



A-level

ACCOUNTING

Paper 1 Financial Accounting

7127/1

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

[Turn over]

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Source material for use in answering Question 12.

The following information has been extracted from the books of account for Peter for the year ended 31 January 2023.

	£
Inventory at 1 February 2022	34 195
Inventory at 31 January 2023	29 785
Purchases	155 000
Returns inwards	16 440
Revenue	225 000

ADDITIONAL INFORMATION

- 1. During the year ended 31 January 2023, Peter took goods with a selling price of £2 800 for his own use which**

have not been recorded in the books of account. The mark up on these goods was 25%.

- 2. Included in the inventory at 31 January 2023 were 2 000 items with damaged packaging. These items cost £13.50 each and have a selling price of £14.65 each. The total cost of replacing the packaging is £2 850.**

[Turn over]

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Source material for use in answering Question 13.

Angela, Bennett and Christoff are in partnership.

The partnership agreement states:

Interest on capital	5.5% of the balance on the partner's capital account at the year end.
Interest on drawings	6% of the balance on the partner's drawings account at the year end.
Salaries	£28 000 per annum each for Angela and Bennett only.
Profits and losses	Shared in proportion to the balance on the partner's capital account at the year end.

The following information has been extracted from the trial balance at 31 May 2022.

	ANGELA £	BENNETT £	CHRISTOFF £
Capital account	67 000	45 000	38 000
Drawings	11 000	12 000	26 000

ADDITIONAL INFORMATION

- 1. The income statement for the year ended 31 May 2022 showed a profit of £47 000 before any appropriations.**
- 2. The opening balance on Bennett's current account at 1 June 2021 was £5 298 (debit).**

[Turn over]

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Source material for use in answering Question 14.

Rexarol plc is preparing the accounts for the year ended 31 March 2023.

The directors provided the following opening balances at 1 April 2022.

Share capital	£1 400 000
Share premium	£630 000

The following events have occurred during the financial year.

30 June 2022	A bonus issue of 2 new shares for every 5 shares held was made.
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1 August 2022	A final dividend of 7.5p per share for the previous year was paid on all shares in issue at 1 April 2022.
20 January 2023	A rights issue of 1 new share for every 4 shares held was made at a 20p per share premium. This was fully subscribed.
15 February 2023	An interim dividend of 2p per share was paid on all shares in issue at 31 January 2023.
31 March 2023	A dividend of 8p per share was proposed by the directors for the year ended 31 March 2023.

[Turn over]

31 March 2023	Property is revalued to £1 950 000. It had originally cost £1 800 000 and had been owned for 5 years when revalued. It has been depreciated at 6% per annum using the straight line method.
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ADDITIONAL INFORMATION

- 1. The nominal price per share is 25p.**
- 2. The directors maintain the reserves in their most distributable form.**
- 3. The draft profit from operations for the year ended 31 March 2023 has been calculated as £1 858 000. This figure includes an accrual for legal fees of £292 000 which is no longer required.**
- 4. No adjustment is required for depreciation to the profit from operations.**

- 5. At 1 April 2022, Rexarol plc had a 6% debenture of £550 000 repayable in 2030.**
- 6. The taxation charge for the year has been estimated at £708 000.**

[Turn over]

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Source material for use in answering Question 15.

Bhamen is a sole trader and runs a design consultancy service. She keeps full accounting records, but the computer files have become corrupted. She has been able to provide the following information:

AT 1 JANUARY 2022	£
Computer equipment – cost	15 000
Computer equipment – provision for depreciation	5 625
Fixtures and fittings – cost	20 200
Fixtures and fittings – provision for depreciation	7 800

ADDITIONAL INFORMATION

- 1. On 1 November 2022, computer equipment costing £6 984 was purchased.**
- 2. Depreciation on computer equipment is charged at 25% per annum using the straight line method. Depreciation is charged on a monthly basis.**
- 3. On 1 June 2022, fixtures and fittings with an original cost of £4 000 and a net book value of £2 900 were sold for £1 650.**
- 4. Depreciation on fixtures and fittings is charged at 15% 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.**

[Turn over]

- 5. A provision of £637 for doubtful debts was created at 31 December 2022. This was calculated at 2% of the trade receivables at that date.**
- 6. The bank statement at 31 December 2022 showed a debit balance of £425 but Bhamen knows that there was a bank receipt of £2 714 and a cheque payment of £619 that had been included in the cash book but were not shown on the bank statement.**
- 7. Bhamen rents an office at an annual rent of £4 560. At 31 December 2022, Bhamen had paid three months' rent in advance.**

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Source material for use in answering Question 16.

