	7 800
Wages and salaries	47 000
Bank loan interest	2 000
Delivery vehicle expenses	12 250
Carriage inwards	500 Cr
Sundry expenses	21 900
Drawings: Anthi	5 500
Keri	6 000

(5) At 31 December 2013:
- Wages and salaries includes the £15 000 salary paid to Anthi
- Delivery vehicle expenses of £650 were prepaid
- No depreciation is to be charged on land and buildings
- An additional delivery vehicle was purchased on 1 July 2013. Depreciation is to be charged at the rate of 20% per annum using the reducing balance method. Depreciation is charged pro rata to the months of ownership in the year of purchase.
- Fixtures are to be depreciated at the rate of 10% per annum using the straight-line method. The fixtures and fittings were purchased on 1 January 2013 and the residual value will be £2 000
- A bad debt of £800 was to be written off as irrecoverable. A provision for doubtful debts is to be created at 4% of remaining debts.

Required:

(a) Prepare the Journal at 1 January 2013, including narratives, to:

(i) open the books of the partnership

(3)

(ii) remove goodwill from the books of the partnership.

(3)

(b) Prepare for the year ended 31 December 2013, the:

(i) Statement of Comprehensive Income and Appropriation Account

(15)

(ii) Capital accounts of the partners

(4)

(iii) Current accounts of the partners.

(4)

(c) Prepare the Statement of Financial Position at 31 December 2013.

(15)

(d) Evaluate the decision of the partners to **not** charge depreciation for land and buildings.

(8)

(Total 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. Gary is a sole trader. He rents a shop at Easton Golf Course where he is also a golf instructor. His inventory count (stock take) at 31 December 2013 was valued at £15 600. On inspection of his inventory records he discovered that:

(1) Golf equipment costing £900 had been omitted from the inventory count.

(2) An inventory sheet had been over cast by £750.

(3) Golf clothing costing £1 000 had been damaged and could now only be sold at half of the cost price.

(4) Golf equipment with a selling price of £1 200, on sale or return to a member, had **not** been included in the inventory count. The member had not stated an intention to buy or return the goods.

(5) Golf equipment with a selling price of £525 had **not** been included in the inventory count.

Gary marks up all golf clothing and golf equipment by 50%.

Required:

(a) Calculate the corrected value of the inventory at 31 December 2013 after the above adjustments (1) to (5) are made.

(10)

The Cash Book (Summary) for Gary for the year ended 31 December 2013 was as follows:

Cash Book (Summary)

	£		£
Balance b/d	1 680	Payments to suppliers	38 900
Receipts from customers	52 960	Playing fees paid to the Course	25 000
Playing fees collected	28 800	Fixtures and fittings	400
Course salary received	4 500	Rent	1 900
Golf tuition fees	8 250	Heat and light	1 760
		Drawings	29 500
Balance c/d	5 690	Sundry expenses	4 420
	101 880		101 880
		Balance b/d	5 690

Additional information:

(1) Gary collects playing fees on behalf of the Course and keeps 5% of all playing fees collected. The balance of 95% has to be paid to the Course.

(2) Easton Golf Course pays Gary a salary of £5 000 per annum.

(3) Gary keeps all the profit from the sale of golf clothing and golf equipment.

(4) Easton Golf Course charges Gary a rent of £2 150 per annum for the shop.

(5) Balances at:

	1 January 2013	31 December 2013
	£	£
Fixtures and fittings (at valuation)	1 700	1 650
Inventory	12 850	?
Trade receivables	6 170	6 330
Trade payables	6 700	9 350
Prepaid heat and light	300	-
Accrued heat and light	-	460

Required:

(b) Calculate the capital of Gary at 1 January 2013.

(3)

(c) Prepare the:

(i) Statement of Comprehensive Income for the year ended 31 December 2013

(13)

(ii) Statement of Financial Position at 31 December 2013.

(12)

(d) Calculate for Gary, the current ratio at:

(i) 1 January 2013

(3)

(ii) 31 December 2013.

(3)

(e) Evaluate the liquidity of Gary's business.

