

General Certificate of Education
January 2003
Advanced Level Examination



ACCOUNTING
**Unit 5: Further Aspects of
Financial Accounting**

ACC5

Monday 20 January 2003 Morning Session

In addition to this paper you will require:

- an answer book for Accounting.
- You may use a calculator.

Time allowed: 1 hour 15 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ACC5.
- Answer **all** questions.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Make and state any necessary assumptions.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 105. This includes up to 5 marks for the Quality of Written Communication.
- Mark allocations are shown in brackets.
- Question 5 is the synoptic question which assesses your understanding of the relationship between the different aspects of Accounting.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

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Answer **all** questions.

1

Total for this question: 6 marks

Jose Guerrero has been in business as a painter and decorator for a number of years. He has the opportunity to expand his business, but this would mean raising further capital. He has offered his most experienced employee, Mick Jennings, a partnership.

REQUIRED

Discuss **two** possible problems that Jose may encounter as a partner that he would not have experienced as a sole trader. *(6 marks)*

2

Total for this question: 14 marks

Sharon Segg started a woodworking business on 1 December 2001 with net assets valued at £87 000.

She has been so busy she did not keep any financial records during the year. However, Sharon is able to give you the following information as at 30 November 2002.

	£
Premises at valuation	47 000
Machinery at net book value	21 600
Van at net book value	12 000
Money owed by customers	1 090
Money owed to suppliers	7 450
Stocks of timber, etc.	5 700
Bank overdraft	640

During the year Sharon withdrew £9450 in cash from the business for her own private use. She also used timber valued at £2100 to make improvements to her home.

REQUIRED

- (a) Calculate her net profit for the year ended 30 November 2002. *(8 marks)*
- (b) Evaluate the advantages and disadvantages of the method that you used to determine net profit. *(6 marks)*

3

Total for this question: 11 marks

Bernice Gruber owns and runs an engineering business. She has always used the first in first out (FIFO) method of stock valuation. Her friend Sybil, who is studying accounting at college, has told Bernice that she could alter her profits by using either the last in first out (LIFO) method or the weighted average cost (AVCO) method in future.

REQUIRED

- (a) Assess the effect each of the three methods of stock valuation would have on profits:
- (i) in the short term; *(3 marks)*
 - (ii) in the long term. *(2 marks)*
- (b) Explain whether or not Bernice should change the method of stock valuation she has been using in order to alter:
- (i) profits; *(4 marks)*
 - (ii) cash flow. *(2 marks)*

TURN OVER FOR THE NEXT QUESTION**Turn over ►**

The Detpoole Sports Club has its financial year end on 31 December.

Its members pay an annual subscription of £50.

At 31 December 2001 unpaid annual subscriptions amounted to £150. At that date four members had paid £200 for the year ended 31 December 2002.

The club also operates a life membership scheme. Life members make one payment of £750. At the club's financial year end one tenth of the balance standing in the life membership fund is transferred to the club's income and expenditure account. The balance of the life membership fund at 31 December 2001 stood at £63 750.

The following information relates to the club's financial year end on 31 December 2002.

Cash receipts during the year included:	£
Annual subscriptions	29 250
Life membership receipts	5 250

On 31 December 2002 two members' annual subscriptions amounting to £100 remained unpaid while one other member had paid his £50 subscription for the following year.

REQUIRED

- (a) Calculate the amount for annual subscriptions to be shown in the income and expenditure account for the year ended 31 December 2002. *(5 marks)*
- (b) Explain how the £100 subscriptions remaining unpaid at 31 December 2002 should be shown in the balance sheet as at 31 December 2002. *(2 marks)*
- (c) Calculate (show detailed workings):
- (i) the amount to be transferred from the life membership fund to the income and expenditure account for the year ended 31 December 2002; *(4 marks)*
- (ii) the balance remaining in the life membership fund as at 31 December 2002 and explain how it should be treated in the balance sheet. *(2 marks)*
- (d) To what extent will the operation of a life membership scheme benefit the club? *(6 marks)*

5

Total for this question: 50 marks

Abdul, Bjorn and Catherine have been in partnership for over 40 years trading as “Cellsearch”. The main focus of the business in recent years had been on cancer research.

The business employed five full-time and nine part-time members of staff. The partners shared profits and losses in the ratio 3:2:1 respectively.

The partners agreed to dissolve their partnership on 31 October 2002 when the balance sheet of “Cellsearch” appeared as follows:

Fixed assets	£	£
Equipment		180 000
Vehicles (3 cars)		<u>25 000</u>
		205 000
 Current assets		
Stock	3 400	
Debtors	3 500	
Bank	<u>2 100</u>	
	9 000	
 Less current liabilities		
Trade creditors	<u>4 000</u>	5 000
		<u>210 000</u>
 Capital accounts		
Abdul		140 000
Bjorn		60 000
Catherine		<u>10 000</u>
		<u>210 000</u>

The partnership equipment and stock were sold for £154 000.

The vehicles were taken over by the partners at the following agreed valuations:

- Car 1 taken over by Abdul at £6000;
- Car 2 taken over by Bjorn at £5000;
- Car 3 taken over by Catherine at £3000.

The debtors paid £3200 in settlement.

The creditors accepted £3900 in settlement.

Dissolution expenses totalling £7250 were paid by the partnership.

All monies paid and received were dealt with through the business bank account. The bank provided any overdraft facilities that the partnership required during the dissolution process.

The dissolution was completed by 31 December 2002.

Following the dissolution it was found that Catherine was insolvent.

REQUIRED

- (a) Calculate the profit or loss on the dissolution of the partnership. *(8 marks)*
- (b) Prepare the partnership bank account for the period 31 October 2002 to 31 December 2002. *(6 marks)*
- (c) Prepare the partners' capital accounts for the period 31 October 2002 to 31 December 2002. *(10 marks)*
- (d) Outline any factors, other than financial considerations, that the partners may have taken into account before deciding to dissolve the partnership. *(8 marks)*

Abdul may use some of the proceeds from the dissolution to purchase 1000 ordinary shares in Graypus plc.

He has a copy of the most recently published accounts of Graypus plc for the year ended 30 September 2002 which show the following details:

	£
Profits for the year on ordinary activities after tax	786 000
Ordinary dividends paid	<u>200 000</u>
Retained profits for year	<u>586 000</u>
Authorised share capital – Ordinary shares of £1 each	5 000 000
Issued share capital – Ordinary shares of £1 each	2 000 000

The market price of the shares at 30 September 2002 was £5 each.

REQUIRED

Use the information relating to Graypus plc shown above to:

- (e) calculate (show the formulae used):
- (i) dividend yield on ordinary shares; *(2 marks)*
- (ii) dividend cover; *(2 marks)*
- (f) explain how the two ratios calculated in (e) above might help Abdul to reach a decision as to whether or not he should purchase ordinary shares in Graypus plc; *(8 marks)*
- (g) assess the usefulness of using ratios as a basis for making an investment decision. *(6 marks)*

END OF QUESTIONS