

Please write clearly in block capitals.

Centre number

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Candidate number

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Surname

Forename(s)

Candidate signature

AS

Accounting

Paper 1 Financial and management accounting

Tuesday 15 May 2018

Morning

Time allowed: 3 hours

Materials

For this paper you must have:

- a calculator.

Instructions

- Use black ink or black ball-point pen.
- Fill in the box at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this answer book. Cross through any work you do not want to be marked.

Advice

- The marks for each question are shown in brackets.
- The maximum mark for this paper is 120.

For Examiner's Use	
Section	Mark
A	
B	
C	
TOTAL	



Section AAnswer **all** questions in this section.Only **one** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

CORRECT METHOD



WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

0 1

The bookkeeper has made a contra entry in the cash book to record the payment of cash into the bank account.

Which of the following is the source document for this transaction?

A Cash receipt☐**B** Cheque counterfoil☐**C** Paying-in-slip counterfoil☐**D** Till roll☐**[1 mark]****0 2**

Which of the following is the definition of a partnership?

A A business owned by shareholders☐**B** A business owned by the public☐**C** A business owned by two or more people with limited liability☐**D** A business owned by two or more people with unlimited liability☐**[1 mark]**

0 3

Included in the closing inventory of £36 800 were some items that had been damaged. The damaged inventory cost £6 400. It can be repaired at a cost of £880 and can then be sold for £7 100.

What is the value of the closing inventory that should be included in the financial statements?

A £30 400☐**B** £36 620☐**C** £36 980☐**D** £37 680☐**[1 mark]****0 4**

A business rents out part of its premises to two sole traders. It has received £6 000 in payments during the year ended 30 April 2018. At 30 April 2018, one sole trader has made a payment in advance of £600. The other still owes a month's rent of £200.

What amount should be entered in the income statement for the year ended 30 April 2018 for rent received?

A £5 400☐**B** £5 600☐**C** £6 400☐**D** £6 800☐**[1 mark]**

Turn over for the next question

Turn over ►



0 5

The owner of a shop has taken goods from the shop for her personal use.

What is the correct double entry to record this?

	Debit	Credit	
A	Drawings	Inventory	☐
B	Inventory	Drawings	☐
C	Drawings	Purchases	☐
D	Purchases	Drawings	☐

[1 mark]

0 6

Which is the correct formula to calculate the rate of inventory turnover?

- A** $\frac{\text{Average inventory}}{\text{Cost of sales}}$ ☐
- B** $\frac{\text{Average inventory} \times 100}{\text{Cost of sales}}$ ☐
- C** $\frac{\text{Cost of sales}}{\text{Average inventory}}$ ☐
- D** $\frac{\text{Cost of sales} \times 100}{\text{Average inventory}}$ ☐

[1 mark]



0 7

Which is the correct formula to calculate the gearing ratio?

- A**
$$\frac{\text{Current liabilities} \times 100}{\text{Non-current liabilities}}$$
 ☐
- B**
$$\frac{\text{Current liabilities} \times 100}{\text{Issued share capital} + \text{Reserves} + \text{Non-current liabilities}}$$
 ☐
- C**
$$\frac{\text{Issued share capital} + \text{Reserves} \times 100}{\text{Non-current liabilities}}$$
 ☐
- D**
$$\frac{\text{Non-current liabilities} \times 100}{\text{Issued share capital} + \text{Reserves} + \text{Non-current liabilities}}$$
 ☐

[1 mark]**0 8**

A company has total non-current liabilities of £5 000 000; $\frac{4}{5}$ of this total are 5% Debentures 2025–6. The remaining $\frac{1}{5}$ is a bank loan with interest charged at 6% per annum.

What will the finance costs be for a six month period?

- A** £60 000 ☐
- B** £125 000 ☐
- C** £130 000 ☐
- D** £260 000 ☐

[1 mark]**0 9**

Which best describes an error of principle?

- A** The double entry is correct but the amount entered is incorrect ☐
- B** The double entry is correct but the class of account is incorrect ☐
- C** The double entry is incorrect as only one entry has been made ☐
- D** The double entry is incorrect as the debit entry does not equal the credit entry ☐

[1 mark]**Turn over ►**

1 0

A company offers its trade customers a 30% trade discount and also a cash discount of 2.5% if they pay within 10 days. A trade customer has bought £100 worth of goods on credit.

How much will the customer pay if he pays within 10 days?

A £67.50

☐

B £68.25

☐

C £70.00

☐

D £97.50

☐

[1 mark]

1 1

Unibrand plc produces one product for which the forecast costs and selling price are shown below.

	£
Selling price	200
Fixed cost per unit	50
Variable cost per unit	105

The forecast costs are based on planned production and sales of 4 000 units.

1 1

1 Define the term 'stepped costs'.

[2 marks]



1 1 . 2 Calculate total fixed costs.

[1 mark]

1 1 . 3 Calculate the contribution per unit.

[1 marks]

1 1 . 4 Calculate the break-even point in units. State the formula used.

[3 marks]

1 1 . 5 Describe what is meant by 'break-even point in units'.

