A

A-level

ACCOUNTING

Paper 1 Financial Accounting

7127/1

Insert

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

[Turn over]

1 4 Charlotte runs a small retail outlet. She does not keep full accounting records but has been able to provide the following information.

	1 February 2018	31 January 2019
	£	£
Fixtures and fittings at net book value	40 000	?
Cash	200	150
Other payables (general expenses)	400	0
Trade payables	27 629	28 754
Other receivables (general expenses)	0	150
Inventory	25 183	?

Bank summary for the year ended 31 January 2019.

Details	£	Details	£
Bal b/d	2 400	Wages	15 000
Cash	47 650	General expenses	10 365
Fixtures and fittings	5 500	Fixtures and fittings	14 000
Trade receivables	120 000	Drawings	32 000
		Trade payables	103 000
		Bal c/d	1 185
	175 550		175 550

Additional information

1. Goods are sold with a mark-up of 60%.
2. Total sales were £172 000. Cash sales were £50 400.
3. All purchases were on credit.
4. Charlotte banked all cash sales after deducting cash drawings of £2 500.
5. The fixtures and fittings sold originally cost £13 500 and had been depreciated by £7 500.
6. Depreciation on fixtures and fittings is charged at $33\frac{1}{3}$% per annum using the reducing balance method. A full year's depreciation is charged in the year of acquisition and none in the year of disposal.
7. Charlotte believes a dishonest employee may have stolen some cash.

[Turn over]

1 5 Sebastian, Hamilton and Nando are in partnership together. According to their Deed of Partnership, profits and losses are shared on a 2:2:1 basis respectively. There were no other partnership rules in place.

Nando decided to retire at the end of their financial year on 30 November 2018. Any amounts needing to be settled were to be done via the business bank account.

An extract of the balances on their books at the year end of 30 November 2018 showed the following information:

	£	
Property at cost	120 000	
Fixture and fittings at cost	46 000	
Trade receivables	15 567	
Trade payables	9 647	
Bank	9 000	
Capital account – Nando	18 000	
Current account – Nando	2 300	Dr

Additional information

1. The property was purchased on 1 December 2012. The depreciation policy is for property to be depreciated at 2% per annum using the straight line basis. A full year's depreciation is provided in the year of acquisition and none in the year of disposal.
2. Fixtures and fittings were purchased on 1 June 2015. The depreciation policy is for these to be depreciated at 20% per annum using the straight line basis. Depreciation is to be charged monthly on a time apportioned basis.
3. The following valuations were supplied by Nando's accountant and agreed by the partners on 30 November 2018:

	£
Property	127 000
Fixtures and fittings	11 025
Trade receivables	14 172

[Turn over]

1 6 **Wolf Ltd is a business which sells lambswool jumpers to large retail companies. They are based in a small rural town in the north of Scotland. It is very near to the farm from which they purchase their raw materials. This helps reduce delivery costs although it does mean they are a long way from their customers. The business has a good relationship with its supplier and has used them for many years. As a result it benefits from favourable credit terms.**

The mortgage on the factory has recently been paid off although the factory is not worth a great deal due to its location. The company has an ageing fleet of delivery vans which transport the goods to its customers in the south of England.

The jumpers are still produced using traditional machines which they have owned for over 30 years. These machines have to be serviced regularly and they waste a high proportion of raw materials. Staff are highly trained and are well paid due to the skills involved in the production process.

The directors are concerned that, whilst the sales of the business appear to be growing, the profitability of the business is staying around the same level each year. The directors know that they have access to sources of external finance and want to invest this in the business. They are considering one of the following options:

OPTION 1: to relocate the factory closer to their customers

OPTION 2: invest in new machinery and delivery fleet.

You have been provided with the following extracts of financial information.

Wolf Ltd
Extracts of Financial Information

	2018	2017	2016
	£	£	£
Revenue	1 445 000	1 350 000	1 225 990
Cost of sales	990 000	881 000	745 600
Operating expenses	403 000	402 000	397 000
Profit for the year	?	?	?
Liquid ratio	0.79:1	0.81:1	0.8:1
Inventory turnover	12 times	11.2 times	10.6 times

[Turn over]

1 7 **Jasmeen is a sole trader who runs a successful kennel business. Jasmeen is now looking to expand the business with an extension to her kennel building in order to meet demand. Demand is seasonal with summer being her busiest period but the business suffers from poor liquidity in the winter months. Discounts are given to clients who use her services regularly.**

The kennel extension will cost around £150 000 to complete. The extension is expected to be in use for around 20 years and should be completed in the winter of 2019 if she can secure funding by the end of August 2019. She hopes it will boost her profits by between 30% and 60%. Jasmeen has supplied the following information:

Extracts of financial information

	2018	2017
Capital employed	£231 500	£223 000
Drawings	£26 000	£24 000
Profit for the year	£34 500	£33 200

She is prepared to take some risks in order to see the business grow. She is considering whether to change the business ownership in order to fund the expansion.

She feels that the two most suitable options are detailed below:

OPTION 1
Enter into a partnership with Depak's Doggies. Depak is looking to invest £150 000 for an equal profit share. He has already pointed out some ways to improve the business including using cheaper dog food and reducing the amount spent on wages by walking the dogs less frequently.

OPTION 2
Set up as a private limited company. To do this she would sell ordinary shares in her company at their nominal value of 50p per share to raise £150 000. Her own equity would also be converted into shares to the same value. She is hoping to pay dividends at around 5p per share.

END OF SOURCES

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