Please write clearly in block capitals.

Centre number | | | | | |

Candidate number | | | | |

Surname ______

Forename(s) ______

Candidate signature ______

A-level
ACCOUNTING

Paper 1 Financial Accounting

Monday 10 June 2019 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 A

Answer **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 What does a statement of affairs show?

[1 mark]

A How much cash has flowed into and out of a business

B How well a business does compared to its competitors

C The amount of taxation a business needs to pay

D The value of a business's assets and liabilities at a point in time

0 2 Which of the following will **not** affect a statement of cash flows?

[1 mark]

A Bonus issue of ordinary shares

B Redemption of a debenture

C Repayment of a loan

D Sale of non-current assets

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0 3 Following a recent stock take it was discovered that some inventory had not been included in the physical count.

What would be the impact on profit and current assets when the business accounts for this inventory?

[1 mark]

A Profit decreases, current assets decrease

B Profit decreases, current assets increase

C Profit increases, current assets decrease

D Profit increases, current assets increase

0 4 Which of the following is treated as an outflow on a reconciliation of operating profit to the net cash flow from operating activities?

[1 mark]

A Decrease in inventory

B Decrease in trade payables

C Decrease in trade receivables

D Depreciation of non-current assets

Turn over for the next question

0 5 The following information is available for rent receivable for the year ended 31 March 2019.

	£
Credit balance brought down at 1 April 2018	200
Receipts via bank	7 000
Monthly rent charge	500

How is the balance on the rent receivable account at 31 March 2019 shown on the statement of financial position?

[1 mark]

A Current Assets £800

B Current Assets £1 200

C Current Liabilities £800

D Current Liabilities £1 200

0 6 An item of inventory which originally cost £50 can be sold for £70 after being repaired at a cost of £25.

How much should the item be valued at?

[1 mark]

A £25

B £45

C £50

D £75

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0 7 Which of the following is the correct formula for trade receivables days?

[1 mark]

A $\frac{\text{Trade receivables}}{\text{Credit sales}} \times 100$

B $\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365$

C $\frac{\text{Trade receivables}}{\text{Total sales}} \times 100$

D $\frac{\text{Trade receivables}}{\text{Total sales}} \times 365$

0 8 An accounting standard can be ignored if the net impact of doing so has such a small impact on the financial statements that a user of the financial statements would not be misled.

Which accounting concept does this wording best apply to?

[1 mark]

A Accruals

B Going concern

C Materiality

D Realisation

0 9 A business is intending to raise finance in order to expand.

Which of the following sources of long-term finance would **not** increase the capital gearing ratio for the business?

[1 mark]

A Bank loan

B Debenture

C Mortgage

D Ordinary shares

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1 0 A cheque received from a trade receivable has been dishonoured.

Which is the source document for this transaction?

[1 mark]

A Bank statement ○

B Cheque counterfoil ○

C Credit note ○

D Paying-in slip counterfoil ○

1 1 Many businesses sell goods on credit to their customers.

Explain **one** reason why it is important for these businesses to make a provision for doubtful debts.

[3 marks]

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1 2

The following information has been extracted from the books of account of D Lewin for the month of March 2019.

	£
Cheque payments to credit suppliers taken from the cash book	26 282
Credit purchases	18 456
Discounts received	200
Purchase ledger balances at 1 March 2019	46 115
Returns outwards	645

1 2 . 1 Prepare a purchases ledger control account for the month of March 2019 in the books of D Lewin. Balance the account and bring the balance down on 1 April 2019. Dates are not required.

[5 marks]

Dr **Purchases Ledger Control Account** **Cr**

Details	**£**	**Details**	**£**

Question 12 continues on the next page

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In addition the following information has been extracted from the books of account of D Lewin for the month of March 2019.

	£
Credit sales	38 625
Dishonoured cheque from credit customer	300
Discounts allowed	435
Receipts from credit customers taken from the cash book	37 540
Sales ledger balances at 1 March 2019	32 144

1 2 . 2 Prepare a sales ledger control account for the month of March 2019 in the books of D Lewin. Balance the account and bring the balance down on 1 April 2019. Dates are not required.