(8)

(Total 52 marks)

Answer space for question 2 is on pages 9 to 16 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Vaso Technology manufactures components for the electronics industry. The following balances are available from the books on 31 December 2013:

	£
Inventory 1 January 2013:	
Raw materials	30 000
Work in progress	52 000
Finished goods	78 000
Purchases of raw materials	195 000
Production wages	134 000
Packaging	25 000
Management salaries:	
Production	85 000
Office	106 000
Production equipment (at cost)	110 000
Production equipment provision for depreciation	46 000
Premises rent	30 000
Sundry expenses	24 000
Revenue (sales)	650 000
Office computers (at cost)	?
Office computers provision for depreciation	?

Additional information at 31 December 2013:

(1) Vaso Technology values the inventory on the First In First Out (FIFO) basis.

The following summary relates to the raw materials:

1 January 2013	Inventory	15 000 items @ £2 each
January – June	Purchases	30 000 items @ £2.50 each
July – December	Purchases	40 000 items @ £3 each
January – December	Issues	60 000 items

Work in progress was valued at £49 000

Finished goods were valued at £63 000

(2) Production wages accrued £6 500.

(3) Packaging is 70% direct and 30% indirect.

(4) Premises rent and sundry expenses are to be apportioned 75% to production and 25% to the office.

(5) Depreciation is charged on production equipment at the rate of 25% per annum reducing balance method.

(6) Vaso Technology transfers production to finished goods at £5 per item. During the year 96 000 items were completed and transferred.

Required:

(a) Prepare the Manufacturing Account for the year ended 31 December 2013.

(18)

The following information relates to the office computers:

1 January 2011	Purchased office computers for £20 000
30 June 2013	Sold office computers costing £6 000 for £2 500
1 October 2013	Purchased office computers for £8 000 paying by cheque

Vaso Technology has the following depreciation policy:

- Office computers are depreciated at the rate of 20% per annum using the straight-line method
- Depreciation is charged pro rata to the months of ownership in the year of purchase or sale
- Vaso Technology uses a disposal account for the sale of office computers.

(b) Prepare the following ledger accounts for the year ended 31 December 2013:

(i) Office Computers Account

(6)

(ii) Office Computers Provision for Depreciation Account.

(8)

(c) Prepare the Statement of Comprehensive Income for the year ended 31 December 2013, showing clearly the gross profit and the profit for the year.

(12)

(d) Evaluate the use of the straight-line method of depreciation for office computers.

(8)

(Total 52 marks)

Answer space for question 3 is on pages 17 to 22 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Ranatunga maintains double-entry records and also control accounts.

(1) On 1 January 2013 he had the following balances on his Purchases Ledger Control Account:

£430 Dr
£78 000 Cr

(2) Ranatunga extracted the following balances from his Ledger on 31 December 2013:

	£
Cheques paid to suppliers	497 000
Refund from supplier	4 000
Discount received	8 200
Cash purchases	24 600
Sales ledger contra/Purchases ledger contra	2 150
Credit purchases	505 000
Returns outwards	15 600

(3) After extracting the balances in (2) above, the following errors were discovered:

- A discount received of £200 had been debited to the Discount Received Account
- A purchase of goods from Archana, £750, had been correctly entered in the Purchases Day Book but had been recorded in Archana's account at £570
- The Purchases Day Book had been undercast by £2 500
- A purchase from C. Vissing, £300, had been entered into the account of B. Vincent.

(4) On 1 January 2014 the Purchases Ledger Control Account had the following balances:

£650 Dr
? Cr

Required:

(a) Prepare the Journal correcting the errors in (3) above. Narratives are **not** required.
(8)

(b) Prepare the Purchases Ledger Control Account for the year ended 31 December 2013, following the correction of all errors.
(16)

(c) Suggest **two** possible reasons for a debit balance in the Purchases Ledger Control Account.
(4)

(d) Evaluate the use of control accounts.
(4)

(Total 32 marks)

Answer space for question 4 is on pages 23 to 25 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Simply Luxury is a business with a Head Office and three stores: East Town, Weststead and Northerton. For many years the cost of operating the Head Office has been allocated to the three stores on a set basis.

