Paper Reference(s)

6001/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary/Advanced Level

Unit 1 – The Accounting System and Costing

Monday 17 January 2011 – Afternoon

Source booklet for use with Questions 1 to 7.

Do not return this booklet with the question paper.

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. The Worle Social Club offers a range of activities to members, and a cafeteria as a meeting place for refreshments.

Each member pays a subscription of £40 per annum and membership of the club was 500 members in 2010.

Receipts and Payments Account for the year ended 31 December 2010

	£		£
Balance b/d	1 720	Refreshment purchases	15 200
Membership subscriptions for the year ended 31 December:		Wages and salaries	30 000
		Electricity	1 500
2009	640	Rates	2 850
2010	17 200	Sundry expenses	6 250
2011	1 680	Loan interest paid	800
Refreshment sales	55 940	Building works	20 000
8% Bank loan receipt	25 000	Equipment purchase	8 700
Sale of equipment	3 500	Balance c/d	20 380
	105 680		105 680

Additional information:

(i) Subscriptions:
- On 31 December 2009, 20 members had not paid their membership subscriptions for 2009
- On 31 December 2009, 56 members had paid in advance for 2010
- All subscriptions for 2009 which were unpaid on 31 December 2010 are to be considered irrecoverable and written off as bad debts
- On 31 December 2010, 14 members had not paid their membership subscriptions for 2010.

(ii) Expenses are to be apportioned to the cafeteria trading account at the rate of:
- 40% wages and salaries
- 20% electricity
- 20% rates.

(iii) The additional 8% Bank loan was taken out on 1 April 2010.

(iv) Building works were undertaken during the year. An extension to the clubhouse was built at a cost of £15 000 and the existing clubhouse was redecorated at a cost of £5 000.

(v) The equipment sold in 2010 was purchased on 1 June 2007 at a cost of £6 400.

(vi) A full year's depreciation is charged on all assets owned on 31 December at the following rates:
- Clubhouse 2% per annum using the straight line method
- Equipment 25% per annum using the reducing balance method.

(vii) Other balances:

	31 December 2009	31 December 2010
	£	£
Clubhouse (cost £50 000)	35 000	?
Equipment (cost £30 000)	15 000	?
Subscriptions in arrears	?	?
Subscriptions in advance	?	?
Stocks of refreshments	8 600	7 450
Creditors for refreshment purchases	1 400	870
Rates accrued	200	–
Rates prepaid	–	450
8% Bank loan	10 000	35 000
Accumulated fund	47 280	?

Required:

(a) Explain **two** differences between a **receipts and payments account** and an **income and expenditure account**.

(4)

(b) Prepare for the year ended 31 December 2010, the:

(i) Subscriptions account

(7)

(ii) Cafeteria trading account

(7)

(iii) Income and expenditure account.

(16)

(c) Prepare the balance sheet at 31 December 2010.

(10)

Worle Social Club is considering offering a 10 year membership to existing members for £250, starting in 2011.

(d) Evaluate, from the perspective of Worle Social Club, whether it should offer a 10 year membership for £250.

(8)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 6 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. The fixed assets recorded on the balance sheet of Maruf Garage at 31 December 2009 were as follows:

	Cost	**Provision for Depreciation**	**Net book value**
	£	£	£
Land and buildings	120 000	12 000	108 000
Motor vehicles	24 000	11 000	13 000
Equipment	43 000	20 500	22 500
Loose tools	8 500	5 000	3 500
	195 500	48 500	147 000

The depreciation policy of Maruf Garages is:

- Land is not depreciated. Buildings are depreciated at the rate of 2% per annum on cost.
- Motor vehicles at the rate of 25% per annum using the reducing balance method.
- Equipment at the rate of 10% per annum using the straight line method.
- Motor vehicles and equipment are charged with a full year's depreciation in the year of purchase. No depreciation is charged in the year of sale.
- Loose tools are revalued at the end of each year.

During the year ended 31 December 2010, the following changes occurred to the fixed assets:

(i) On 1 January 2010 the cost of the land owned by Maruf Garage was £60 000.
On 1 June 2010, half of the land was sold for £80 000.

(ii) A new breakdown truck was purchased on 1 March 2010 for £30 000. The purchase was paid for by part-exchange of the old breakdown truck, with the balance paid by cheque. The old breakdown truck cost £16 000 on 1 September 2007. The agreed part-exchange value of the old breakdown truck was £6 000.

(iii) Equipment costing £3 500 was purchased on credit, on 1 August 2010.

(iv) Additional loose tools were purchased, for cash, throughout the year, with a combined value of £1 200. On 31 December 2010 the loose tools were re-valued at £4 300.

Required:

(a) Explain **two** reasons why a business should record depreciation in the annual accounts.

(4)

(b) Prepare, for the year ended 31 December 2010, the:

(i) motor vehicle account

(ii) motor vehicle provision for depreciation account

(iii) motor vehicle disposal account.

