



A-level

ACCOUNTING

Paper 1 Financial Accounting

7127/1

Insert

**Insert for use in answering Questions 12, 13, 14, 15,
16 and 17.**

[Turn over]

Source material for use in answering Question 12.

1 2

Dina's draft trial balance at 30 April 2024 did not balance. She found the following errors:

- 1. The purchases account had been undercast by £800.**
- 2. Goods returned to a credit supplier of £40 had been correctly entered in the payables ledger but had been omitted from the returns outwards account.**
- 3. Cash sales of £52 had been debited to the sales account and credited to the cash account.**
- 4. Goods taken by Dina for her own use of £390 had been debited to both the drawings account and the purchases account.**

Source material for use in answering Question 13.

1 3

At 1 April 2023 a business had inventory of £18 150.

At 31 March 2024 inventory was valued at a cost of £19 930. This included 95 damaged items valued at a cost price of £4.50 per unit. The damaged items can be sold for £7.10 per unit after repairs costing £3.80 per unit.

[Turn over]

Source material for use in answering Question 14.

14

The accountant of C Ltd is preparing the financial statements for the year ended 31 May 2024. She has provided the following information to enable the preparation of the statement of cash flows.

	2024	2023
	£	£
Property	1 000 000	800 000
Plant and equipment – net book value	104 000	40 000
Inventory	24 250	18 750
Trade receivables	35 015	31 250
Cash and cash equivalents	–	15 525
Ordinary shares of £1 each	720 000	600 000
Share premium	70 000	60 000
Revaluation reserve	200 000	–
Bank loan	100 000	150 000
Trade payables	22 875	28 125
Tax payable	7 515	16 375
Bank overdraft	9 400	–

ADDITIONAL INFORMATION

- 1. During the year the property was revalued.**
- 2. During the year plant and equipment with a net book value of £4 000 was part-exchanged for new plant and equipment costing £100 000. The part-exchange was valued at £3 000.**
- 3. On 30 November 2023 the final dividend for the year ended 31 May 2023 was paid on all shares in issue at 31 May 2023. The dividend was 2p per share.**
- 4. The directors propose a dividend of 1p per share for the year ended 31 May 2024. This would be paid on all shares in issue at 31 May 2024.**
- 5. On 31 March 2024 the directors made a rights issue of shares.**
- 6. The bank loan had a yearly interest charge of £5 000. This was paid in full on 31 May 2024.**
- 7. The accountant has calculated the operating profit for the year ended 31 May 2024 to be £6 965.**
- 8. The tax charge for the year ended 31 May 2024 was £7 515.**

[Turn over]

Source material for use in answering Question 15.

15

Steven is a sole trader who does not keep full accounting records. He is in the process of preparing his financial statements for the year ended 31 May 2024 and is able to provide the following information:

	AS AT 31 MAY	
	2024	2023
	£	£
Motor vehicle – cost	48 000	21 000
Motor vehicle – accumulated depreciation	To be calculated	15 000
Inventory	To be calculated	8 500
Trade receivables	20 250	20 000
Bank	(10 250)	14 400
Trade payables	6 600	8 000

ADDITIONAL INFORMATION:

1. Steven was unable to carry out a stocktake on 31 May 2024. He was able to calculate his draft profit for the year by applying 50% mark-up on all his purchases.

2. In order to calculate the value of the inventory at 31 May 2024 Steven provides the following information:
 - the rate of inventory turnover is 12 times per annum
 - sales revenue for the year ended 31 May 2024 was £162 000.
3. Steven's drawings for the year ended 31 May 2024 were £24 750.
4. The draft profit for the year ended 31 May 2024 is £47 000. The draft profit was calculated before the following information had been provided:
 - on 30 September 2023 Steven sold the motor vehicle, which had cost £21 000, for £3 750. On 1 October 2023 he purchased a new vehicle costing £48 000 which he paid in full by bank transfer
 - the depreciation policy is to depreciate motor vehicles using the straight line method at a rate of 25% per annum. Depreciation is charged on a monthly basis
 - on 5 June 2024 Steven was informed that one of his customers had gone into liquidation, owing him £2 000. Steven has been told that he will not receive any of the money he is owed and the debt is now irrecoverable. He is concerned about other customers not paying and has decided to create a provision for doubtful debts of 6% of trade receivables.

[Turn over]

Source material for use in answering Question 16.

1	6
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Hassan is a chef who has always dreamed of running his own restaurant. He was recently a finalist in a television cookery competition. He believes that he can use the publicity generated by the television programme to set up his own restaurant.

Hassan has researched a number of successful restaurants in London and believes that he can use a similar business model for his restaurant in his home town on the south coast of England. The business model is based on an open-plan restaurant where the customers can watch the chef preparing their meal. There would be one sitting per evening with a set menu.

Hassan has found suitable premises and is able to provide the following information:

- The set-up and initial running costs are estimated to be £150 000.
- The restaurant will be open 5 evenings per week (Tuesday to Saturday).
- The maximum capacity will be 30 customers per evening. Hassan estimates that he will operate at 80% capacity and at this level he will make an annual profit of £50 400 before interest, salaries or drawings.
- If the number of customers falls below 75% capacity, then he will begin making a loss.

Hassan has savings of £17 000 which he is willing to invest. He has identified two options for the ownership of the business. Whichever option he chooses, he requires income from the business of at least £30 000 a year.

OPTION 1 Sole trader

Hassan would invest £15 000 of his savings. He would borrow £135 000 from his bank to cover the initial set-up and running costs. The loan is interest only, so he would have to repay the full amount in 5 years' time. The interest rate for the first year would be 10% per annum and this could then vary. The bank requires security for the loan and has asked Hassan to provide someone to act as a guarantor.

OPTION 2 Private limited company – HK Ltd

Hassan would set up a private limited company with Karen. Karen is an experienced restaurant manager and is willing to invest £140 000 for 140 000 ordinary shares of £1 each. Hassan would invest £10 000 of his savings to acquire 10 000 ordinary shares of £1 each.

Karen wants to be appointed as a director of the company. She would take an active role in the business and would require directors' remuneration of at least £25 000 a year. She believes her input would significantly increase profits.

[Turn over]

Source material for use in answering Question 17.

17

Isha is the financial accountant at E plc, a clothing manufacturer. She applied for the Finance Director position but was unsuccessful. The position was given to Justin, who previously was a partner in the firm of accountants responsible for the audit of E plc.

Since Justin's appointment, Isha has identified three concerns:

INVENTORY – Isha believes that the inventory has been overvalued for a number of years. A large part of the inventory of raw materials is stored in warehouses in Asia and this has not been checked by the auditors. She believes that this has been overstated and that the quantity would be sufficient for at least three years of current production.

GOODS ON SALE OR RETURN – the factory supplies goods on a sale or return basis and Isha believes that the sales figure has been artificially inflated as she has no evidence that the customers had sold the goods before the year end.

NEW SALES CONTRACT – the Marketing Director issued a statement on 15 May 2024 announcing that a significant sportswear contract had been signed. The contract would guarantee the continued success of the factory and would lead to profits increasing by at least

20%. At the same time a leading investment analyst recommended that investors should buy shares in E plc resulting in the share price increasing. Isha says that she cannot find any evidence that the contract has actually been signed.

E plc has always been profitable and the directors' remuneration includes a bonus of 20% of their basic salary provided certain targets have been met. The employees are also part of the bonus scheme and would receive a one-off payment of £250 if the targets are met.

Isha believes that if her concerns are correct then the targets will not be met and no bonuses will be paid.

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