T-LEVELS | Institute for Apprenticeships & Technical Education

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Candidate surname	Other names

Centre Number

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Learner ID

T Level Technical Qualification in Accounting (Level 3)

Thursday 13 June 2024

Morning (Time: 2 hours 30 minutes)

Paper reference **19560**

Core: Examinations

PAPER 2: Application of Accounting

You must have:
A calculator.

Total Marks

Instructions

- Use **black** ink or a ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and Pearson learner ID.
- There are two sections in this question paper. Answer **all** questions in Section A and Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 90.
- The marks for **each** question are shown in brackets
  – *use this as a guide to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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Pearson

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SECTION A

Answer ALL questions. Write your answers in the spaces provided.

1 Name **one** responsibility of a business under employment legislation.

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(Total for Question 1 = 1 mark)

2 Give **two** external users of a business's financial statements.

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(Total for Question 2 = 2 marks)

3 Explain **one** purpose of preparing a Statement of Changes in Equity.

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(Total for Question 3 = 3 marks)

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Figure 1 shows assets and liabilities for a company.

Assets and Liabilities	£
Premises	125 000
Loan from bank	61 330
Cash at bank	12 500
Motor vehicles	25 000
Trade payables	17 600
Trade receivables	9 800

Figure 1

4 Calculate capital (equity) using the accounting equation.

You must show your workings.

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(Total for Question 4 = 2 marks)

5 Explain **one** role of The Pensions Regulator (TPR).

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(Total for Question 5 = 2 marks)

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6 Explain the main principle of double entry bookkeeping.

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Pushpa Shah works as an Assistant Accountant for Riverend Manufacturing Ltd. She is helping with the year-end accounts as they will need to be submitted to the shareholders at the end of the month. It is the end of the day, and most staff have gone home. Her supervisor Aimee MacDougall has called Pushpa over to her desk. She explains that because Riverend Manufacturing Ltd has not achieved the year end profit targets, bonuses will not be able to be paid as in previous years.

Aimee is concerned that this will make her unpopular with staff. She has asked Pushpa to remove some of the expenditure from the final figures. Aimee has promised Pushpa that she will get a bigger bonus for all her hard work.

7 Discuss the likely impact of Pushpa removing the expenditure as requested.

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(Total for Question 7 = 6 marks)

TOTAL FOR SECTION A = 18 MARKS

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SECTION B

Scenario 1

Albagrow plc is an agricultural business located in the Midlands. It is an expanding company that own several plots of land and staff work at multiple sites. Most employees are migrant seasonal staff. The business is keen to demonstrate to the local community that it wants to create a good working relationship and not be seen as a detriment to the local area. Albagrow plc has set up a community kitchen and garden to provide a cheaper source of fresh fruit and vegetables for the community. The business regularly visits local schools or organises trips for a first-hand farming experience. They organise open days where there are crafts, activities and tours which were popular and well attended.

Albagrow plc has recently produced a Corporate Social Responsibility (CSR) policy which states that it will:

– respect the law

– demonstrate respect to its local community

– support equality and diversity

– use environmentally friendly pesticides

– protect human rights.

Albagrow plc is deciding whether it should develop a CSR report. One of the directors is concerned that a lack of progress on achieving equality and diversity could cause reputational risk and damage the brand image.

Albagrow plc is considering changing its financial year-end reporting date to coincide with the UK tax year. They are allowed to do this once every five years. To ensure compliance, Albagrow plc must take account of the conceptual framework, which states that accounts must be:

– able to be understood

– relevant

– reliable

– comparable.

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You must use Scenario 1 to answer questions 8(a) – 8(d).

8 (a) Explain what is meant by 'reputational risk' to Albagrow plc.

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(b) Explain what is meant by 'being relevant' in the conceptual framework.

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(c) Explain **one** way that Albagrow plc could ensure seasonal migrant staff are treated with equality.

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(d) Discuss the advantages and implications for Albagrow plc of acting responsibly through its CSR policy.

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Scenario 2

You are employed as an Assistant Accountant at BaHu Accountants, a small practice with a range of clients that are registered as sole traders, partnerships and private limited companies. The team consists of two senior accountants Mohammed Batma and Lee Huang, yourself and Peyton Smith, another Assistant Accountant.

The work consists of day-to-day bookkeeping, preparing year-end accounting financial reports and preparing tax returns for clients.

Lee has attended a conference on fraud prevention in accountancy practices. He realised that BaHu Accountants doesn't have a policy in place around fraud detection or prevention.

The owner of Frankie's Ice Cream Parlour (FICP) is a client of BaHu Accountants. Recently, the owner of FICP has considered changing from being a sole trader to a private limited company. The owner has read that changing business ownership will mean that auditable financial records will need to be produced on a yearly basis. The owner of FICP has asked BaHu Accountants what this will mean to their working relationship if they proceed with the ownership change.

You must use Scenario 2 to answer questions 9(a) – 9(e).

9 (a) Give **two** areas of regulatory change that accountants at BaHu Accountants must keep up to date with.

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(b) Explain **two** reasons why BaHu Accountants should not act as both consultants and auditors in providing financial services.

