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Centre number

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Candidate number

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Surname

Forename(s)

Candidate signature

AS ACCOUNTING

Paper 1 Financial and management accounting

Tuesday 14 May 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.
- 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	



J U N 1 9 7 1 2 6 0 1

Section AAnswer **all** questions in this section.Only **one** answer per question is allowed.

For each question 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 only one shareholder and is not allowed to offer shares for sale to the public.

Which type of business ownership is this?

[1 mark]**A** Partnership**B** Private limited company**C** Public limited company**D** Sole trader**0 2**

A business purchases machinery on credit from HBA Ltd.

Which of the following is the book of prime entry and double entry to record this transaction?

[1 mark]

Journal	Account debited	Account credited	
A General	HBA Ltd	Machinery	<input type="radio"/>
B General	Machinery	HBA Ltd	<input type="radio"/>
C Purchase	HBA Ltd	Machinery	<input type="radio"/>
D Purchase	Machinery	HBA Ltd	<input type="radio"/>



0 3

A sole trader paid his personal telephone bill using a business cheque. His bookkeeper has debited this to Drawings.

Which of the following accounting concepts is being applied?

[1 mark]**A** Accruals**B** Business entity**C** Consistency**D** Prudence**0 4**

Inventory must be valued at the lower of cost and net realisable value.

Which of the following accounting concepts is being applied?

[1 mark]**A** Accruals**B** Business entity**C** Consistency**D** Prudence**0 5**

A sales invoice for £198 has been entered incorrectly in the sales journal as £189.

This is an example of an error of:

[1 mark]**A** Commission**B** Omission**C** Original entry**D** Principle**Turn over ►**

0 6

Which of the following is the correct formula to calculate straight line depreciation?

[1 mark]

- A $\frac{\text{Cost} - \text{residual value}}{\text{Estimated useful life}}$
- B $\frac{\text{Cost} + \text{residual value}}{\text{Estimated useful life}}$
- C $\frac{\text{Estimated useful life}}{\text{Cost} - \text{residual value}}$
- D $\frac{\text{Estimated useful life}}{\text{Cost} + \text{residual value}}$

0 7

Which of the following is the correct formula to calculate the trade payables period?

[1 mark]

- A $\frac{\text{Cash purchases} \times 365}{\text{Trade payables}}$
- B $\frac{\text{Credit purchases} \times 365}{\text{Trade payables}}$
- C $\frac{\text{Trade payables} \times 365}{\text{Cash purchases}}$
- D $\frac{\text{Trade payables} \times 365}{\text{Credit purchases}}$

0 8

Which of the following correctly lists items that should be included in a statement of changes in equity?

[1 mark]

- A Issue of ordinary shares; Debenture interest paid;
Profit for the year after tax
- B Issue of ordinary shares; Debenture interest paid;
Profit for the year before tax
- C Issue of ordinary shares; Dividends paid;
Profit for the year after tax
- D Issue of ordinary shares; Dividends paid;
Profit for the year before tax



Questions 09 and 10 are based on the following information.

The following balances have been taken from the statement of financial position at 30 April 2019.

	£
Inventory	7 500
Trade receivables	15 000
Bank overdraft	2 500
Trade payables	12 500

0 9

Which of the following is the liquid capital ratio at 30 April 2019?

[1 mark]

A 0.5:1

B 1:1

C 1.5:1

D 2:1

1 0

Which of the following is the current ratio at 30 April 2019?

[1 mark]

A 0.5:1

B 1:1

C 1.5:1

D 2:1

10

Turn over for the next question

Turn over ►



1 1

Below is an extract from the statement of financial position for Betty, a sole trader, at 1 May 2018 showing the non-current assets.

	Cost	Accumulated depreciation	Net book value
	£	£	£
Non-current assets	65 000	35 000	30 000

The following transactions occurred on 31 January 2019.

1. Sale of non-current assets. The assets originally cost £22 000 and had accumulated depreciation of £16 500.
2. Non-current assets were purchased at a cost of £12 000.

