

Paper Reference(s)

6001/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary/Advanced Level

Unit 1 – The Accounting System and Costing

Friday 21 May 2010 – Morning

**Source booklet for use with Questions
1 to 7.**

**Do not return the insert with the
question paper.**

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Georgia and Harriet are in partnership, sharing profits and losses equally. No interest is paid on capital or charged on drawings. No salaries are paid to the partners.

On 30 April 2009, the capital account balances of the partners were:

Capital accounts:	Georgia	£35 000
	Harriet	£15 000

On 1 May 2010 Georgia and Harriet agreed to admit Ionna as a partner. It was agreed that:

- (i) Ionna would bring £15 000 cash into the partnership.
- (ii) Goodwill was valued at £50 000.
- (iii) Goodwill would not be retained in the books of the new partnership.
- (iv) No interest would be paid on capital.
- (v) Interest would be charged on drawings at the rate of 5% on balances at the end of the year.
- (vi) Salaries would be paid to: Harriet £9 000 and Ionna £6 000.
- (vii) Profits and losses would be shared: Georgia two fifths; Harriet two fifths; Ionna one fifth.

At the end of the first year of trading, on 30 April 2010, with the **exception of the capital accounts**, the following balances remained in the books of the partnership after the preparation of the trading account.

	£
Gross profit	63 270
Carriage inwards	340 CR
Carriage outwards	4 650
Insurance	1 800
Rent	8 500
Rent receivable	1 500
Motor vehicles running expenses	9 180
Motor vehicles (Cost £16 000)	10 000
Office equipment (Cost £11 000)	9 800
Wages and salaries	17 000
Sundry expenses	6 750
Loan interest paid	1 000
8% Loan repayable 30.4.2015	20 000
Provision for doubtful debts	3 800
Stock at 30 April 2010	52 000
Debtors	26 000
Creditors	17 690
Bank	9 500 DR
Current accounts at 1 May 2009	
Georgia	430 CR
Harriet	1 850 DR
Drawings	
Georgia	1 000
Harriet	10 000
Ionna	3 000

The following information is available for the year ended 30 April 2010:

- (i) Insurance includes an annual fire insurance renewal of £1 200 paid on 1 January 2010.
- (ii) Rent receivable of £500 is outstanding.
- (iii) Wages and salaries includes drawings of £5 000 made by Ionna which had been incorrectly posted to the wages and salaries account.
- (iv) Depreciation is charged at the rate of 25% on motor vehicles using the reducing balance method and 20% on office equipment using the straight line method.
- (v) The provision for doubtful debts is to be maintained at 4% of debtors.

Required:

- (a) Prepare for the year ended 30 April 2010 the:
- (i) capital accounts of Georgia, Harriet and Ionna (7)
 - (ii) profit and loss account of the partnership (15)
 - (iii) profit and loss appropriation account (6)
 - (iv) current accounts of Georgia, Harriet and Ionna. (6)
- (b) Prepare the balance sheet of the partnership as at 30 April 2010. (10)
- Ionna considered setting up business as a sole trader before agreeing to join the partnership of Georgia and Harriet.
- (c) Evaluate the decision of Ionna to join the partnership of Georgia and Harriet as an alternative to opening a new business of her own, as a sole trader. (8)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 8 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Jaida is in business buying and selling goods on credit. On 31 March 2010, Jaida extracted a trial balance for the business which failed to agree, the debit total of balances exceeding the credit total of balances by £1 750. A suspense account was opened to record the difference.

Jaida then prepared the draft trading and profit and loss account for the year, before locating the errors, which had resulted in the suspense account balance.

