

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ACCOUNTING

2500

Accounting Principles

3808/7808

Wednesday

11 JANUARY 2006

Morning

1 hour

Each candidate must be given:

(1) one copy of this question paper, 2500;

(2) one 8 page Answer Book.

Item (2) is sent with the stationery parcel.

Candidates may use calculators in this examination.

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Complete the front page of the Answer Book as directed.

Answer **all** questions.

You must show the calculations leading to your answers.

INFORMATION FOR CANDIDATES

The maximum mark for this paper is 80.

Continuous prose responses are required to questions in this paper. You will be assessed on your form and style of writing, the clarity and coherence of your organisation of information, your use of specialist accounting vocabulary and conventions, the legibility of text and your spelling, grammar and punctuation.

This question paper consists of 5 printed pages and 3 blank pages.

- 1 Laurence Keston, a trader, prepared the following Trial Balance from his accounts on 31 December 2005.

	Dr £	Cr £
Sales		620 000
Purchases	270 000	
Sales returns	10 000	
Discount received		1 900
Capital		231 000
Drawings	3 400	
Rates	12 000	
Salaries	130 000	
10% loan		60 000
Loan interest	6 000	
Rent received		5 300
Loss on sale of delivery vehicle	900	
Carriage outwards	3 700	
General expenses	67 846	
Insurance	7 000	
Provision for doubtful debts		2 000
Buildings	290 000	
Machinery	50 000	
Provision for depreciation of machinery		18 250
Delivery vehicles	30 000	
Provision for depreciation of delivery vehicles		11 000
Debtors	57 500	
Creditors		64 600
Bank	27 704	
Stock	48 000	
	<u>1 014 050</u>	<u>1 014 050</u>

The following information is also available.

- (i) The closing stock as at 31 December 2005 was valued at £56 400.
- (ii) At 31 December 2005, insurance owing amounted to £400.
- (iii) During the year Laurence Keston had withdrawn, for his personal use, goods costing £1 600. This had not been recorded in the accounts.
- (iv) Rent receivable of £800 was owing to the business at 31 December 2005.
- (v) The loan is repayable in full during 2009.
- (vi) The provision for doubtful debts is to be provided as £700 for a specific debt, plus 3% on the remainder of debtors.
- (vii) During the year the business purchased a building for £150 000 and this has been included in the balance of £290 000 shown for buildings in the Trial Balance. In addition to this amount, legal costs of £2 000 incurred in the purchase of the building have been debited to general expenses.
- (viii) Depreciation is to be provided on all machinery at 25% per annum on cost. Machinery costing £12 000 was purchased on 1 August 2005 and this is included in the balance shown for machinery. Depreciation is calculated for each proportion of the year for which machinery is held. There were no disposals of machinery during the year.

- (ix) Delivery vehicles are to be depreciated by £6 000 for the year.
- (x) Buildings are not depreciated.

REQUIRED

- (a) The Trading and Profit and Loss Account for the year ended 31 December 2005. [24]
- (b) The Balance Sheet as at 31 December 2005. [15]

Total marks [39]

- 2 Niatax Limited has prepared the following aged debtors schedule as at 31 December 2005.

<i>Age of debt</i>	<i>Debtors</i>
	£
up to 30 days	16 800
31 to 60 days	12 600
61 to 90 days	7 100
over 90 days	1 300

Niatax Limited maintains a provision for doubtful debts account. On 1 January 2005, the account had a balance of £800. The bad debts for the year ended 31 December 2004 amounted to £1 420.

Gillingham Limited, a debtor of £700, has recently been declared bankrupt. This amount had been included in the aged debtors schedule above as being outstanding for 61 to 90 days. It is to be written off in full immediately from the aged debtors schedule.

On 2 October 2005, Bay Limited, a debtor, ceased trading and Niatax Limited received payment of £0.25 in the pound in final settlement of the debt of £600. The remainder of the debt was written off in full at that date.

Other bad debts written off during the year totalled £350.

The policy applied by Niatax Limited for the provision for doubtful debts is on a sliding scale basis as follows.

<i>Age of debt</i>	%
Up to 30 days	1
31 to 60 days	2
61 to 90 days	3
over 90 days	10

REQUIRED

- (a) Calculate the amount Niatax Limited should provide as a provision for doubtful debts as at 31 December 2005. [5]
- (b) Prepare the following ledger accounts for the year ended 31 December 2005, showing the closing entry to the final accounts at the end of the year.
- (i) Provision for doubtful debts. [3]
- (ii) Bad debts. [4]
- (iii) Bay Limited. [3]
- (c) Prepare the Balance Sheet extract as at 31 December 2005 for debtors (net). [2]
- (d) Rather than using its existing policy, Niatax Limited is considering applying a single percentage to all debts as the basis for calculating its provision for doubtful debts. If a change is made, it would use the average of 4% from its current rates. Evaluate:
- the existing policy
 - the alternative policy
- using figures to support your comments. [8]

Total marks [25]

- 3** In **each** of the following, identify which accounting concept should be followed and briefly explain why it is applied.
- (a)** The owner of a business has taken goods from stock for his own personal use. The goods originally cost £500. [4]
 - (b)** A business has good industrial relations and wishes to record this in the accounts at a value of £20 000. [4]
 - (c)** A business has bought two door mats costing £3 each. These are expected to last many years and have been recorded under fixed assets. [4]
 - (d)** Goods to the value of £1 500 were received in the final month of the financial year. The invoice for these goods has not yet been received and no entry made in the accounts at the financial year end. [4]

Total marks [16]

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