

Please write clearly in block capitals.

Centre number

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Candidate number

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Surname

Forename(s)

Candidate signature

I declare this is my own work.

AS ACCOUNTING

Paper 1 Financial and management accounting

Tuesday 12 May 2020

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 boxes 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.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this answer book. Cross through any work you do not want to be marked.

Information

- 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 question 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**

A business returns goods to S Rowe, one of its credit suppliers.

Which is the book of prime entry and double entry to record this transaction?

[1 mark]

	Book of prime entry	Debit	Credit	
A	General journal	Purchase returns	S Rowe	<input type="radio"/>
B	General journal	S Rowe	Purchase returns	<input type="radio"/>
C	Purchase returns journal	Purchase returns	S Rowe	<input type="radio"/>
D	Purchase returns journal	S Rowe	Purchase returns	<input type="radio"/>

0 2

A sales invoice has been incorrectly debited to the account of G Brown. It should have been debited in the account of G Bowen.

Which type of error is this?

[1 mark]

- A** Commission ☐
- B** Original entry ☐
- C** Principle ☐
- D** Reversal ☐



0 3

The bank reconciliation statement at 30 April 2020 showed:

Balance on bank statement	£200 Debit
Unpresented cheques	£80
Outstanding lodgements	£320

What is the cash book balance on 30 April 2020?

[1 mark]

A £40 Credit

☐

B £40 Debit

☐

C £440 Credit

☐

D £440 Debit

☐
0 4

On 1 April a business purchased office equipment costing £50 000, which was debited to the office equipment account. On 31 May the business purchased a calculator for £15 and it had an estimated useful life of three years. The accountant instructed the bookkeeper to debit the cost of the calculator to office expenses.

Which accounting concept was the accountant applying to the purchase of the calculator?

[1 mark]

A Business entity

☐

B Materiality

☐

C Objectivity

☐

D Realisation

☐

Turn over for the next question

Turn over ►



0 5

Regrettably, this question assessed content that is not part of the current AS Accounting specification.

0 6

Below is an extract from the statement of changes in equity for the year ended 30 April 2020.

	Ordinary shares £	Share premium £
At 1 May 2019	100 000	-
Issue of shares	50 000	10 000

Note: ordinary shares have a nominal value of 50p.

How many shares were issued and at what price?

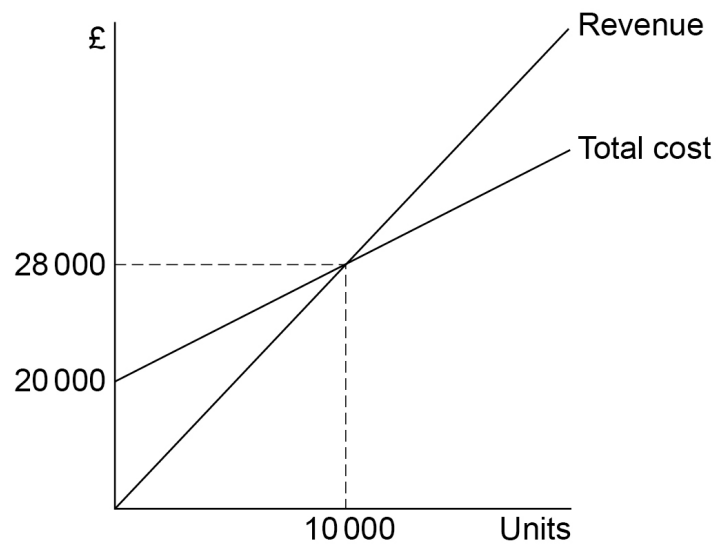
[1 mark]

	Number of shares issued	Issue price
A	50 000	60p
B	50 000	£1.20
C	100 000	60p
D	100 000	£1.10

☐☐☐☐

0 7

The management accountant of BE Ltd has prepared a break-even chart.



Note: the chart is not to scale.

What is the variable cost per unit?

[1 mark]

A £0.80

☐

B £1.25

☐

C £2.00

☐

D £2.80

☐

0 8

Which is the formula to calculate **total** contribution?

[1 mark]

A Revenue – total cost

☐

B Revenue – total variable cost

☐

C Selling price – total cost per unit

☐

D Selling price – variable cost per unit

☐

Turn over ►



Questions 09 and 10 are based on the following information.

