SPECIMEN MATERIAL

Please write clearly, in block capitals.

Centre number | | | | | | Candidate number | | | | |

Surname ____________________

Forename(s) ____________________

Candidate signature ____________________

AS
ACCOUNTING

Paper 1 Financial and Management Accounting

Specimen

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.
- 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 marks for this paper is 120.

Section A

Answer **all** questions in this section

For questions with four responses 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 A business has received a credit note.
What entries should be made in the business's ledger accounts?

	Account debited	Account credited
A	Purchases returns	Trade payable
B	Sales returns	Trade receivable
C	Trade payable	Purchases returns
D	Trade receivable	Sales returns

[1 mark]

0 2 The owner of a business paid for his family's holiday from the business bank account and recorded the payment as drawings.

Which accounting concept is being applied?

A Accruals

B Business entity

C Going concern

D Prudence

[1 mark]

0 3 The owner of a business has decided to create a provision for doubtful debts. Which two accounting concepts are being applied?

A Accruals and going concern

B Accruals and prudence

C Consistency and business entity

D Consistency and prudence

[1 mark]

0 4 Eric, Fiona and Gary are proposing to set up a limited company with a share capital of £180 000. They will be the only shareholders and originally planned to invest in the share capital using Ratio 1 below. However, circumstances have changed and they have to use Ratio 2.

	Eric	**Fiona**	**Gary**
Ratio 1	1	2	1
Ratio 2	2	9	4

What difference will it make to Eric's investment when Ratio 2 is chosen?

A Invests £21 000 less

B Invests £21 000 more

C Invests £24 000 less

D Invests £24 000 more

[1 mark]

0 5 How will the recovery of a debt, previously written off, affect the profit, current assets and capital of a business?

	Profit	Current assets	Capital	
A	Decrease	Decrease	Decrease	⬭
B	Increase	Decrease	No effect	⬭
C	Increase	Increase	Increase	⬭
D	No effect	Increase	Increase	⬭

[1 mark]

0 6 The purchase of a non-current asset was debited to the purchases account. What is this type of error called?

A Commission ⬭

B Omission ⬭

C Original entry ⬭

D Principle ⬭

[1 mark]

0 7 Which of the following current assets should be ignored when calculating the liquid capital ratio?

A Cash and cash equivalents ⬭

B Inventory ⬭

C Other receivables ⬭

D Trade receivables ⬭

[1 mark]

0 8 What does the abbreviation 'Ltd' indicate in the name of a company?

A The amount of debentures that can be issued is limited

B The company's capital is limited to a fixed account

C The shareholder's liability for the company's debts is limited

D The shareholder's liability for the company's debts is unlimited

[1 mark]

0 9 Which is the correct formula for calculating contribution?

A Fixed costs divided by variable costs

B Fixed costs less variable costs

C Sales revenue divided by variable costs

D Sales revenue minus variable costs

[1 mark]

1 0 A business has forecast its telephone expense for the year to be £1800. This consists of a fixed element for line rental which is $^1/_3$ of the total cost; the remaining $^2/_3$ are variable based on the telephone calls made. The business has been informed that the cost of the line rental will be reduced by ¼. However, the cost of calls will increase by 20%.

How much will the revised forecast telephone expense be, assuming the number of calls does not change?

A £1845

B £1890

C £1917

D £2040

[1 mark]

1 1 Closing inventory that cost £12 600 has been damaged. It can be repaired at a cost of £2000 and could then be sold for £13 880.

1 1 . 1 Identify the accounting concept that should be applied to the valuation of inventory.

[1 mark]

11.2 State how the concept identified in question **11.1** is applied to the valuation of closing inventory that has been damaged.

[2 marks]

11.3 Calculate the value of closing inventory.

[1 mark]

Turn over for the next question

1 2 The following balances have been extracted from the books of account for the year ended 31 December 2015.

	£
Closing inventory	22 000
Opening inventory	18 000
Purchases	204 000
Revenue	280 000

1 2 . 1 State the formula for the mark-up percentage.

[1 mark]

1 2 . 2 Calculate the mark-up percentage

[1 mark]

1 2 . 3 State the formula to calculate the rate of inventory turnover.

[1 mark]

1 2 . 4 Calculate the rate of inventory turnover.

[2 marks]

1 3 Explain, using examples, the differences between the role of the accountant and the role of the bookkeeper in the preparation of the financial statements.

[6 marks]

End of Section A

Turn over for Section B

Section B

Answer **all** questions in this section.

1 4 Jane Halford owns a retail business. Her bookkeeper has been preparing the business's accounting records for the last week of June 2016, but the following information has not yet been recorded.

Date		**Source document**	**Details**
June	25	Sales invoice	H Williams for goods with a list price of £3600 less a trade discount of 25%.
	26	Paying-in slip counterfoil	Cash £840
	27	Bank statement	Credit transfer: H Williams settled the amount due on 24 June less a 5% cash discount.
	28	Credit note	Sent to H Williams as one-quarter of the goods sold on 25 June had not been as ordered.
	29	Email from Jane Halford to bookkeeper	An error was made when interest of £48 was charged to the account of K Williams Ltd in May. The interest should have been charged to the account of H Williams.