(14)

(c) Prepare the extracts in the:

(i) profit and loss account for the year ended 31 December 2010, showing the depreciation and the profit/loss on sale of fixed assets

(ii) balance sheet at 31 December 2010, showing the fixed assets section.

(14)

The owner of Maruf Garage has suggested revaluing the remaining half of the land to £80 000 in the balance sheet.

(d) State **two** accounting concepts that do **not** support the owner's suggestion.

(4)

(e) (i) Distinguish between **capital expenditure** and **revenue expenditure**.

(ii) Advise, stating clearly your reasons, whether each of the following is capital expenditure or revenue expenditure:

- installation of new equipment
- repairs to equipment.

(8)

(f) The owner of Maruf Garage has stated that "by charging annual depreciation, the business will have sufficient cash to replace the fixed assets at the end of their useful life."

Evaluate this statement.

(8)

(Total 52 marks)

Answer space for question 2 is on pages 8 to 13 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Athula is in business as a sole trader. On 31 December 2010, the following balances were extracted from her books:

	£
Sales	265 000
Purchases	110 000
Stock	37 500
Staff salaries	47 500
Wages	36 300
Rent and rates	7 500
Heat and light	9 650
Marketing expenses	10 000
General expenses	5 250
Goodwill	60 000
Land and premises (Cost £80 000)	74 500
Motor vehicles (Cost £30 000)	20 000
Fixtures and fittings (Cost £20 000)	14 000
Creditors	31 200
Debtors	40 000
Bank overdraft	4 000 CR
Drawings	28 500
Current account	500 CR
Capital account	200 000

Additional information at 31 December 2010:

(i) Athula maintains separate capital and current accounts.

(ii) Stock £50 500.

(iii) Staff salaries included £6 000 drawings paid to Athula.

(iv) Wages £450 were accrued.

(v) Rent and rates for 3 months of the year remained accrued.

(vi) Marketing expenses £1 750 were prepaid.

(vii) Depreciation is charged as follows:

- Premises at the rate of 2% per annum straight line method. No depreciation is charged on the land which is valued at £25 000
- Motor vehicles at the rate of 25% per annum, reducing balance method
- Fixtures and fittings at the rate of 10% per annum, on cost, using the straight line method.

(viii) A provision for doubtful debts is to be created at the level of 5% of debts less than 6 months old, and 15% of debts over 6 months old. One quarter of the debts are over 6 months old.

Required:

(a) Prepare for the year ended 31 December 2010, the:

(i) trading and profit and loss account

(ii) current account of Athula.

(18)

On 1 January 2011, Athula admitted Chandra as a partner into her business. Chandra brought the following assets and liabilities into the new partnership business at the agreed valuations of:

	£
Goodwill	15 000
Motor vehicle	8 000
Stock	12 000
Creditors	6 000
Bank loan (repayable 31.12.2015)	5 000
Bank	15 000

It was also agreed that:

- profits and losses would be shared in the ratio 2:1 respectively to Athula and Chandra
- goodwill would **not** be retained in the books of the new partnership.

(b) (i) Explain the accounting term **goodwill**.

(2)

(ii) State **two** accounting concepts which advise that goodwill should **not** be retained in the books.

(4)

(c) Prepare journal entries, with suitable narratives, at 1 January 2011 to record the:

(i) entry of Chandra into the partnership

(ii) removal of goodwill from the books of the partnership.

(8)

(d) Prepare the opening balance sheet of the new partnership at 1 January 2011.

(12)

(e) Evaluate the decision of Athula to admit Chandra as a partner.

(8)

(Total 52 marks)

Answer space for question 3 is on pages 14 to 19 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Classic Design is a business providing marketing design services. On 1 December 2010 the following balances were extracted from the books:

	£
Capital	150 000
Premises	120 000
Fixtures and fittings	24 000
Provisions for depreciation on:	
premises	5 000
fixtures and fittings	6 000
Debtors	17 500
Creditors	8 500
Bank	8 000 DR

For the month of December the following summarised transactions occurred:

(i) Credit sales of £28 000 were invoiced to customers.
(ii) Debtors paid cheques for £24 300 after being allowed £250 discount for prompt settlement.
(iii) Additional fixtures and fittings were purchased for £4 000 on credit.
(iv) Operating expenses of £4 750 were paid by cheque.
(v) Design materials of £1 350 were purchased on credit.
(vi) After receiving £150 discount for prompt settlement, creditors were paid £6 200 by cheque.
(vii) Bank charges of £600 were charged to the bank account.
(viii) Wages of £12 000 were paid by cheque.

Required:

(a) Prepare the trial balance at 31 December 2010.

(20)

Additional information at 31 December 2010:

- Operating expenses of £1 600 were accrued.
- Depreciation is charged using the straight line method at the rate of:
  (i) Premises 2% **per annum**
  (ii) Fixtures and fittings 15% **per annum**.

(b) Prepare the profit and loss account **for the month** of December 2010.

(8)

(c) Evaluate the statement that "if the trial balance for Classic Design balances, this ensures that the books of accounts are accurate".