The following balances have been taken from the financial statements.

	£
Credit purchases	100 000
Credit sales	300 000
Trade payables	12 000
Trade receivables	18 000

0 9

Which is the trade receivable days ratio?

[1 mark]

- A** 6 days
- B** 18 days
- C** 22 days
- D** 66 days

☐
☐
☐
☐

1 0

Which is the trade payable days ratio?

[1 mark]

- A** 4 days
- B** 12 days
- C** 15 days
- D** 44 days

☐
☐
☐
☐

10



Turn over for the next question

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ANSWER IN THE SPACES PROVIDED**

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1 1

The summarised income statement of R Ltd is shown below.

R Ltd
Summarised income statement for the year ended 31 March 2020

	£	£
Revenue		800 000
Cost of sales		
Opening inventory	25 000	
Purchases	490 000	
Closing inventory	<u>(35 000)</u>	
		<u>480 000</u>
Gross profit		320 000
Operating expenses		<u>224 000</u>
Profit for the year		<u><u>96 000</u></u>

1 1

1

Calculate the gross profit margin ratio. State the formula used.

[2 marks]

1 1

2

Calculate the markup ratio. State the formula used.

[2 marks]



1	1	.	3
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Calculate the profit in relation to revenue ratio. State the formula used.

[2 marks]

1	1	.	4
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Calculate the rate of inventory turnover (number of times per year) ratio. State the formula used.

[3 marks]

Question 11 continues on the next page

Turn over ►



1 1 . 5

Explain **two** limitations of using ratios to assess business performance.**[6 marks]***Do not write
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Limitation 1 _____

Limitation 2 _____

Extra space _____

15

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Section BAnswer **all** questions in this section.**1 2**

Mithali is a sole trader. Her bookkeeper is in the process of completing the ledger accounts for the year ended 30 April 2020.

The bookkeeper has provided the following information relating to the motor vans owned by the business.

Extract from the statement of financial position at 30 April 2019.

	Cost	Accumulated depreciation	Net book value
	£	£	£
Motor vans	72 000	34 875	37 125

On 30 November 2019 Mithali part exchanged an old van for part of the purchase price of a new van.

The old van had originally cost £24 000 and had accumulated depreciation of £13 875. Mithali was given an allowance of £8 000 against the cost of the new van. The new van cost £28 000 and the balance owing was paid by cheque.

It is Mithali's policy to depreciate motor vans using the reducing balance method at a rate of 25% per annum. No depreciation is charged in the year of disposal and a full year's depreciation is charged on all motor vans owned at the end of the year.

There were no other purchases or disposals of motor vans in the year ended 30 April 2020.

1 2 . 1

Prepare the motor vans at cost account and motor vans provision for depreciation account at 30 April 2020. Bring any balances down on 1 May 2020.

[11 marks]**Dr****Motor vans at cost account****Cr**

Date	Details	£	Date	Details	£



Dr **Motor vans provision for depreciation account** **Cr**

Date	Details	£	Date	Details	£

Workings _____

The following information relates to the wages of Mithali's employees.

	£
Amount owing for wages at 30 April 2019	2 800
Wages for the year paid by bank transfer	58 600
Amount owing for wages at 30 April 2020	4 200

1 2 . 2 Prepare the wages account at 30 April 2020. Bring any balance down on 1 May 2020.
[4 marks]

Dr **Wages account** **Cr**

Date	Details	£	Date	Details	£

15

Turn over ►



1 3

NH Ltd commenced trading on 1 April 2020. The following information has been extracted from the books of account at 30 April 2020.

	£
Cash purchases	1 200
Cash sales	6 450
Discount allowed	425
Discount received	125
Payments to credit suppliers	5 800
Receipts from credit customers	10 200
Returned cheque from credit customer	200
Purchases journal total	25 000
Sales journal total	45 000

Additional information:

1. Due to an error, a credit supplier had been overpaid by £180. This resulted in the supplier's account having a debit balance of £180.
2. The accountant created a provision for doubtful debts of £680.

1 3 . 1

Prepare the sales ledger control account at 30 April 2020. Bring any balance down on 1 May 2020.

[5 marks]

Dr

Sales ledger control account

Cr

Details	£	Details	£



1 3 . 2

Prepare the purchases ledger control account at 30 April 2020. Bring any balance down on 1 May 2020.

