1 George is in business as a retailer of jewellery. The following information was available from his books on 30 April 2021.

	£
Capital	100 000
Drawings	15 000
Non-current assets (cost):	
Leasehold premises	60 000
Security equipment	29 000
Fixtures and fittings	45 000
Provisions for depreciation:	
Leasehold premises	42 000
Security equipment	6 000
Fixtures and fittings	39 000
Revenue	250 000
Purchases	120 000
Purchase returns	8 500
Inventory – 1 May 2020	97 000
Wages	51 400
Trade receivables	10 700
Trade payables	34 600
Cleaning expenses	7 100
Rates	15 800
Electricity and water charges	11 750
Cash and bank	9 100 Dr
Credit card commission paid	3 500
Security equipment maintenance	4 750

Additional information at 30 April 2021

(1) Inventory £87 500

(2) Wages owing £600, electricity owing £550

(3) Rates paid in advance £2 100, water charges paid in advance £900

(4) A full year's depreciation is charged on all non-current assets owned at the end of the year as follows.
- The lease on the premises is for 15 years. An appropriate amount is written off the lease each year.
- Security equipment at the rate of 20% reducing balance.
- Fixtures and fittings at the rate of 10% per annum straight line.

(5) On inspecting his books George found that the following errors had been made and these required correction.

26 January 2021	A payment by cheque, £3 500, to a trade payable, Robin Gems, had been recorded in the books as £350.
6 March 2021	Purchases of security equipment, £6 000, on credit from Hove Security had not been recorded in the books.

Required

(a) Prepare the:

(i) Journal entries, including bank entries, correcting the errors of 26 January 2021 and 6 March 2021. Narratives are **not** required

(5)

(ii) Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2021

(12)

(iii) Statement of Financial Position at 30 April 2021.

(15)

George has been making projections for the next financial year ended 30 April 2022. He has projected the following for the year.

- Revenue will increase by 20% and gross profit as a percentage of revenue will be 40%.
- Premises costs will be £50 000
- All other costs will be £15 000 plus 10 pence (£0.10) for every £1 of revenue.

Required

(b) State whether the following costs are fixed, semi-fixed, semi-variable or variable.
- Premises costs
- All other costs

(2)

(c) Prepare the Forecast Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2022.

(5)

(d) State **two** differences between **ethics in accounting** and **social accounting**.

(4)

(e) Evaluate whether a business should make decisions solely on the basis of the profit made or whether it should also consider other factors.

(12)

(Total for Question 1 = 55 marks)

6 Shakti started an online business on 1 October 2020 selling the Style hairdryer on the internet.

She had capital of £2 000 in the bank.

All receipts and payments of cash go through the bank.

She did **not** maintain full accounting records but the following information is available.

(1) Purchases of Style hairdryers cost £20 each and were made on credit.

(2) Sales of Style hairdryers were £35 each including delivery. Payment was received by cheque with the customer's order.

(3) Inventory movements of Style hairdryers 1 October 2020 to 30 September 2021 were:

Style hairdryer	**Number of hairdryers**
Opening inventory	Nil
Sales	2 700
Purchases	2 900
Returns from customers	30
Returns to suppliers	50
Closing inventory	**To be calculated**

(4) All customers returning goods were given a full refund of the £35 by cheque.

(5) Delivery costs of £13 500 were paid and a sum of £150 was owing at the end of the year.

(6) Premises were rented for £500 per month. On 30 September 2021 rent of £1 500 was prepaid.

(7) General expenses paid were £5 800. On 30 September 2021 £720 was still owing for general expenses incurred.

(8) Bank interest of £105 was received and bank charges of £230 were paid in the year.

(9) A computer was purchased for £1 200 and fixtures and fittings were purchased for £1 700 on 1 October 2020. Payments were made by cheque.

(10) On 30 September 2021 £4 650 was owed to the supplier of the Style hairdryers.

(11) Shakti took £250 per month drawings to 31 December 2020. She increased this to £400 per month from 1 January 2021. Drawings were taken by cheque.

Additional information at 30 September 2021

(1) The computer was valued at £800 and the fixtures and fittings were valued at £1 500

Required

(a) Explain the following accounting terms.

