

A



Surname _____

Other Names _____

Centre Number _____

Candidate Number _____

Candidate Signature _____

AS

Accounting

Paper 1 Financial and management accounting

7126

Tuesday 15 May 2018 Morning

Time allowed: 3 hours

For this paper you must have:

- an insert
- a calculator.

At the top of the page, write your surname and other names, your centre number, your candidate number and add your signature.

[Turn over]



J U N 1 8 7 1 2 6 0 1

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INSTRUCTIONS

- **Use black ink or black ball-point pen.**
- **Answer ALL questions.**
- **You must answer the questions in the spaces provided. Do not write 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 mark for this paper is 120.**

DO NOT TURN OVER UNTIL TOLD TO DO SO



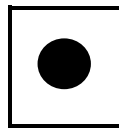
SECTION A

Answer **ALL** questions in this section.

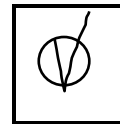
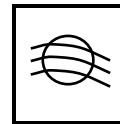
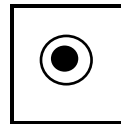
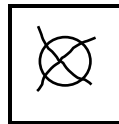
Only **ONE** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

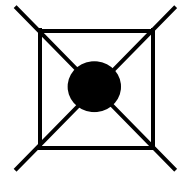
CORRECT METHOD



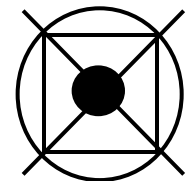
WRONG METHODS



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 The bookkeeper has made a contra entry in the cash book to record the payment of cash into the bank account.

Which of the following is the source document for this transaction? [1 mark]

A Cash receipt

B Cheque counterfoil

C Paying-in-slip counterfoil

D Till roll

[Turn over]



0 2 Which of the following is the definition of a partnership? [1 mark]

A A business owned by shareholders

B A business owned by the public

C A business owned by two or more people with limited liability

D A business owned by two or more people with unlimited liability



03 Included in the closing inventory of £36 800 were some items that had been damaged. The damaged inventory cost £6 400. It can be repaired at a cost of £880 and can then be sold for £7 100.

What is the value of the closing inventory that should be included in the financial statements?
[1 mark]

A £30 400

B £36 620

C £36 980

D £37 680

[Turn over]



0 4 A business rents out part of its premises to two sole traders. It has received £6 000 in payments during the year ended 30 April 2018. At 30 April 2018, one sole trader has made a payment in advance of £600. The other still owes a month's rent of £200.

What amount should be entered in the income statement for the year ended 30 April 2018 for rent received? [1 mark]

A £5 400

B £5 600

C £6 400

D £6 800



0 5 The owner of a shop has taken goods from the shop for her personal use.

What is the correct double entry to record this?
[1 mark]

	DEBIT	CREDIT
<input type="radio"/>	A Drawings	Inventory
<input type="radio"/>	B Inventory	Drawings
<input type="radio"/>	C Drawings	Purchases
<input type="radio"/>	D Purchases	Drawings

[Turn over]



0 6

Which is the correct formula to calculate the rate of inventory turnover? [1 mark]

A

$$\frac{\text{Average inventory}}{\text{Cost of sales}}$$

B

$$\frac{\text{Average inventory} \times 100}{\text{Cost of sales}}$$

C

$$\frac{\text{Cost of sales}}{\text{Average inventory}}$$

D

$$\frac{\text{Cost of sales} \times 100}{\text{Average inventory}}$$



07 Which is the correct formula to calculate the gearing ratio? [1 mark]

A

$$\frac{\text{Current liabilities} \times 100}{\text{Non-current liabilities}}$$

B

$$\frac{\text{Current liabilities} \times 100}{\text{Issued share capital} + \text{Reserves} + \text{Non-current liabilities}}$$

C

$$\frac{\text{Issued share capital} + \text{Reserves} \times 100}{\text{Non-current liabilities}}$$

D

$$\frac{\text{Non-current liabilities} \times 100}{\text{Issued share capital} + \text{Reserves} + \text{Non-current liabilities}}$$

[Turn over]

11



0 8 A company has total non-current liabilities of £5 000 000; $\frac{4}{5}$ of this total are 5% Debentures 2025–6. The remaining $\frac{1}{5}$ is a bank loan with interest charged at 6% per annum.

What will the finance costs be for a six month period? [1 mark]

A £60 000

B £125 000

C £130 000

D £260 000



0 9 Which best describes an error of principle?
[1 mark]

A The double entry is correct but the amount entered is incorrect

B The double entry is correct but the class of account is incorrect

C The double entry is incorrect as only one entry has been made

D The double entry is incorrect as the debit entry does not equal the credit entry

[Turn over]



1 0 A company offers its trade customers a 30% trade discount and also a cash discount of 2.5% if they pay within 10 days. A trade customer has bought £100 worth of goods on credit.