[5 marks]

Dr **Sales Ledger Control Account** **Cr**

Details	**£**	**Details**	**£**

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James is a sole trader. His bookkeeper has not fully completed all the ledger entries to close the books of account for the year ended 30 April 2019. An extract from the Statement of Financial Position at 30 April 2018 is shown below.

	Cost £	Accumulated depreciation £	Net book value £
Fixtures and fittings	80 000	48 000	32 000

On 23 April 2019 James sold some fixtures and fittings for £14 000 for which he received a cheque. These fixtures and fittings had originally cost £24 000 and had a net book value of £14 400 at the date of disposal.

1 3 Prepare the Fixtures and Fittings at Cost Account and the Fixtures and Fittings Disposal Account for the year ended 30 April 2019. Bring any balances down on 1 May 2019.

[7 marks]

Dr **Fixtures and Fittings at Cost Account** **Cr**

Date	Details	Amount £	Date	Details	Amount £

Dr **Fixtures and Fittings Disposal Account** **Cr**

Date	Details	Amount £	Date	Details	Amount £

30

Turn over for Section B

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Section B

Answer **all** questions in this section.

1 4 Charlotte runs a small retail outlet. She does not keep full accounting records but has been able to provide the following information.

	1 February 2018	31 January 2019
	£	£
Fixtures and fittings at net book value	40 000	?
Cash	200	150
Other payables (general expenses)	400	0
Trade payables	27 629	28 754
Other receivables (general expenses)	0	150
Inventory	25 183	?

Bank summary for the year ended 31 January 2019.

Details	£	Details	£
Bal b/d	2 400	Wages	15 000
Cash	47 650	General expenses	10 365
Fixtures and fittings	5 500	Fixtures and fittings	14 000
Trade receivables	120 000	Drawings	32 000
		Trade payables	103 000
		Bal c/d	1 185
	175 550		175 550

Additional information

1. Goods are sold with a mark-up of 60%.
2. Total sales were £172 000. Cash sales were £50 400.
3. All purchases were on credit.
4. Charlotte banked all cash sales after deducting cash drawings of £2 500.
5. The fixtures and fittings sold originally cost £13 500 and had been depreciated by £7 500.
6. Depreciation on fixtures and fittings is charged at $33\frac{1}{3}$ % per annum using the reducing balance method. A full year's depreciation is charged in the year of acquisition and none in the year of disposal.
7. Charlotte believes a dishonest employee may have stolen some cash.

1 4 . 1 Prepare an income statement for Charlotte for the year ended 31 January 2019.

[14 marks]

Charlotte
Income Statement for the Year Ended 31 January 2019

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Workings

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Question 14 continues on the next page

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1 4 . 2 Charlotte is thinking of introducing a computerised system which will record the cash and inventory in and out of the business. This will cost £12 000. The new system records all sales to enable her to place orders automatically.

Assess whether Charlotte should purchase the new computerised system.

[6 marks]

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1 5

Sebastian, Hamilton and Nando are in partnership together. According to their Deed of Partnership, profits and losses are shared on a 2:2:1 basis respectively. There were no other partnership rules in place.

Nando decided to retire at the end of their financial year on 30 November 2018. Any amounts needing to be settled were to be done via the business bank account.

An extract of the balances on their books at the year end of 30 November 2018 showed the following information:

	£	
Property at cost	120 000	
Fixture and fittings at cost	46 000	
Trade receivables	15 567	
Trade payables	9 647	
Bank	9 000	
Capital account – Nando	18 000	
Current account – Nando	2 300	Dr

Additional information

1. The property was purchased on 1 December 2012. The depreciation policy is for property to be depreciated at 2% per annum using the straight line basis. A full year's depreciation is provided in the year of acquisition and none in the year of disposal.