Rexmantel Ltd is a warehousing and distribution company based in the UK. On 1 April 2022, they signed a new substantial contract with a major manufacturer to pack and deliver products to the manufacturer's online customers. The contract required operations to start on 1 July 2022.

During the financial year, Rexmantel Ltd made a significant investment in delivery vehicles and computer technology. This was financed from internally generated funds.

The directors of Rexmantel Ltd were delighted with the results for the year ended 31 March 2023. The revenue had

**increased by 60% from the previous year.
A dividend of 6p per £1 ordinary share
was paid during the year.**

**The statement of cash flows for the year
ended 31 March 2023 has been prepared.**

[Turn over]

REXMANTEL LTD**Statement of cash flow for the year ended 31 March 2023.**

	£	£
Profit from operations		1 312 400
Depreciation	758 600	
Increase in trade receivables	(632 950)	
Increase in inventory	(212 998)	
Increase in trade payables	36 128	
Interest paid	(66 000)	
Tax paid	(292 378)	
		(409 598)
Net cash flow from operating activities		902 802

Investing activities		
Purchase of non-current assets		(1 539 600)
Financing activities		
Dividends paid		(30 000)
Net cash flow		(666 798)
Cash and cash equivalents at beginning of year		(183 709)
Cash and cash equivalents at end of year		(850 507)

[Turn over]

Both the Finance Director and the Managing Director agree that it should be a priority to reduce the overdraft.

They put forward separate options as to how this could be achieved.

OPTION 1: The Finance Director believes the company can reduce the overdraft by improved management of cash inflows and outflows.

OPTION 2: The Managing Director has recommended that the company take out a loan to pay off the overdraft. The bank has offered Rexmantel Ltd a loan of £1 000 000 repayable annually over 5 years in equal instalments. Interest on the loan will be charged at 9% per annum on the balance outstanding at the start of the year. The company has no other non-current liabilities.

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Source material for use in answering Question 17.

Gonville plc is a chain of kitchen suppliers and fitters, with an issued capital of 1 500 000 ordinary shares of 50p each. Gonville plc has been profitable, paying a small dividend each year.

The finance director, Gary Hughes, is a qualified accountant and has been working for the company for more than 20 years. Okeke joined the company as a trainee accountant and will be sitting his final exams shortly.

[Turn over]

Gonville plc has been investigating ways of increasing profitability by reducing the cost of sales. Newhams Ltd has been approved as the exclusive supplier of cabinet hinges and handles. Gonville plc's annual expenditure with Newhams Ltd is expected to be £2 million.

Okeke has been asked by Gary Hughes to create a trade payable account for Newhams Ltd with the following trading terms:

- 1. Full payment will be made within 15 days of the invoice date.**
- 2. A cash discount of 2% has been approved by Newhams Ltd.**

As part of the normal process, Okeke reviewed the new supplier's financial situation and has received the following information:

- **Newhams Ltd has two shareholders, Kate Hughes (60%) and Gary Hughes (40%)**
- **The company has been trading for one year with a turnover of £550 000 and a profit for the year after tax of £23 500**
- **Gary Hughes is recorded as the Finance Director of Newhams Ltd. Okeke checks with the Company Secretary of Gonville plc and finds that the board of directors of Gonville plc have not been notified of this directorship.**

[Turn over]

Okeke has concerns about the new contract and investigates the terms in more detail. He discovers that Gonville plc has agreed to pay Newhams Ltd a quarterly commission of 8.6% on all the goods purchased. The prices quoted by Newhams Ltd are generally 7% lower than those of the existing suppliers.

Okeke knows that the normal credit terms agreed with suppliers are payment within 45 days of invoice. Gonville plc has sufficient cash to pay Newhams Ltd within 15 days.

Okeke is nervous about raising his concerns as he is not sure whether Gary Hughes is acting ethically.

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