The depreciation policy is to provide a full year's depreciation on all non-current assets owned at the year end at a rate of 25% per annum using the reducing balance method. No depreciation is charged in the year of disposal.

1 1 . 1

Prepare an extract from the statement of financial position at 30 April 2019 showing the non-current assets section only. Show all your workings.

[6 marks]

	Cost	Accumulated depreciation	Net book value
	£	£	£
Non-current assets			

Workings _____



1 1 . 2

Explain how the going concern concept is used in the valuation of non-current assets. **[3 marks]**

9

Turn over for the next question

Turn over ►



1 2

Cotes Ltd is a retailer with an accounting year ending 30 April. On 1 May 2018 the company paid for and installed a new computerised till and inventory control system. The company paid the following amounts that relate to the purchase and installation of the computerised system.

	£
Delivery costs of computers and tills	500
Maintenance contract for 2 years	800
Purchase of computers and tills	85 000
Purchase of inventory control software	6 000
Staff training costs	7 600

Calculate the total capital expenditure and revenue expenditure for the year ended 30 April 2019.

[6 marks]**Capital expenditure £**

Workings _____

Revenue expenditure £

Workings _____

6



Section B

Answer **all** questions in this section.

1 3

Jing is in the process of completing the books of account and preparing the financial statements for her business for the year ended 30 April 2019.

Jing rents out part of the business premises and the following information relates to the rent received.

At 1 May 2018 the rent owing was £400.

During the year ended 30 April 2019, the rent received and paid into the bank account totalled £6 150.

At 30 April 2019 the rent paid in advance was £900.

1 3 . 1

Prepare the rent received account for the year ended 30 April 2019 showing clearly any amounts transferred to the income statement. Bring down any balance on 1 May 2019.

[4 marks]

Dr **Rent received account** **Cr**

Date	Details	£	Date	Details	£

Question 13 continues on the next page

Turn over ►



Jing has a long term loan.

The following information relates to the loan and loan interest account.

At 1 May 2018:

Loan outstanding	£10 000
Loan interest owing	£200

During the year ended 30 April 2019 only one payment was made. This was dated 31 December 2018 and was for £4 467. This was a repayment of capital and the interest due of £467.

At 30 April 2019 there was £80 of loan interest owing.

1 **3** **2** Prepare the loan account **and** loan interest account at 30 April 2019, showing clearly any amounts transferred to the income statement. Bring down any balance on 1 May 2019.

[7 marks]

Dr	Loan account				Cr
Date	Details	£	Date	Details	£

Dr	Loan interest account				Cr
Date	Details	£	Date	Details	£



Burden Ltd is a credit customer of Jing's.

The following information relates to the Burden Ltd account.

At 1 May 2018 Jing was owed £850.

During the year ended 30 April 2019:

- £1 240 of goods were sold to Burden Ltd
- cheques totalling £1 450 were received and banked.

Jing has been informed that Burden Ltd are in liquidation and she is unlikely to receive the amount she is owed. She has decided to write this off as an irrecoverable debt.

1 3 . 3

Prepare the receivables ledger account for Burden Ltd for the year ended 30 April 2019. Bring down any balance on 1 May 2019.

[4 marks]

Dr		Burden Ltd		Cr	
Date	Details	£	Date	Details	£

15

Turn over for the next question

Turn over ►



1 4

Erin is a self-employed plumber.

Her cash book for the month of April 2019 is shown below.

Dr		Cash book (bank columns only)				Cr
Date	Details	£	Date	Details	£	
05 April	Cove cheque	358	01 April	Balance b/d	1 287	
10 April	Bartley cheque	642	10 April	JC Plumbing cheque 123790	465	
15 April	Wu credit transfer	82	12 April	Citi Plumbing cheque 123791	275	
30 April	Khan cheque	2 486	15 April	Jones DIY cheque 123792	156	
			15 April	Wages cheque 123793	480	
			24 April	Card payment BT	37	
			30 April	Balance c/d	868	
		<u>3 568</u>			<u>3 568</u>	

She received her bank statement for April 2019 which is shown below.