The receivables ledger showed the following amounts due on 24 June:

	£
H Williams	1300
K Williams Ltd	994

Cash book balances on 24 June were:

	£
Cash in hand	1830
Bank (overdrawn)	2840

1 4 . 1 Prepare the books of prime entry to record the information for the last week of June 2016. (It is **not** necessary to balance the cash book on 30 June).

[7 marks]

CASH BOOK											
Dr											Cr
			Discounts	Cash	Bank				Discounts	Cash	Bank
			£	£	£				£	£	£

SALES JOURNAL			
			£

SALES RETURNS JOURNAL			
			£

GENERAL JOURNAL				
			Dr £	Cr £

Question 14 continues on the next page

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ANSWER IN THE SPACES PROVIDED

1 4 . 2 Prepare the accounts of the trade receivables for the last week of June 2016.
Balance the accounts on 30 June 2016.

[8 marks]

RECEIVABLES LEDGER

Dr		**H WILLIAMS Account**					Cr
			£				£

Dr		**K WILLIAMS LTD Account**					Cr
			£				£

1 5 Jamal owns the Drop in Café. On 31 May 2016 the business's cash book for the month of May was as follows:

Cash Book (bank columns)

Dr							Cr
			£				£
May	1	Balance b/f	730	May	4	Rent (SO)	450
	8	Sales	694		7	Catering supplies (cheque 372141)	559
	17	Sales	1031		14	Regional Utilities plc (DD)	186
	29	Sales	427		21	Drawings (cheque 372142)	165
					23	Business rates (DD)	274
					25	Catering supplies (cheque 372143)	671
					31	Balance c/d	577
			2882				2882
June	1	Balance b/d	577				

The business's bank statement for the same period was as follows.

Bank Statement

			Debit £	Credit £	Balance £	
May	1	Balance			990	Cr
	3	372140	260		730	Cr
	4	SO Wilford Properties	450		280	Cr
	11	Sundries		694	974	Cr
	12	372141	559		415	Cr
	14	DD Regional Utilities plc	186		229	Cr
	17	Credit transfer: Investment interest		72	301	Cr
	18	DD Excelsior Finance plc	1200		899	Dr
	20	Sundries		1031	132	Cr
	23	DD Business rates	274		142	Dr
	26	372142	156		298	Dr
	29	Charges	85		383	Dr

Additional information:
Jamal realises he made an error in recording the amount for cheque 372142 in his cash book.

1 5 . 1 Prepare an updated cash book on 31 May 2016.

[6 marks]

Cash Book (bank columns)

Dr Cr

			£				£

1 5 . 2 Prepare a bank reconciliation statement on 31 May 2016.

[4 marks]

1 6 The trading section of the income statement for Brogia Ltd for the year ended 30 April 2016 has been completed. It showed a gross profit of £171 360.

The following balances remained in the books of account of Brogia Ltd at April 2016:

	£
Bank loan repayable 2025	60 000
Cash at bank	6 840
Inventory	98 240
Loan interest	1 800
Non-current assets	147 800
Operating expenses	84 090
Ordinary shares of 20p each	120 000
Provision for depreciation at 1 May 2015	48 800
Retained earnings	48 560
Share premium	20 000
Trade payables	89 309
Trade receivables	23 800

Additional information

(1) It is the company policy to depreciate non-current assets using the reducing balance method at the rate of $33^1/_3$% per annum.

(2) The bank loan was taken out in 2005 and interest is payable at the rate of 5% per annum.

(3) The directors have been advised that there should be a provision for corporation tax for the year ended 30 April 2016. It is estimated that this should be 20% of the profit before tax.

(4) On 25 April 2016 the directors paid a dividend of 4p per share. This has not been recorded in the books of account.

(5) On 29 April 2016 the directors issued 200 000 new ordinary shares at a price of 35p per share. The issue was fully subscribed, but has not been entered in the books of account.

1 6 . 1 Complete the income statement for Brogia Ltd for the year ended 30 April 2016.

[6 marks]

Brogia Ltd
Income statement for the year ended 30 April 2016

	£	£
Gross profit		

Workings:

1 6 . 2 Prepare the statement of changes in equity for the year ended 30 April 2016. A total column is not required.