(i) Business entity concept

(2)

(ii) Realisation concept.

(2)

(b) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2021.

(10)

(c) Prepare the summarised Bank Account for the year ended 30 September 2021.

(10)

(d) Evaluate the decision of Shakti **not** to maintain full accounting records.

(6)

(Total for Question 6 = 30 marks)

3 Aadya is in business buying and selling goods.

On 31 December 2024, she prepared control accounts for trade receivables and trade payables. The information for the month of December 2024 is as follows.

(1) Balances 1 December 2024.

	Dr	Cr
	£	£
Trade receivables ledger control account	5 550	200
Trade payables ledger control account	—	3 800

(2) Account balances from the ledger of Aadya for December 2024.

	£
Sales	8 700
Purchases	4 650
Returns inwards	450
Returns outward	270
Discount allowed	180
Discount received	70
Interest charged on overdue accounts	40
Irrecoverable debts	350

(3) Sales of £8 000 were on credit and sales of £700 were in cash. All purchases were made on credit.

(4) All returns inwards were credit transactions.

(5) Receipts from trade receivables and payments to trade payables were all by cheque.

Receipts from trade receivables	£6 500
Payments to trade payables	£4 900

(6) A cheque for £1 200 received from Baadal and Co which had been previously banked was 'dishonoured' by the bank on 28 December 2024.

(7) There was a contra entry on 20 December 2024 for £600 of goods sold on credit to Benay.

(8) Balances of ledger accounts on 31 December 2024.

	Account balances	
	Trade receivables	Trade payables
	£	£
Anvi	1 230	—
Baadal and Co	2 000	—
Olive Tree Partners	3 410	—
Dulal	130 Cr	—
Benay	—	2 000
Chanuk	—	250
Danuja	—	360

Required

(a) State **two** reasons for maintaining control accounts.

(2)

(b) Prepare, for the month of December 2024, the:

(i) Trade Receivables Ledger Control Account

(11)

(ii) Trade Payables Ledger Control Account.

(7)

(c) State **two** possible reasons why:

(i) there was a credit balance on her Trade Receivables Ledger Control Account on 1 December 2024

(2)

(ii) the cheque from Baadal and Co was dishonoured on 28 December 2024.

(2)

(d) Evaluate the role of International Accounting Standards (IAS) in the preparation of financial statements.

(6)

(Total for Question 3 = 30 marks)

1 Raj is a retailer of computer software. The following balances were in his books on 31 December 2019.

	£	
Non-current assets (cost):		
Premises	80 000	
Computers and equipment	30 000	
Fixtures and fittings	16 000	
Provisions for depreciation:		
Premises	22 000	
Computers and equipment	14 000	
Fixtures and fittings	9 600	
Purchases	216 000	
Purchase returns	20 300	
Wages	40 800	
Management salaries	25 000	
Bank and cash	10 350	Dr
Inventory 1 January 2019	37 600	
Trade payables	28 350	
Trade receivables	37 500	
Capital	80 000	
Raj – Current account	6 700	Cr
Drawings	22 000	
Electricity and water	9 700	
Premises running expenses	6 900	
Advertising expenses	17 000	
Revenue	309 000	
5% bank loan	60 000	
Bank loan interest paid	1 700	
Allowance for irrecoverable debts	600	

On the 31 December 2019 Raj inspected his books and found the following errors.

(1) Purchases, £1 800, had been returned to the supplier, Global ICT. No entries for the returns had been made in the books.

(2) Drawings made by Raj, £900, had been posted to the Wages Account.

(3) The entries for the payment made by cheque for electricity, £1 150, were reversed in the books.

Required

(a) Prepare the journal entries to correct the errors found on 31 December 2019. **Narratives are not required.**

(6)

Additional information at 31 December 2019

(1) Inventory £51 100

(2) Wages £3 700 were accrued.

(3) Advertising expenses included a £4 000 payment for a campaign running from 1 November 2019 to 31 March 2020.

(4) The 5% bank loan was taken out on 1 January 2019. Half of the loan is repayable on 1 January 2020 and half on 1 January 2021.

(5) Depreciation is charged on all non-current assets owned at the end of the year as follows.