She was concerned that the balance in her cash book at 30 April did not agree with the balance shown on the bank statement.

Date	Description	Dr £	Cr £	Balance £	
01 April	Cheque 123789	245		1 287	DR
09 April	Cheque		358	929	DR
10 April	Interest	45		974	DR
15 April	Cheque		642	332	DR
15 April	DD JJ holdings	650		982	DR
15 April	Transfer Wu		82	900	DR
22 April	Cheque 123793	480		1 380	DR
22 April	Cheque 123792	165		1 545	DR
24 April	Card payment	37		1 582	DR
27 April	Cheque 765421	4 600		6 182	DR
30 April	Transfer Wu		215	5 967	DR

Erin has spoken to the bank to query cheque 765421, which she does not believe relates to her business. The bank said that this was debited in error; however, all the other entries on the bank statement were correct.



1 4 . 1 Prepare an updated cash book at 30 April 2019. Bring down any balance on 1 May 2019.

[5 marks]

Dr		Cash book				Cr
Date	Details	£	Date	Details	£	

1 4 . 2 Prepare a bank reconciliation statement at 30 April 2019.

[5 marks]

Bank reconciliation at 30 April 2019

10

Turn over for the next question

Turn over ►



1 5

Usman Ltd make one product, which is produced to order, so no inventory is held.

The forecast revenue and costs for the month of April are shown below. The forecast is based on the assumption that the business operates at full capacity and produces 10 000 units.

	£
Revenue	300 000
Direct labour	80 000
Direct materials	60 000
Variable production overheads	20 000
Fixed production overheads	60 000
Administration costs	45 000

The actual results for April showed that the business had operated at only 80% of capacity.

1 5 . 1

Prepare a marginal costing statement for the month of April showing the actual profit for the month.

[5 marks]



The directors propose to make the following changes in order to ensure that they work at full capacity in the future.

Selling price	Increase by	10%
Direct labour	Reduce by	5%
Direct materials	Increase by	15%
Variable production overheads	Increase by	25%
Fixed production overheads	Reduce by	12%
Administration costs	No change	

1 5 . 2

Calculate the break-even point in units if the directors implement the changes above. **[7 marks]**

Question 15 continues on the next page

Turn over ►



1 5 . 3

Calculate the profit for the month if the business operates at 100% capacity. Assume that the directors' proposed changes are implemented and that all output is sold.

[3 marks]

Extra space

15



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ANSWER IN THE SPACES PROVIDED**

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1 6

The trainee accountant at Trainiac Ltd has prepared the draft income statement for the year ended 30 April 2019. The extract from the draft income statement is shown below. It contains a number of errors and omissions.

**Extract from the draft income statement
for the year ended 30 April 2019**

	£	£
Gross profit		433 050
Add Provision for doubtful debts		<u>2 800</u>
		435 850
Less		
Wages	246 600	
Provision for depreciation	38 450	
Trade receivables	64 600	
Loan	200 000	
Taxation	12 000	
Operating expenses	<u>26 400</u>	
		<u>588 050</u>
Loss for the year		<u>(152 200)</u>

The accountant checked the figures used and identified the following errors or omissions.

1. Goods costing £2 400 had been sent on a sale or return basis to a credit customer. The selling price of the goods was £4 200. The sale had been incorrectly invoiced to the customer before the year-end as the goods were subsequently returned unsold. As the goods were not on the premises they had not been included in the closing inventory.
2. Carriage outwards of £1 650 had been incorrectly treated as returns outwards in the calculation of the cost of sales.
3. The provision for doubtful debts figure used in the draft income statement was the balance brought down on the provision for doubtful debts account at 1 May 2018. The company policy was to maintain the provision at 3% of trade receivables.
4. Wages due but unpaid at 30 April 2019 were £10 275 – this had not been included in the draft income statement.
5. The depreciation figure used was the provision for depreciation balance at 30 April 2019. The balance on the provision for depreciation account at 1 May 2018 was £24 450.
6. No interest has been paid, or any adjustment made for unpaid loan interest. The interest on the loan is charged at 5% per annum.
7. The taxation figure shown in the draft income statement was the balance on the taxation account at 1 May 2018. The accountant estimates that the provision for the year ended 30 April 2019 should be £11 000.
8. There are also some items in the income statement which should not have been included. However, other than the items above, no items have been missed out.