[9 marks]

Brogia Ltd
Statement of changes in equity for the year ended 30 April 2016

	£	£	£

Workings:

TURN OVER FOR THE NEXT QUESTION

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ANSWER IN THE SPACES PROVIDED

1 7 Andy Givens is a sole trader and sells a single product online to customers in the UK. The actual results for the year ended 30 June 2016 were as follows:

Andy Givens
Income statement for the year ended 30 June 2016

	£	**£**
Revenue (6000 units)		300 000
Less: Cost of sales		
Opening inventory (125 units)	2 500	
Purchases (6500 units)	143 000	
Closing inventory (625 units)	(13 750)	(131 750)
Gross profit		168 250
less: Expenses		
Wages	40 000	
General expenses	38 000	
Rent	15 000	
Carriage out (average £3.50 per unit)	21 000	(114 000)
Profit for the year		54 250

Andy is in the process of preparing the budgeted income statement for the year ending 30 June 2017 and has identified the following changes compared to the actual results for the year ended 30 June 2016:

Change	**Impact compared to the year ended 30 June 2016**
Online advertising campaign to stimulate demand from new and existing customers.	The unit selling price to customers will be reduced by 2.8% and the volume of units sold will increase by 18.75%. The campaign will cost £18 000.
The product is sourced from a large international firm which has just announced the purchase price will be increasing from 1 July 2016.	Unit purchase price will increase by 12.5%.
Inventory levels to be lowered by controlling purchases.	The number of units of closing inventory to be reduced by 13.6%.
Wage increase for staff to be limited to the general level of inflation.	Wages to increase by 2.5%.
General expenses to be reduced by efficiency measures.	General expenses to fall by 3.1%.
Rent was fixed for a period of 7 years in August 2014.	No change.
A new courier service will be used to deliver orders to customers.	The average cost of delivery will fall by £0.50 per unit.

1 7 . 1 Prepare the budgeted income statement for Andy Givens for the year ending 30 June 2017 taking into account the changes identified.

[15 marks]

Andy Givens
Budgeted Income Statement for the year ending 30 June 2017

	£	£

Workings: ______________________________

____

End of Section B

Turn over for Section C

Section C

Answer **all** questions in this section.

1 8 HP DAK Ltd is a small company which manufactures a single niche product for the UK catering market. The company is looking for opportunities to grow the business but due to a lack of consumer confidence the existing market for its product is relatively static. The current forecast is to sell 7 000 units this year at an average selling price of £150 per unit.

The variable costs of a unit of output is as follows:

	£
Material X – 2 kilos at £6.00 per kilo	12.00
Material Y – 0.5 litres at £10.00 per litre	5.00
Labour: Skilled – 3 hours at £15.00 per hour	45.00
Labour: Semi-skilled – 4 hours at £8.00 per hour	32.00
Total variable cost	94.00

The company has just received an approach from a potential overseas customer who is prepared to place an order for 1 500 units if a total sales price of £187 500 is agreed and delivery takes place within 3 months. The overseas customer is prepared to pay in full before the order is shipped but HP DAK Ltd will have to pay the shipping and insurance costs of £16 500. If the delivery terms and quality standards are met then the overseas customer will look to place future orders totalling in the region of 5 000 units per annum.

(1) Budgeted fixed overheads for the current year are £280 600 and it is anticipated the profit for the year will be £111 400.

(2) It is forecast for the current year skilled labour will be under-utilised by 2 040 hours but the decision has been taken to retain the existing 12 skilled employees and pay them for a 40 hour week even though they may not be producing any output. All non-productive wages are included within fixed overheads.

(3) Any shortfall in skilled labour hours would be worked as overtime at a premium of £5.00 hour.

(4) Obtaining extra supplies of materials and semi-skilled employees at the current rates is not considered to be a problem.

1 8 . 1 Evaluate the financial and non-financial implications of the proposed order from the overseas customer. Your answer should include a justified recommendation as to whether to accept or reject the order.

[20 marks]

Extra Space

1 9

Wyro Ltd is a company that makes wire products such as supermarket shopping trolleys and baskets.

The company has an authorised share capital of 200 000 ordinary shares of £1 each. The issued share capital of £80 000 is owned by the three directors.

The directors are concerned about two issues:

1 the short term liquidity of the business
2 raising finance to purchase the premises currently rented by Wyro Ltd.

Issue 1
The directors have prepared a forecast ~~balance sheet~~ statement of financial position for the next three months ending 31 August 2017. This shows an overdrawn bank balance of £30 000.

The directors believe this is a short-term problem caused by falling sales. In response to this they have secured a contract to supply goods to a customer in India. This contract will commence on 31 October 2017 and the customer will be given a 90 day credit period.

The directors are considering a number of alternative solutions to the problem including:

An overdraft	The directors would negotiate a £30 000 overdraft facility with the bank until 31 October 2017. The facility would be available for the three months ending on this date and be fully utilised. The bank would charge 9% per annum interest on the overdraft.
A short-term loan	The company would borrow £30 000 for a year, repayable in full on 1 June 2018. The bank would charge 5% per annum interest on the loan.

Issue 2
The current owner of the premises is in financial difficulties and has offered to sell the premises to Wyro Ltd for £600 000, provided the sale is completed by the end of September 2017. The directors want to buy the premises to secure the long-term future of the business and to save the rental payment of £1000 per month.

1 9 . 1

Evaluate potential sources of finance to:

(a) solve the short-term cash flow problems;
(b) finance the purchase of the premises.

In your answer you must advise the directors which sources of finance you would recommend.

[20 marks]

Extra Space

END OF QUESTIONS

There are no questions printed on this page

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ANSWER IN THE SPACES PROVIDED

22 December 2016