(4)

(Total 32 marks)

Answer space for question 4 is on pages 20 to 23 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Athina is in business manufacturing clothing. She uses job costing when preparing quotations for manufactured goods.

A customer has requested a quotation for the manufacture of 100 dresses, which has been given the job number 792.

The following information is available for job 792:

(i) Raw material for **one** dress will be 2 metres of cloth. The following is the stock card for cloth:

1 July	Opening stock	350 metres @ £7 per metre
4 September	Issued	200 metres
7 October	Receipts	100 metres @ £8 per metre
18 November	Issued	100 metres
8 December	Receipt	100 metres @ £9 per metre

Athina uses the **perpetual** inventory, First In First Out (F.I.F.O) method when valuing stock. In addition to the cloth for the dresses, Athena will purchase buttons and decorations at a trade cost of £2.40 for **one** dress. Athena will add a handling charge of 25% to the cost of the buttons and decorations.

(ii) Direct labour cost will be:

Department	**Production time**	**Rate**
Cutting and machining	2 hours per dress	£6 per hour
Finishing and packaging	½ hour per dress	£4 per hour

(iii) Overheads are charged to each job at the rate of £6 per direct labour hour.

(iv) A profit **margin** of 25% is charged on all jobs undertaken.

Required:

(a) (i) Distinguish between **perpetual** inventory and **periodic** inventory in stock valuation.

(4)

(ii) Explain **two** characteristics of job costing.

(4)

(b) Prepare the quotation for Job 792, showing the price to be charged to the customer for 100 dresses. The quotation should show clearly the:

(i) raw material cost
(ii) labour cost
(iii) total quotation price.

(20)

Athina is considering changing the method of remuneration for the Cutting and Machining Department from payment by day rate to payment by piecework.

(c) Evaluate the use of piecework as a method of remuneration for the Cutting and Machining Department.

(4)

(Total 32 marks)

Answer space for question 5 is on pages 24 to 27 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. The following information is available from the accounts of Rupa for the year ended 30 November 2010.

On 1 December 2009 the following account balances were in the books:

	£
Electricity	250 CR
Marketing expenses	720 CR
Provision for doubtful debts	2 000 CR

(i) The electricity account records show the following:

Cheque payments	£
7 December 2009	250
14 March 2010	425
7 June 2010	385
26 September 2010	190
Refund by cheque	
8 July 2010	65

On 30 November 2010 it was estimated that £170 was owing for electricity.

(ii) Marketing expenses records show the following:

Cheque payments		£
20 December 2009	General marketing expenses	1 800
18 April 2010	Marketing brochures	600
10 July 2010	General marketing expenses	1 350
1 October 2010	Advertising campaign (for 3 months)	1 200

On 30 November 2010 it was estimated that the following were prepaid:

- Half of the marketing brochures purchased on 18 April 2010 remained.
- The proportion of the advertising campaign unused.

(iii) A provision for doubtful debts was to be maintained from the following schedule of debtors:

Age of Debt (months)	**Debtors 30 November 2010 (£)**	**Provision (%)**
0–3 months	15 000	5
3–6 months	6 000	10
Over 6 months	2 000	20

Required:

(a) Suggest **three** advantages of applying accounting concepts when preparing the final accounts of a business.

(6)

(b) Prepare the following ledger accounts for the year ended 30 November 2010. Each account should include the transfer to the profit and loss account for the year, and the balance to be carried down.

(i) Electricity account
(ii) Marketing expenses account
(iii) Provision for doubtful debts account.

(22)

(c) Evaluate the role of social accounting in decision making for a business.

(4)

(Total 32 marks)

Answer space for question 6 is on pages 28 to 30 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. Andeas and Dimitris each have a business buying and selling goods on credit. The summarised trading and profit & loss accounts and balance sheets for both businesses are as follows:

Trading and profit & loss accounts for the year ended 30 September 2010.

	Andeas £000	Dimitris £000
Sales	1 000	1 000
Opening stock	80	70
Purchases	680	600
	760	670
Closing stock	120	50
	640	620
Expenses	170	280
Depreciation	110	40
Loan interest	20	–
Net profit	60	60
	1 000	1 000

Balance sheets at 30 September 2010.

	Andeas £000	Dimitris £000
Fixed assets	300	100
Stock	120	50
Debtors	80	60
Bank	–	30
	500	240
Creditors	100	70
Bank overdraft	60	–
Long term loan	200	–
Capital	140	170
	500	240

Required:

(a) Explain why it is essential that a new business has good short term liquidity.

(4)

(b) Calculate for **each business** the:

(i) gross profit to sales percentage
(ii) rate of stock turnover
(iii) return on capital employed
(iv) liquid (acid test) ratio
(v) debtors' collection period (in days).

(20)

(c) State, giving **one** reason for each answer, which of the businesses of Andeas or Dimitris has the better:

(i) profitability
(ii) liquidity.

(4)

(d) Evaluate the usefulness of accounting ratios in assessing the success of a business.

(4)

(Total 32 marks)

Answer space for question 7 is on pages 32 to 35 of the question paper.

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