1 6

Prepare a corrected extract from the income statement for the year ended 30 April 2019.

[15 marks]

Trainiac Ltd
Extract from the income statement for the year ended 30 April 2019

Turn over ►



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ANSWER IN THE SPACES PROVIDED**

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Section C

Answer **all** questions in this section.

1 7

Brisbo plc makes parts for the motor industry. The company buys components from the Far East and assembles the parts at its factory in the UK. The parts are then sold in North America and Europe.

The summarised budgeted income statement for the year ended 30 April 2019 is shown below.

Summarised budgeted income statement for the year ended 30 April 2019

	£
Revenue	9 000 000
Cost of sales	6 300 000
Gross profit	2 700 000
Operating expenses	1 800 000
Profit for the year before tax	900 000

The directors of the company had set the following targets for the year ended 30 April 2019 and agreed new targets for 2020.

Target	2019	2020
Gross profit margin	30%	35%
Profit in relation to revenue	10%	15%
Inventory turnover	12 times	12 times

When the actual results were compared with the budgeted figures the following variances were calculated.

	Variance £	
Revenue	100 000	Favourable
Cost of sales	798 000	Adverse
Operating expenses	708 000	Favourable

The average inventory for the year was £450 000.

The accountant had investigated the variances and suggested the following causes.

Revenue

The selling price of the parts had fallen below the budgeted figure due to a fall in the exchange rate. The resulting fall in the price had increased the volume sold; however, it appeared that a number of orders were lost as the company were unable to supply them in time due to a lack of inventory.



Cost of sales

The cost of the components from the Far East had risen by 10% compared to the budgeted figure due to the fall in the exchange rate.

Operating expenses

The company had sold part of its premises in London to a property developer and had made a significant profit on the disposal of £650 000. This had reduced the depreciation charge for the year which was included in operating expenses.

The company had also made savings in the running costs of the premises following the sale of the property.

1 7

Assess how successful the business was in meeting the targets set by the directors for the year ended 30 April 2019. Recommend actions the directors could take to ensure that the targets for 2020 are met.

[20 marks]

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1 8

KE Sports is a public limited company that owns and operates fitness centres, mainly in the north of England. The directors of KE Sports have been approached by the directors of Altius plc, a national chain of fitness centres, who want to sell a number of their fitness centres based in the south east of England. The profits of Altius plc have fallen recently due to some centres making losses.

Craig, the Managing Director of KE Sports, believes this will provide an opportunity for the business to expand and increase its profits significantly.

Background information on KE Sports

The equity and reserves section of the statement of financial position at 31 March 2019 is shown below:

	£
Issued ordinary shares £1 each	4 000 000
Retained earnings	<u>360 000</u>
Total equity	<u>4 360 000</u>

The company does not have any non-current liabilities at present.

The company has always been profitable and for the last three years it had an average profit of £250 000 after tax.

The company has paid an ordinary share dividend of 4p per share for the last five years.

Craig, the Managing Director, founded the company and currently owns 51% of the issued share capital.

The proposed purchase

The directors of Altius plc have suggested a selling price of £8 million, provided this is paid by 31 October 2019.

Craig believes that the purchase would increase the profit for the year after tax by three times to £750 000. The increase is partly based on profits he expects to be generated from the branches in the southeast and partly from cost savings across the whole business.

Craig is considering two alternative sources of finance:

Alternative 1 – issue of ordinary shares

Issue 8 000 000 ordinary shares at par. To make the share offer more attractive, Craig is proposing to increase the annual ordinary share dividend to 6p per share.

Alternative 2 – issue a debenture

Issue £8 000 000 5% debenture 2038–40. Craig intends to secure the debentures on the assets of the company.



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END OF QUESTIONS

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