The following information is available for the year ended 30 November 2013:

(1) Draft financial statement:

	East Town £000's	Weststead £000's	Northerton £000's	Head Office £000's
Profit before Head Office costs	750	260	500	-
Less Set Head Office costs	(500)	(350)	(482)	(1 332)
Profit/(loss) after Head Office costs	250 profit	(90) loss	18 profit	

(2) Head Office overheads costs were:

Marketing	£180 000
Premises running costs	£180 000
Management salaries	£900 000
Depreciation	£72 000
	£1 332 000

(3) Other information:

	East Town	Weststead	Northerton
Staff (number)	22	5	9
Floor area (sq m)	700	500	600
Computers & fixtures (£000's)	18	6	12
Sales revenue (£000's)	1 500	600	900

Required:

(a) Distinguish between **allocation** and **apportionment** as used in overhead recovery.

(4)

Simply Luxury is considering allocating Head Office overheads for each store on the most appropriate basis.

(b) (i) Using the most appropriate basis, calculate the Head Office overheads for each store.

(16)

(ii) Calculate the revised profit/loss for each store for the year.

(8)

It has been suggested that the profit for the year of Simply Luxury would increase if the Weststead store is closed.

(c) Evaluate this statement.

(4)

(Total 32 marks)

Answer space for question 5 is on pages 26 to 30 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Nemesh is considering the purchase of the Value Store. The following information relates to the Value Store for the last financial year:

	£
Inventory 1 December 2012	30 000
Inventory 30 November 2013	25 000
Revenue (sales)	325 000
Purchases	245 000
Expenses (including depreciation)	65 000

Required:

(a) Calculate, for the year ended 30 November 2013, the:

(i) Percentage mark-up

(4)

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

(4)

The owner of the Value Store had stated that he planned to use a mark-up of 25% for the year.

(b) Suggest **two** possible reasons for any variance in the mark-up between planned and actual.

(4)

The purchase price of the business is £200 000. Nemesh would fund the purchase by using his £100 000 personal savings plus a £100 000 8% bank loan. He estimates that his expenses for the first year of trading would be £60 000 (including depreciation and bank loan interest).

(c) (i) Distinguish between **owner's capital** and **capital employed**.

(4)

(ii) State the formula used when calculating return on capital employed.

(3)

(iii) Calculate the return on capital employed if Nemesh purchases the Value Store.

(4)

Nemesh finds that the net tangible assets of the business are £150 000.

(d) (i) Name the term used to describe the £50 000 that Nemesh must pay above the value of the net tangible assets.

(1)

(ii) Explain **two** reasons why Nemesh might make this payment to the seller.

(4)

(e) Evaluate whether Nemesh should purchase the Value Store.

(4)

(Total 32 marks)

Answer space for question 6 is on pages 32 to 35 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. The Treasurer of the Bourne Cricket Club extracted the following balances from the Club's books on the 31 December 2013, before completing the Income and Expenditure Account:

	£
Accumulated fund	30 200
Subscriptions	8 850
Competition fees received	1 000
Purchases of refreshments	14 650
Sales of refreshments	30 250
Clubhouse (at cost)	35 000
Equipment (at cost)	4 800
Provision for depreciation – equipment	3 200
Wages and salaries	18 950
Other expenses	10 550
Trade payables	9 850
Bank overdraft	600

Additional information:

1. The books contained the following errors and omissions:

   (i) Donations received of £250 had been recorded as subscriptions

   (ii) Equipment costing £1 800 with a carry over (net book value) of £700 was sold in December for £800. The receipt was by cheque. No entries had been made in the books to record this transaction.

Required:

(a) Prepare the Trial Balance of Bourne Cricket Club at 31 December 2013, after all adjustments have been made.

(16)

Additional information:

Subscriptions paid in advance and in arrears at 31 December 2013:
Paid in advance £1 410 In arrears £1 360

(b) (i) Prepare the Subscriptions Account for the year ended 31 December 2013.

(8)

(ii) Explain why subscriptions require adjustment for sums paid in advance and in arrears.

(4)

The Committee of the Bourne Cricket Club has been considering offering a five-year membership at a discount as an alternative to the current annual membership. The Treasurer informed members at the Annual General Meeting that in his opinion the five-year discounted membership would bring no benefits to the Club.

(c) Evaluate the Treasurer's statement.

(4)

(Total 32 marks)

Answer space for question 7 is on pages 36 to 39 of the question paper.

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