- Premises at the rate of 2% per annum on cost.
- Computers and equipment at the rate of 25% per annum using the reducing balance method.
- Fixtures and fittings at the rate of 15% per annum using the straight line method.

(6) A debt for £2 500 is considered irrecoverable. An allowance is to be maintained on all remaining debts at 4% of trade receivables.

(7) Raj maintains a fixed capital account. All drawings and profit appropriations are made through his current account.

Required

(b) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019.

(15)

(ii) Statement of Financial Position at 31 December 2019.

(18)

Raj is considering entering into a partnership with Paul from 1 January 2020.
Paul runs a computer hardware business.

Paul's books show a capital of £80 000, but this does **not** include goodwill worth £60 000

There is no goodwill in the business of Raj and it is agreed that goodwill would **not** be maintained in the books of the proposed partnership.

Profits and losses in the proposed partnership would be shared, Raj 2/5 and Paul 3/5.

Required

(c) Calculate the amount of Raj's initial capital and Paul's initial capital if they decide to form the partnership.

(4)

(d) Evaluate, from the point of view of Raj, his proposed partnership with Paul.

(12)

(Total for Question 1 = 55 marks)

1 Rapid Supplies buys and sells goods on credit to local businesses.

The following balances were recorded in the books of account on 30 April 2024.

	£	
Allowance for irrecoverable debts	300	
5% bank loan (repayable 2026)	20 000	
Bank loan interest paid	500	
Capital	100 000	
Cash and bank	10 120	Dr
Commission received	8 000	
Delivery vehicle expenses	6 250	
Discount allowed	1 350	
Discount received	950	
Drawings	28 000	
General expenses	7 450	
Insurance	2 100	
Inventory – 1 May 2023	9 800	
Irrecoverable debts	850	
Marketing costs	11 250	
Non-current assets (at cost)		
Premises	90 000	
Delivery vehicles	54 000	
Office equipment	30 000	
Non-current assets (provision for depreciation)		
Premises	9 000	
Delivery vehicles	31 500	
Office equipment	13 400	
Power and water	13 500	
Purchases	187 900	
Rates	11 900	
Returns inwards	11 180	
Returns outwards	5 700	
Revenue	345 000	
Trade payables	15 500	
Trade receivables	12 800	
Wages and salaries	60 400	

Additional information at 30 April 2024

(1) Inventory £12 000

(2) The 5% bank loan was taken out on 1 August 2023.

(3) Marketing costs included £4 500 paid for a promotion running from 1 January to 30 June 2024.

(4) Power owing was £1 100 and water prepaid was £400

(5) A delivery vehicle costing £14 000 and with an accumulated depreciation of £11 500 was sold for £3 750 cash on 20 April 2024. No entries had been made in the books of account to record the sale or receipt of cash.

(6) A full year's depreciation is charged on all non-current assets owned at the end of the year. Depreciation is charged at the rates of:

Premises – 2% using the straight-line method
Delivery vehicles – 20% using the reducing balance method
Office equipment – 25% using the straight-line method.

(7) Trade receivables of £400 are now irrecoverable and are to be written off.

(8) The allowance for irrecoverable debts is to be maintained at 5% of trade receivables.

Required

(a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2024.

(21)

(b) Prepare the Statement of Financial Position at 30 April 2024.

(18)

(c) Explain the terms:

(i) day work

(2)

(ii) piecework.

(2)

Rapid Supplies employs delivery drivers. At present, delivery drivers are paid a fixed rate per week. It is proposed to change their method of remuneration to a payment based on the deliveries made by the drivers.

(d) Evaluate the proposal to change the delivery drivers' remuneration to a system based on the deliveries made by the drivers.

(12)

(Total for Question 1 = 55 marks)

4 Alesha started in business on 1 September 2023 selling children's clothing from a shop.

She started the business with cash £4 000, inventory £5 000 and a 5% bank loan for £6 000

At the end of the first year of operation the following information is available.

	£
Revenue	50 000
Purchases	32 000
Closing inventory	7 000
Depreciation	1 900
Loan interest	300
Other expenses (including rent)	8 600

Required

(a) Define the term **profitability**.