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(c) Name the government body responsible for overseeing the UK audit process.

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Peyton Smith has recently completed the final accounts for a client, Higgins Events Management Company (HEMC). Peyton's partner, Robin, works for HEMC. Peyton is now on annual leave in Spain with Robin. All Peyton's emails have been automatically forwarded to you in case anything urgent needs to be actioned. One of the emails shown in Figure 2 has been marked confidential and high priority.

Hi Peyton

I hope you are enjoying Spain and the lovely weather. Just before your holiday we talked about you giving me an update on the financial situation of your client, We Cater for You. As you are aware, they are one of our main competitors and this would be useful information for us to have. Our business is not looking very stable at the moment and your partner Robin might not have a job when you get back. This information would greatly help us to get an understanding of our competition and keep everyone's jobs safe.

Hope to hear from you soon and see you at the wedding next month!

Best wishes

Riley Higgins

Higgins Events Management Company

Figure 2

(d) Explain **one** threat to compliance shown in this email.

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BaHu Accountants is considering the best way to detect fraud.

There are two options to choose from:

- data analytics
- AI software.

(e) Evaluate which of these **two** options would be the most effective for BaHu Accountants.

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Scenario 3

The current barbecue (BBQ) market is worth an estimated £2.4 billion in the UK. One business, Cooking Al Fresco Ltd, specialises in the UK BBQ market. It sells both barbecues and barbecue cutlery through its website and in garden centres.

The business has machinery valued at £75 000 and depreciates using the straight-line method. The business conforms to International Accounting Standards (IAS) and one of the key standards is IAS16: Property, plant and equipment.

Trade receivables for the first nine months of the 2023 financial year are £60 000 and the business operates a 30-day credit period for qualifying customers. When looking at the average time it takes credit customers to pay, the directors noted this was 52 days, which far exceeds company policy. The directors are now worried about customers defaulting on their accounts and the impact this could have on overall profits.

The business has decided to hold a directors' meeting to assess its viability in the market and determine any potential actions that need to be considered. They have provided the Income Statement (Figure 3) for the first nine months up to 31 December 2023 and the Statement of Financial Position at 31 December 2023 (Figure 4).

Income Statement for Cooking Al Fresco Ltd for the nine months ended 31 December 2023

	£
Revenue	425 000
Cost of sales	364 000
Gross profit	61 000
Administrative expenses	16 000
Distribution costs	4 000
Profit from operations (net profit)	41 000
Finance costs	3 500
Profit before tax	37 500
Tax	15 000
Profit after tax	22 500

Figure 3

Statement of Financial Position for Cooking Al Fresco Ltd at 31 December 2023

Assets	
Non-current Assets	
Premises	70 000
Machinery	75 000
	145 000
Current Assets	
Inventory	100 000
Trade receivables	60 000
	160 000
Total Assets	305 000
Equity and Liabilities	
Equity	
Share capital	150 000
Share premium	32 500
Retained earnings	22 500
Total Equity	205 000
Long-term Liabilities	
Loan	50 000
Current Liabilities	
Trade payables	30 000
Bank overdraft	5 000
Taxes	15 000
	50 000
Total Liabilities	100 000
Total Equity and Liabilities	305 000

Figure 4

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You must use Scenario 3 to answer questions 10(a) – 10(h).

10 (a) Explain **one** purpose of IAS16 on the valuation of non-current assets.

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(b) Explain **one** role of management accounting when setting prices.

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(c) Explain **one** way the Income Statement will meet the needs of a potential shareholder.

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The forecast sales for the rest of the financial year were determined as follows:

£425 000 / 3 = £141 667 (average quarterly sales figure for first nine months of the year)

£141 667 × 4 = £566 668 (final annual forecast sales figure)

One of the directors suggests that the final annual forecast sales figure is too simplistic and has not considered any other factors when determining the final sales value.

(d) Explain **two** factors that Cooking Al Fresco Ltd needs to consider when forecasting sales.

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Cooking Al Fresco Ltd is about to hold its annual shareholders meeting at the end of the financial year. Profit for the year has been lower than expected.

(e) Explain **two** global impacts that could have contributed to this lower than expected profit for the year.

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Cooking Al Fresco Ltd is completing some break-even analysis for its barbecue cutlery stations.

The relevant details are shown in Figure 5.

Maximum capacity	160 000 barbecue cutlery stations
Selling price	£22.00
Variable cost	£12.50
Annual fixed costs	£580 000

Figure 5

(f) Calculate the output at the break-even point for the barbecue cutlery stations. You must show your workings.

(3)

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Actual sales achieved were 140 000 units.

(g) Calculate the margin of safety for the barbecue cutlery stations. You must show your workings.

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The sales team has suggested two alternatives to increase profit for the barbecue cutlery stations.

There are **two** options to choose from:

- increase the selling price by 10%
- reduce the cost of raw materials by 5%

(h) Evaluate which of these **two** options would be most appropriate for Cooking Al Fresco Ltd.

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(Total for Question 10 = 32 marks)

TOTAL FOR SECTION B = 72 MARKS
TOTAL FOR PAPER = 90 MARKS

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