The draft trading and profit and loss account prepared on 31 March 2010 was as follows:

Jaida – Trading and Profit and Loss Account for the year ended 31 March 2010

	£	£
Sales		133 000
Sales returns		<u>6 500</u>
		126 500
Opening stock	12 900	
Purchases	<u>62 000</u>	
	74 900	
Closing stock	<u>13 500</u>	
Cost of sales		<u>61 400</u>
Gross profit		65 100
Less		
Wages	35 000	
Operating expenses	28 900	
Depreciation on motor vehicle	3 200	
Bad debt	600	
Provision for doubtful debts	<u>550</u>	
		<u>68 250</u>
Net loss		<u>3 150</u>

After the preparation of the draft trading and profit and loss account, the following errors were located:

- (i) A sale of goods £2 300 on credit to Salem, had been recorded in the sales account as £230.
- (ii) Sales returns £170 had been correctly recorded in the account of the debtor, but had been credited as £150 in the sales returns account.
- (iii) Purchases included a cash payment of £450 for operating expenses.
- (iv) Stock at 31 March 2010 contained one stock sheet valued at the list price of £6 000, including the 'mark up' of 25%.
- (v) The calculation and recording of wages for the year was incorrect. The following actual payments were made to Jaida's three staff members:

Ahmed	Paid an annual salary of £12 000 plus a bonus of £500.
Beena	Paid a monthly salary of £750 plus a commission of 5% of sales. Average monthly sales were £8 000.
Chandra	Paid an hourly rate of £3 per hour for 40 hours per week, 52 weeks per year. Average overtime worked for 50 weeks of the year was 6 hours at time and a half.
- (vi) During the year operating expenses of £5 000 for repairing the vehicle, were recorded in the vehicle asset account. Depreciation was charged on the balance of the vehicles account at the year end at the rate of 20% on cost using the straight line method.
- (vii) The provision for doubtful debts on 1 April 2009 was £550 and this was entered in the draft profit and loss account.
- (viii) During the year, debts of £600 were written off as bad debts. On 31 March 2010 the debtors balance was £18 700 and it was decided to write off an additional £1 200 as bad debts and to maintain the provision for doubtful debts at 4% of the remaining debts. This adjustment had not been made.

Required:

- (a) Prepare the:
- journal entries recording the correction of the errors and transfers in (i) to (viii) (narratives are not required)
 - suspense account following the correction of the errors in (i) to (viii).
- (20)**
- (b) Prepare for Jaida, for the year ended 31 March 2010, the:
- (i) Stock account **(4)**
- (ii) Provision for doubtful debts account **(4)**
- (iii) Motor vehicles account **(4)**
- (c) Re-draft the trading and profit and loss account following correction of the errors in (a). **(8)**
- (d) Explain the accounting concept of materiality. **(4)**
- (e) Evaluate whether it is useful for Jaida to prepare the draft trading and profit and loss account when the trial balance contains a suspense account. **(8)**

(Total 52 marks)

Answer space for question 2 is on pages 9 to 15 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Soller Products makes two products: the Standard and the Super. The following information is available for the year ended 30 April 2010.

- (i) Both products use the same raw material. On 1 May 2009, the stock of raw material was 5 000 units at a value of £10 per unit.
- (ii) During the year, 40 000 units of raw material were issued to production and the following purchases of raw material were made:

May – July	12 000 units @ £12
August – October	10 000 units @ £13
November – January	15 000 units @ £12
February – April	8 000 units @ £11

Stock is valued using the First In First Out (F.I.F.O) method based upon **periodic** valuation.

- (iii) One unit of raw material will make either one Standard **or** one Super.
- (iv) During the year 25 000 Standards and 15 000 Supers were produced.
- (v) The factory has two production lines, one to make the Standard and one to make the Super. Twenty production staff made Standards and fifteen production staff made Supers.
- (vi) Manufacturing wages are paid on the basis of day-work rate plus bonus.
 - All production staff work 40 hours per week for 50 weeks of the year and are paid at a rate of £5 per hour.
 - A bonus payment of £1 for each Standard produced is shared amongst the Standard line workers.
 - A bonus payment of £1 for each Super produced is shared amongst the Super line workers.
- (vii) Factory overheads were allocated to the production lines of the Standard and the Super on the following basis:

	Standard £	Super £	Total £
Management salaries	160 000	50 000	210 000
Premises costs	100 000	80 000	180 000
Depreciation	70 000	40 000	110 000

(viii) Work in progress:

	1 May 2009 £	30 April 2010 £
Standard	50 000	25 000
Super	30 000	15 000

- (ix) The Standard was sold for £35 per unit and the Super for £50 per unit. All units produced during the year were sold and there were no stocks of finished goods at the start or end of the year.