(2)

(b) Calculate, for the year ended 31 August 2024, the:

(i) gross profit as a percentage of revenue

(2)

(ii) inventory turnover (times per annum)

(2)

(iii) profit for the year as a percentage of revenue

(2)

(iv) percentage return on capital employed.

(2)

Industry averages for the sector are

Gross profit as a percentage of revenue	30%
Inventory turnover (times per annum)	7 times
Profit for the year as a percentage of revenue	15%
Percentage return on capital employed	20%

(c) Comment on the profitability of Alesha's business.

(4)

The shop next door to Alesha's shop has become available and she is considering expanding her business to rent the space available in both shops.

She has estimated that if she rents both shops from 1 September 2024

- Revenue will increase by 60%
- The gross profit as a percentage of revenue will remain unchanged
- More non-current assets will be purchased, which will double the depreciation
- An extension of the 5% bank loan will be required to £10 000
- Other expenses (including rent) will rise by 75%.

Required

(d) Prepare a Forecast Statement of Profit or Loss and Other Comprehensive Income for the year ending 31 August 2025 showing the forecast profit for the year if Alesha decides to rent both shops.

(6)

(e) State **four** financial or non-financial factors, other than profitability, that Alesha will need to consider before making her decision to rent or not rent the second shop.

(4)

(f) Evaluate whether Alesha should rent the shop next door and expand her business.

(6)

(Total for Question 4 = 30 marks)

1 Weston Airways operates an airline service between cities using two 15-seater aircraft.

The following balances were recorded in the books on 30 September 2016:

	£
Revenue from passenger sales	1 500 000
Salaries: Aircrew	275 000
Administration	82 000
Landing charge expenses	90 000
Fuel	140 000
Ground services expenses	210 000
Non-current assets (cost):	
Aircraft	600 000
Computers and fixtures	58 000
Provisions for depreciation:	
Aircraft	500 000
Computers and fixtures	18 000
Aircraft maintenance	315 000
Marketing	70 000
Administration expenses	145 000
Rent	50 000
6% Bank loan (repayable 30 June 2020)	200 000
Bank loan interest	9 000
Trade receivables	47 000
Trade payables	59 000
Cash and bank	486 000 Dr
Capital	300 000

Additional information at 30 September 2016

(1) Accruals:

- aircrew salaries £13 000
- fuel £20 000

(2) Marketing includes £20 000 for a campaign to run from 1 July 2016 to 31 December 2016.

(3) Some bank loan interest was outstanding. The bank loan commenced 1 October 2015.

(4) Depreciation is charged as follows:

- aircraft at the rate of 8% per annum using the straight line method
- computers and fixtures at the rate of 20% per annum using the reducing balance method.

Required

(a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2016.

(14)

(b) Prepare the Statement of Financial Position at 30 September 2016.

(14)

The owner of Weston Airways is aware that its two existing aircraft are old and need replacing.

The owner proposes to replace the two existing aircraft with two larger 20-seater aircraft for the year ended 30 September 2017.

The projections for the replacements are as follows:

- passenger numbers will increase by 10%. Market research shows that each passenger will also pay 8% more to fly in the new aircraft
- the aircraft will use 30% less fuel
- aircraft maintenance will be 40% less
- ground services expenses will rise by 20%
- all other expenses will remain unchanged
- the two existing aircraft will be sold for £100 000 each.

There are two proposals for financing the two replacement aircraft.

Proposal 1

Purchase the two aircraft at a cost of £900 000 each. The aircraft will depreciate at 8% per annum using the straight line method. Weston Airways would take out an additional £1 500 000 8% bank loan to finance the aircraft.

Proposal 2

Hire the two aircraft for a period of 12 years at a charge of £125 000 per annum for each aircraft. Weston Airways would not have to charge annual depreciation or take out an additional bank loan.

Required

(c) Complete the table in your Question Paper showing the **changes** to the profit or loss for the year ended 30 September 2017 using:

(i) Proposal 1

(8)

(ii) Proposal 2.

(7)

(d) Evaluate the two proposals and make a recommendation to the owner of Weston Airways.

(12)

(Total for Question 1 = 55 marks)