[2 marks]

Turn over for the next question

Turn over ►



[6 marks]

25



Section BAnswer **all** questions in this section.**1 3**

The bookkeeper for Fawaz, a sole trader, has not completed all the ledger entries to close the books of account for the year ended 30 April 2018.

The entries in the provision for depreciation for motor vehicles account and the disposal of motor vehicles account are still to be made. The bookkeeper has provided the following information.

Extract from the balance sheet at 30 April 2017.

	Cost	Depreciation to date	Net book value
	£	£	£
Motor vehicles	81 000	45 000	36 000

On 28 April 2018 Fawaz sold one of the vehicles for £10 000 cash. The vehicle had originally cost £21 000 and had a net book value of £9 000. He also purchased a replacement vehicle paying £24 000.

Fawaz depreciates motor vehicles using the reducing balance method at the rate of $33\frac{1}{3}\%$ per annum. He charges a full year's depreciation in the year of acquisition and none in the year of disposal.

1 3 . 1

Prepare the provision for depreciation for motor vehicles account and the disposal of motor vehicles account for the year ended 30 April 2018. Bring any balances down on 1 May 2018.

[11 marks]**Dr****Provision for depreciation – motor vehicles****Cr**

Date	Details	£	Date	Details	£

Question 13 continues on the next page**Turn over ►**

[illegible]

1 3 . 2

The bookkeeper has also not completed the inventory ledger account and has provided the following:

Inventory at 1 May 2017 £8 650
Inventory at 30 April 2018 £12 440

Prepare the inventory account to show the entries for the year ended 30 April 2018 and bring the balance down on 1 May 2018.

[4 marks]

Dr			Inventory			Cr		
Date	Details	£	Date	Details	£			

Turn over for the next question

Turn over ►



1 4

Jeni is the bookkeeper for Hamed a sole trader. She uses a hand written double entry bookkeeping system. Jeni is in the process of preparing the financial statements for the year ended 30 April 2018. However, the trial balance did not balance and she transferred the difference into a suspense account.

Hamed has a meeting with his bank manager and Hamed needs to know how much profit he had made for the year ended 30 April 2018. Jeni explained that there were some errors in the books of account and the profit might change, but before any corrections the draft profit for the year was £24 850.

She discovered the following errors in the books of account.

1. A sales invoice to J Jones a credit customer dated 25 April 2018 for £3 300 had not been entered in the books of account.
2. Discount received of £78 had been debited in the suppliers account and debited in the discount received account.
3. The purchases journal for March had been overcast by £180.
4. A cheque paid for wages of £768 had been entered correctly in the cash book but debited in the wages account as £678.
5. A cheque paid to a credit supplier for £200 had been credited in both the bank account and the suppliers account.

1 4 . 1

Prepare the suspense account at 30 April 2018 to correct the errors and show the original difference on the trial balance.

[5 marks]

Dr			Suspense account			Cr		
Date	Details	£	Date	Details	£			



Workings

1 4 . 2

Calculate the revised profit, taking into account any adjustments required for correcting the errors 1–5.

[5 marks]

Extra space

Turn over ►

1 5

Joko Ltd is a company selling sports equipment. The directors are the only shareholders. The assistant accountant has prepared the income statement and retained earnings section of the statement of changes in equity for the year ended 30 April 2018.

The balances remaining in the ledger accounts at 30 April 2018 are shown below.

	£
Bank overdraft	15 000
Inventory	68 600
Ordinary shares of 20p each	200 000
Other payables	7 600
Property at cost	250 000
Provision for depreciation – property	62 500
Provision for doubtful debts	1 140
Retained earnings	61 110
Trade receivables	28 750

The finance director has checked the draft financial statements and accounting records and asked for the following items to be dealt with.

1. On 26 April 2018 goods costing £5 000 with a sales value of £8 500 were sent to a customer on a sale or return basis. The credit sale was recorded in the sales ledger and the goods were not included in the closing inventory as they were not on the premises. The goods were returned on 4 May 2018 as they had not been sold.
2. During the year, the company had their property repaired. The cost of the repairs totalled £80 000, which has been debited to repairs and renewals. Included in the repairs total was £20 000 for building a new storage room.

It is company policy to depreciate property over a useful life of 40 years using the straight line method. It is the company policy to charge a full year's depreciation in the year of acquisition and none in the year of disposal.

3. On 25 April 2018 the directors issued 500 000 new shares at a premium of 5p. The share issue was fully subscribed and the cash has been received, however this transaction has not been recorded in the ledger accounts.
4. The provision for doubtful debts has not yet been calculated for the year ended 30 April 2018. The finance director wants this to be 4% of trade receivables.
5. The finance director has calculated that a provision for taxation of £16 000 should be made.



Prepare the statement of financial position for Joko Ltd at 30 April 2018 taking into account any adjustments required by items 1–5.

Joko Ltd
Statement of financial position at 30 April 2018

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Workings



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1 6

Budgee Ltd is a trading company which buys and sells one type of machine.