[5 marks]

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Dr

Purchases ledger control account

Cr

Details	£	Details	£

10

Turn over for the next question

Turn over ►



1 4

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Mel is a sole trader. Her bookkeeper is in the process of completing the financial statements for the year ended 30 April 2020.

The following balances remain in the books of account following the completion of the draft income statement.

	£
Accruals	575
Bank (debit balance)	1 075
Capital at 1 May 2019	38 600
Drawings	21 800
Inventory	21 700
Non-current assets – net book value	28 760
Prepayments	450
Profit for the year ended 30 April 2020	27 860
Trade payables	6 750

Since completing the draft income statement the bookkeeper has discovered the following omissions and errors.

1. On 30 April 2020 Mel deposited £10 000 cash from her personal savings into the business bank account for business use. This had not been recorded in the books of account.
2. During the year ended 30 April 2020 Mel had taken goods for her own use from inventory. The goods cost £2 400 and would have sold for £3 600. This had not been recorded in the books of account.
3. On 30 April 2020 Mel had drawn a cheque for £350 to pay a worker for helping with the stock-take. The bookkeeper had debited this to drawings.
4. On 25 April 2020 Mel had purchased goods costing £750 on a sale or return basis. These had not been recorded in the purchases account, but as they were on the premises on 30 April they had been included in the closing inventory. On 8 May 2020 the goods were returned to the supplier as they had not been sold.
5. Included in the closing inventory were goods costing £800 that had been damaged. The selling price of the goods would have been £1 200. The goods can be repaired at a cost of £100 and can then be sold for £850.
6. On 28 April 2020 Mel paid rent of £900 by cheque. The payment covered the period from 1 April 2020 to 30 June 2020. No entries have been made in the books of account to record this transaction.



Prepare extracts from the statement of financial position showing the **current assets** and **capital** sections **only**, taking into account any adjustments needed for items 1–6 on page 16.

Current assets £

Capital	£
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Workings

Turn over ►



[illegible]

[illegible]

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1 5

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BU Ltd is an online retailer. The directors of BU Ltd are concerned about the profitability of the business and have conducted a review of its operations, which has resulted in the following plan.

Period 1: from 1 May 2020 to 31 October 2020

This will be used to prepare for the implementation of increased automation and the introduction of a new inventory control system, which will result in no inventory being held on the premises.

Period 2: from 1 November 2020 to 30 April 2021

This will be the implementation of the new system.

The directors have prepared the following forecasts.

Sales, purchases and expenses accrue evenly through the year.

	Period 1 (1 May–31 October)	Period 2 (1 November–30 April)
Sales volume	Same rate as the year ended 30 April 2020	Increase by 20%
Selling price	Increase by 5%	Decrease by 15% from price in Period 1
Purchase volume	Purchases will be made to ensure that sales are met and that there is no closing inventory on 31 October 2020	To ensure sales targets are met and there is no closing inventory at 30 April 2021
Purchase price	Same cost as year ended 30 April 2020	Increase by 10%
Operating expenses	Increase by 25% from the year ended 30 April 2020	Increase by 20% from Period 1
Wages and salaries	Same cost as the year ended 30 April 2020	Reduce by $33\frac{1}{3}\%$
Redundancy costs	One-off redundancy cost £80 000	

The depreciation charge on the new system has been included in the increase in operating expenses.

The **actual figures** for the year ended 30 April 2020 are:

			£
Sales	20 000 units per month	@ £16/unit	320 000
Purchases	22 500 units per month	@ £10/unit	225 000
Closing inventory	40 000 units	@ £10/unit	400 000
Operating expenses	Per month		22 500
Wages and salaries	Per month		60 000



Prepare a budgeted income statement for the year ended 30 April 2021.

BU Ltd
Budgeted income statement for the year ended 30 April 2021

[illegible]

[illegible]

[illegible]

Turn over ►



Section C

Answer **all** questions in this section.

1	6
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Joe is a sole trader. He started his business as an electrician specialising in domestic work in a city on the south coast of England. He has expanded his business by employing staff and taking on work for local retailers. Joe enjoys the responsibility of managing the business and making all the decisions himself.