2. Fixtures and fittings were purchased on 1 June 2015. The depreciation policy is for these to be depreciated at 20% per annum using the straight line basis. Depreciation is to be charged monthly on a time apportioned basis.

3. The following valuations were supplied by Nando's accountant and agreed by the partners on 30 November 2018:

	£
Property	127 000
Fixtures and fittings	11 025
Trade receivables	14 172

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1 5 . 1 Prepare the revaluation account for the partnership at 30 November 2018.

[11 marks]

Revaluation Account

Details	£	Details	£

Workings

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1 5 . 2 Prepare the capital account for Nando at 30 November 2018.

[3 marks]

Capital Account – Nando

Details	£	Details	£

Question 15 continues on the next page

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Nando's personal accountant was involved in the revaluation of the partnership's assets when he decided to leave.

1 5 . 3 Assess the ethics of why it might not be appropriate for Nando's personal accountant to have been involved in the valuation of the partnership's assets.

[6 marks]

40

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Section C

Answer **all** questions in this section.

1 6

Wolf Ltd is a business which sells lambswool jumpers to large retail companies. They are based in a small rural town in the north of Scotland. It is very near to the farm from which they purchase their raw materials. This helps reduce delivery costs although it does mean they are a long way from their customers. The business has a good relationship with its supplier and has used them for many years. As a result it benefits from favourable credit terms.

The mortgage on the factory has recently been paid off although the factory is not worth a great deal due to its location. The company has an ageing fleet of delivery vans which transport the goods to its customers in the south of England.

The jumpers are still produced using traditional machines which they have owned for over 30 years. These machines have to be serviced regularly and they waste a high proportion of raw materials. Staff are highly trained and are well paid due to the skills involved in the production process.

The directors are concerned that, whilst the sales of the business appear to be growing, the profitability of the business is staying around the same level each year. The directors know that they have access to sources of external finance and want to invest this in the business. They are considering one of the following options:

Option 1: to relocate the factory closer to their customers

Option 2: invest in new machinery and delivery fleet.

You have been provided with the following extracts of financial information.

Wolf Ltd
Extracts of Financial Information

	2018	**2017**	**2016**
	£	**£**	**£**
Revenue	1 445 000	1 350 000	1 225 990
Cost of sales	990 000	881 000	745 600
Operating expenses	403 000	402 000	397 000
Profit for the year	?	?	?
Liquid ratio	0.79:1	0.81:1	0.8:1
Inventory turnover	12 times	11.2 times	10.6 times

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1 6 Evaluate trends in the current profitability of the business and make recommendations on which option should be chosen to improve future profitability.

[25 marks]

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1 7 Jasmeen is a sole trader who runs a successful kennel business. Jasmeen is now looking to expand the business with an extension to her kennel building in order to meet demand. Demand is seasonal with summer being her busiest period but the business suffers from poor liquidity in the winter months. Discounts are given to clients who use her services regularly.

The kennel extension will cost around £150 000 to complete. The extension is expected to be in use for around 20 years and should be completed in the winter of 2019 if she can secure funding by the end of August 2019. She hopes it will boost her profits by between 30% and 60%. Jasmeen has supplied the following information:

Extracts of financial information

	2018	**2017**
Capital employed	£231 500	£223 000
Drawings	£26 000	£24 000
Profit for the year	£34 500	£33 200

She is prepared to take some risks in order to see the business grow. She is considering whether to change the business ownership in order to fund the expansion.

She feels that the two most suitable options are detailed below:

Option 1
Enter into a partnership with Depak’s Doggies. Depak is looking to invest £150 000 for an equal profit share. He has already pointed out some ways to improve the business including using cheaper dog food and reducing the amount spent on wages by walking the dogs less frequently.

Option 2
Set up as a private limited company. To do this she would sell ordinary shares in her company at their nominal value of 50p per share to raise £150 000. Her own equity would also be converted into shares to the same value. She is hoping to pay dividends at around 5p per share.

1 7 Evaluate which of the options Jasmeen should choose. Justify your answer.

[25 marks]

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