The management accountant of Budgee Ltd is preparing the budgeted income statement for the year ended 30 April 2019. He is using the actual results for the year ended 30 April 2018 as the basis for the budget.

The trading section of the income statement for the year ended 30 April 2018 is shown below.

**Trading section of the income statement for the year
ended 30 April 2018**

	£	£
Revenue (12 000 units)		2 160 000
Opening inventory (2 000 units)	180 000	
Purchases (12 000 units)	1 440 000	
Closing inventory (2 000 units)	(240 000)	
Cost of sales		<u>1 380 000</u>
Gross profit		780 000

The management accountant provides the following forecasts for the year ended 30 April 2019.

Both sales and purchases will be spread evenly through the year.

Revenue

It is intended to reduce the selling price by 10% from 1 May 2018.

The forecast is:

- for the period from 1 May to 31 October that the sales volume will increase by 15%
- for the rest of the year the sales volume will increase by a further 10% (based on the sales volume for the period from 1 May to 31 October).

Purchases

It is intended to purchase 15 000 units. The current supplier has informed the company that it will be increasing the price to £130 from 1 May 2018. Budgee Ltd is contracted to buy products from this company until 31 July 2018.

The purchasing manager has found a new supplier, who is willing to supply the product for £120, but they will charge £5 a unit for delivery. The purchasing manager has agreed to purchase the products from this company from 1 August 2018.

Inventory

Inventory is valued at the latest cost.



Prepare the budgeted trading section of the income statement for Budgee Ltd for the year ended 30 April 2019.

Budgee Ltd
Budgeted trading section of the income statement for the year ended
30 April 2019

[illegible]

[illegible]

55



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Section CAnswer **all** questions in this section.**1 7**

The directors of Cass Ltd have become increasingly concerned about the liquidity position of the company.

In order to assess the performance of the business, the accountant has calculated ratios for the current year together with those of the previous three years. These are shown below.

Ratio	Year ended 31 December			
	2017	2016	2015	2014
Gross profit %	35%	33%	30%	28%
Profit in relation to revenue %	10%	12%	14%	14%
Current ratio	1.2 : 1	1.5 : 1	2 : 1	2.4 : 1
Liquid capital ratio	0.4 : 1	0.8 : 1	1.4 : 1	1.9 : 1
Trade receivable days	62	56	45	45
Trade payable days	30	35	40	45

Additional information

The company offers its customers 30 days credit.
The company is given 30 days credit by its suppliers.

The directors have identified that there will be a problem with the company's overdraft. The company has an agreed overdraft facility of £80 000 and the bank is unwilling to increase this. The forecast bank balance on 30 June 2018 is £85 000 overdrawn.

The directors' believe that the problem of the bank overdraft will be temporary as they have signed a contract which will increase sales by 20%. The contract will commence on 1 September 2018.



Evaluate the performance of the business in relation to liquidity. Recommend and justify a short-term solution to the problem of the bank overdraft.

[illegible]

[illegible]

[illegible]

1 8

CF Ltd manufactures designer handbags. The handbags are designed by Claudia, the owner of the company, and are sold to retailers all over the world.

The company has developed strong customer loyalty built on its reputation for the design of the handbags; the quality of its products, as they are made with top quality materials; and the fact that they are handmade in Britain by a highly skilled workforce.

The factory and administrative offices are owned by the company and are located in the UK in a rural area with little alternative employment. The company has invested heavily in training and now has a highly skilled workforce of 20 workers.

Claudia has become increasingly concerned about the costs of manufacturing in the UK. The company imports leather for the bags from Italy and the materials for the lining from China. The exchange rate has been falling, resulting in increased costs for these materials. Claudia has asked her accountant for costing information for the current year and to prepare forecasts for the next year.

The accountant has prepared the budget based on the estimate that the cost of materials will increase by 20% and shipping costs will increase by 10%. However, she does not believe that other costs will change. The information for the current year and the budgeted figures are shown below.

	Current £	Budget £
Selling price	800	800
Cost per bag		
Labour (18 hours x £10 per hour)	180	180
Leather	60	72
Lining materials	20	24
Shipping costs	20	22
Fixed costs – Design	80	80
Fixed costs – Administration and manufacturing	240	240

Claudia has had an offer from an Italian company to manufacture and deliver the handbags. The Italian company already make handbags and other leather products for several respected international brands. They have a reputation for producing quality products using a skilled workforce. However, there are rumours that their workers are unhappy with their current pay and are demanding an increase in their wages.

The Italian company have said that they will be able to manufacture the handbags for £425 each and have said that they can guarantee that the price will not rise for one year. The shipping cost to the retailers will be £25 per bag.

If Claudia moves the manufacturing to Italy, the accountant believes that 80% of the fixed costs for administration and manufacturing will be saved, as the factory will be closed, but the administrative offices will be retained. The company will still have to meet the design cost.

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Evaluate the financial and non-financial implications of the proposal to buy the handbags from the Italian company. Your answer should include a justified recommendation as to whether to move the manufacturing to Italy or to continue manufacturing in the UK.

[illegible]

[illegible]

[illegible]

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