A national chain of supermarkets has approached Joe and he has agreed a contract to supply electrical services for its supermarkets in the South of England. This will mean a significant expansion of Joe's business. Joe has investigated the costs of expansion and also the budgeted increase in profits of the contract.

Cost of expansion Joe estimates that he will need to spend £80 000 in set-up costs for the new contract. This would cover purchasing new vans, equipment and legal fees etc.

Profits Joe's existing business makes a profit of £34 000 a year and he expects this to continue in the future. Joe's policy is to withdraw 90% of the annual profit as drawings.

Joe believes that the new contract would result in an additional profit of £30 000 a year. Joe has not included finance costs or any possible director's remuneration in his calculation as these will vary depending on which alternative is chosen (see below).

Joe has savings of £26 000 and he is willing to use some of this to finance the expansion. However, he would like to keep some of his savings for emergencies.

Joe has two alternative ways to raise the finance required for the expansion.

1. A business loan

- The business loan company will only lend Joe 70% of the set-up costs of £80 000. He will be required to provide the remaining 30% from his savings.
- The loan would be secured on his flat.
- The loan would be repayable over five years with an interest rate of 8% per annum.

OR

2. A private limited company

Joe would set up a private limited company, which would include his existing business and the new contract.

It has been agreed that:

- Joe would be the managing director and he would be paid a salary of £40 000 per annum
- the company would sell 80 000 £1 shares, at the nominal value, to raise the finance required
- Joe would invest £20 000 of his savings to purchase 20 000 shares and sell 40 000 shares to Raf and 20 000 shares to Jean
- Raf and Jean require a return on their investment, so Joe has agreed to pay 60% of the profits of the business in dividends each year.



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Evaluate the alternatives Joe is considering to expand his business. Your answer should include a justified recommendation of which alternative he should choose.

[20 marks]

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1 7

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RLH plc is a bicycle manufacturing company based in the UK. It makes bicycles for a range of different customers from those designed for children to those used by professional cyclists. The bicycles are all marketed under the brand name 'Hawk GB'. The bicycles are produced at five factories around the UK and the company has a head office in Manchester.

The directors are concerned about the profitability of the factory producing children's bicycles and have asked the finance director to investigate.

Background

The children's bicycles are manufactured in a factory situated in a large city in the Midlands. The city used to be a centre for bicycle manufacture, but most manufacturers have moved abroad, leaving RLH plc as the only UK-based manufacturer. However, the directors understand that a competitor has been looking for premises in the city to begin manufacturing bicycles.

The children's bicycles manufactured by RLH plc are good quality and priced at the upper end of the price range. The bicycles are sold in the UK only.

Research carried out indicates that customers are very loyal to the RLH plc brand with many buying children's bicycles and then also buying adult bicycles.

The parts used to make the children's bicycle range are imported from the Far East. Many of the parts are also used in the cheaper range of adult bicycles. The cost of the parts has been increasing due to a fall in the exchange rate and it is anticipated that this will continue in the future.

Financial information – children's bicycles

The actual figures for 2019 and 2020 and the forecast for 2021 are:

	2019 £	2020 £	2021 £
Revenue	6 000 000	6 000 000	6 000 000
Variable costs			
Parts/materials	1 050 000	1 275 000	1 350 000
Wages	2 100 000	2 100 000	2 310 000
Variable overheads	450 000	450 000	450 000
Fixed costs			
Factory costs	1 400 000	1 400 000	1 400 000
Head office costs	600 000	800 000	1 000 000
Profit/(loss) for the year	<u>400 000</u>	<u>(25 000)</u>	<u>(510 000)</u>

Notes to financial information:

Revenue	The number of bicycles sold in 2019 and 2020 did not change and is forecast to continue at the same level.
Head office costs	The Head office costs are charged equally to the five factories. These costs include, amongst others, the sponsorship of a professional cycling team.



1. losses will continue and are forecast to increase in the future, particularly with uncertainty over the exchange rate and its effect on the cost of parts
2. the closure of the factory would mean 60 employees being made redundant at a one-off cost of £950 000
3. the redundancy costs would be offset by saving the factory's fixed costs
4. most of the workers made redundant would be able to find alternative employment.

Evaluate the financial and non-financial implications of the proposal to close the factory. Your answer should include a justified recommendation as to whether to close the factory or not.

[illegible]

[illegible]

[illegible]

[illegible]

20



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[illegible]

[illegible]