Required:

- (a) Prepare for the year ended 30 April 2010, the manufacturing account, in columnar format, showing the:
- prime cost of producing the Standard and the Super
 - manufacturing cost of producing the Standard and the Super.

(16)

- (b) Calculate:

- (i) the cost of manufacturing:

- **one** Standard
- **one** Super

(4)

- (ii) the total annual gross profit from sales of the:

- Standard
- Super

(4)

Soller Products is considering ceasing production of the Standard which it considers to be unprofitable. The Production Manager is concerned at this development and believes that if overheads were **apportioned** to production lines, instead of being **allocated**, this would show that the Standard was profitable.

Additional information:

	Standard	Super
Employees (number)	20	15
Floor area occupied (sq m)	2 500	3 500
Equipment value (£'000)	10 000	12 000

- (c) Calculate, with overheads apportioned instead of allocated, the:

- (i) total overhead which would be charged to each production line

(8)

- (ii) total annual gross profit from sales for each production line.

(4)

- (d) (i) Distinguish between **apportionment** of overheads and **absorption** of overheads.

(4)

- (ii) Explain the circumstances in which there would be **over absorption** of overheads.

(4)

- (e) Evaluate whether Soller Products should cease the production of the Standard.

(8)

(Total 52 marks)

Answer space for question 3 is on pages 16 to 22 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. White Lightning is a popular music band recording albums and performing at concerts. On 1 April 2009, the band started the White Lightning Fan Club with £1 000 cash which was paid into a bank account.

The following is the summarised information for the year ended 31 March 2010.

- (i) Fans were asked to register 'on-line' and were then sent a membership pack and an invoice for a £10 subscription for the year. The number of fans registering 'on-line' was 2 000. At 31 March 2010, subscriptions from 400 fans were in arrears and 75 fans had paid their subscriptions in advance for a second year.
- (ii) The fan club decided not to write off any subscription debts as bad debts.
- (iii) A fan club secretary was appointed on 1 April 2009 at a salary of £8 000 per annum. Other expenses paid were: telephone and postage £3 600, rent £2 000 and general office expenses £1 850. At 31 March 2010, £250 was owing for a telephone bill.
- (iv) Office furniture and a second hand photocopier were purchased on credit on 1 April 2009 for £4 000. During the year £3 000 was paid to the creditor. It is estimated that the office furniture and the second hand photocopier will have a life of 5 years, and a residual value of £600.
- (v) A monthly newsletter was circulated to all members at a cost of £1 080.
- (vi) During the year the fan club raffled two tickets to a White Lightning concert. The cost of the tickets was £280 and 400 fans entered the raffle each paying £1 for a raffle ticket.
- (vii) The fan club offered autographed copies of the band's latest album. The club purchased 300 albums at a cost of £12 each. During the year the club sold 280 of the autographed albums at £15 each.

Required:

- (a) Prepare for the White Lightning Fan Club the:
 - (i) receipts and payments account for the year ended 31 March 2010 (8)
 - (ii) income and expenditure account for the year ended 31 March 2010 showing clearly the profit or loss made on the raffle of concert tickets and the sales of the band's album (12)
 - (iii) balance sheet as at 31 March 2010. (8)
- (b) Evaluate the decision of the fan club not to write off any bad debts. (4)

(Total 32 marks)

Answer space for question 4 is on pages 24 to 28 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Kerry is considering starting a business making vehicle trailers. He has carried out market research and has determined that there is a market for inexpensive Budget vehicle trailers and also high quality Superior vehicle trailers. He has decided to specialise in one type of trailer only, either the Budget or the Superior. His market research has revealed the following:

	Budget	Superior
Sales per annum	50	20
Retail price	£1 700	£3 800
Costs:		
Raw materials		
List price	£200	£300
Trade discount on materials	20%	10%
Labour		
Hours per trailer	64	130
Rate per hour	£5	£6
Overheads		
Marketing	£19 000 per annum	
Administration	£30 000 per annum	
Equipment	Cost £12 000, life 5 years, residual value £2 000	

Required:

- (a) (i) Explain the term fixed cost. (2)
- (ii) Give **one** example of a fixed cost to be incurred by Kerry's business. (2)
- (b) Calculate for Kerry, the cost of making:
- (i) **one** Budget vehicle trailer (9)
- (ii) **one** Superior vehicle trailer. (9)
- (c) Calculate for Kerry, the total profit if he specialises in making the:
- (i) Budget vehicle trailer (3)
- (ii) Superior vehicle trailer. (3)
- To start the new business making vehicle trailers, Kerry would need to leave his employment as an accounts manager earning £15 000 per annum.
- (d) Evaluate the decision of Kerry to leave his employment to start the new business, and advise him which vehicle trailer, if any, he should make. (4)

(Total 32 marks)

Answer space for question 5 is on pages 29 to 33 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Panjit is in business buying and selling goods on credit. He is concerned that, although his business is making a good profit, his balance at the bank is not increasing. The following information is available:

- (i) Summarised transactions for the year ended 31 March 2010

	£
Receipts from debtors	151 000
Payments to creditors	99 000
Fixed assets purchased	18 000
6% Loan taken out by Panjit	10 000
Expenses paid	25 000
Drawings	43 000

- (ii) Asset and liabilities

	31 March 2009	31 March 2010
	£	£
Bank	3 000	?
Debtors	15 000	12 000
Creditors	22 000	7 000
Stock	25 000	26 000
Prepaid expenses	4 000	2 000
Fixed assets	40 000	45 000
6% Loan	–	10 000

- (iii) Credit purchases for the year ended:

	31 March 2009	31 March 2010
	£	£
	80 000	84 000

Required:

- (a) Distinguish between the **profitability** and the **liquidity** of a business. (4)
- (b) Calculate the bank balance at 31 March 2010. (6)
- (c) Calculate for **both the years** ended 31 March 2009 and 31 March 2010, the:
- (i) Current ratio (6)
 - (ii) Liquid (acid test) ratio (6)
 - (iii) Creditors payment period (in days) (6)
- (d) Evaluate the liquidity of Panjit's business. (4)

(Total 32 marks)

Answer space for question 6 is on pages 34 to 39 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. Capela is a general trader. She has been busy with the business and has not maintained the debtors and creditors personal accounts for April 2010. All other entries have been made in the accounts.

Capela wishes to complete her accounts for April 2010. She has extracted a trial balance at 30 April 2010 with the exception of the balances for debtors and creditors, although she is aware that there are some errors in the accounts.

The following balances were available at 30 April 2010:

	£
Total creditors at 1 April 2010	9 730
Total debtors at 1 April 2010	14 250
Purchases on credit	12 420
Cheques received	25 000
Returns outwards	380
Discount received	460
Debtor cheque returned dishonoured	600
Discount allowed	160
Sales on credit	28 310
Cheques paid	13 500
Returns inwards	250
Purchases for cash	5 350
Bad debt written off	800
Provision for doubtful debts	750

The following errors have been discovered in the books:

- (i) a credit note £750 for goods returned to Capela, had not been entered into the accounts
- (ii) discount received of £95 had been claimed in error by Capela
- (iii) invoices for credit purchases of £2 500, had not been entered into the accounts
- (iv) a debtor who owed £600 has now been declared bankrupt.

Required:

- (a) Explain **two** limitations of the trial balance. (4)
- (b) Prepare, incorporating any adjustments for errors and showing the balance at 30 April 2010, the:
 - (i) purchases ledger control account (10)
 - (ii) sales ledger control account. (14)
- (c) Evaluate the contribution of control accounts in ensuring that the debtors and creditors accounts are always accurate. (4)

(Total 32 marks)

Answer space for question 7 is on pages 40 to 43 of the question paper.

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