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AS
ACCOUNTING

Paper 1 Financial and management accounting

7126

Insert for use in answering Questions 13, 14, 15, 16 and 18.

[Turn over]

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13 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.

[Turn over]

14 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.**

[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.**

[Turn over]

16 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		1 380 000
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.

[Turn over]

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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