How much will the customer pay if he pays within 10 days? [1 mark]

A £67.50

B £68.25

C £70.00

D £97.50



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[Turn over]



1 1

Unibrand plc produces one product for which the forecast costs and selling price are shown below.

	£
Selling price	200
Fixed cost per unit	50
Variable cost per unit	105

The forecast costs are based on planned production and sales of 4 000 units.

1 1 . 1

Define the term 'stepped costs'. [2 marks]

1 1 . 2

Calculate total fixed costs. [1 mark]



1 1 . 5 Describe what is meant by 'break-even point in units'. [2 marks]

1 2 Explain TWO benefits of zero-based budgeting. [6 marks]



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[Turn over]



SECTION B

Answer ALL questions in this section.

Read the information for Question 13 in the separate insert.

- 13.1** Prepare the provision for depreciation for motor vehicles account and the disposal of motor vehicles account for the year ended 30 April 2018. Bring any balances down on 1 May 2018. [11 marks]

PROVISION FOR DEPRECIATION – MOTOR VEHICLES

Dr

Cr

Date	Details	£	Date	Details	£



DISPOSAL OF MOTOR VEHICLES

Dr

Cr

Date	Details	£	Date	Details	£

[Turn over]



[Turn over]



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1 3 . 2 The bookkeeper has also not completed the inventory ledger account and has provided the following:

- Inventory at 1 May 2017 £8 650
- Inventory at 30 April 2018 £12 440

Prepare the inventory account to show the entries for the year ended 30 April 2018 and bring the balance down on 1 May 2018. [4 marks]

INVENTORY

Dr

Cr

Date	Details	£	Date	Details	£

[Turn over]



14

Read the information for Question 14 in the separate insert.

14.1

Prepare the suspense account at 30 April 2018 to correct the errors and show the original difference on the trial balance. [5 marks]

SUSPENSE ACCOUNT

Dr

Cr

Date	Details	£	Date	Details	£



14.2 Calculate the revised profit, taking into account any adjustments required for correcting the errors 1–5. [5 marks]



[Turn over]



1	5
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Read the information for Question 15 in the separate insert.

Prepare the statement of financial position for Joko Ltd at 30 April 2018 taking into account any adjustments required by items 1–5.
[15 marks]

JOKO LTD

**Statement of financial position at
30 APRIL 2018**



1 6

Read the information for Question 16 in the separate insert.

Prepare the budgeted trading section of the income statement for Budgee Ltd for the year ended 30 April 2019. [15 marks]

BUDGEE LTD

Budgeted trading section of the income statement for the year ended 30 APRIL 2019



Workings

[Turn over]





SECTION C

Answer ALL questions in this section.

- 17** The directors of Cass Ltd have become increasingly concerned about the liquidity position of the company.

In order to assess the performance of the business, the accountant has calculated ratios for the current year together with those of the previous three years. These are shown below.

Year ended 31 December				
Ratio	2017	2016	2015	2014
Gross profit %	35%	33%	30%	28%
Profit in relation to revenue %	10%	12%	14%	14%
Current ratio	1.2 : 1	1.5 : 1	2 : 1	2.4 : 1
Liquid capital ratio	0.4 : 1	0.8 : 1	1.4 : 1	1.9 : 1
Trade receivable days	62	56	45	45
Trade payable days	30	35	40	45



ADDITIONAL INFORMATION

The company offers its customers 30 days credit. The company is given 30 days credit by its suppliers.

The directors have identified that there will be a problem with the company's overdraft. The company has an agreed overdraft facility of £80 000 and the bank is unwilling to increase this. The forecast bank balance on 30 June 2018 is £85 000 overdrawn.

The directors believe that the problem of the bank overdraft will be temporary as they have signed a contract which will increase sales by 20%. The contract will commence on 1 September 2018.

[Turn over]



17

Evaluate the performance of the business in relation to liquidity. Recommend and justify a short-term solution to the problem of the bank overdraft. [20 marks]



[Turn over]





[Turn over]



[Turn over]





[Turn over]



1 8

Read the information for Question 18 in the separate insert.

Evaluate the financial and non-financial implications of the proposal to buy the handbags from the Italian company. Your answer should include a justified recommendation as to whether to move the manufacturing to Italy or to continue manufacturing in the UK. [20 marks]



[Turn over]









40

END OF QUESTIONS



There are no questions printed on this page

For Examiner's Use	
Section	Mark
A	
B	
C	
TOTAL	

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