

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ACCOUNTING

2500

Accounting Principles

3808/7808

Wednesday

7 JUNE 2006

Afternoon

1 hour

Each candidate must be given:

(1) one copy of this questions 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 On 31 March 2006 the following information was available from the books of Glenn White, a sole trader.

	Dr £	Cr £
Creditors		14 600
Debtors	9 600	
Bank		700
Stock	12 000	
Sales		378 000
Purchases	174 000	
Carriage inwards	3 000	
Purchase returns		4 000
Rent and rates	28 400	
Salaries	93 500	
Discount allowed	1 800	
General expenses	62 200	
Bad debts	300	
Provision for doubtful debts		1 500
8% loan		30 000
Loan interest	2 000	
Equipment	40 000	
Provision for depreciation of equipment		12 000
Motor vehicles	30 000	
Provision for depreciation of motor vehicles		6 000
Capital		17 600
Drawings	7 600	
	<u>464 400</u>	<u>464 400</u>

The following information is also available.

- (i) The closing stock as at 31 March 2006 was valued at £15 000.
- (ii) At 31 March 2006, general expenses prepaid amounted to £700.
- (iii) Martin Griffiths, a debtor included in the debtors balance above, has recently been declared bankrupt. His debt of £600 is to be written off as a bad debt in the accounts for the year ended 31 March 2006.
- (iv) A cheque of £500 received from a debtor has not yet been entered in the accounts.
- (v) The provision for doubtful debts is to be decreased by £300.
- (vi) At 31 March 2006, two month's interest is due on the loan. The loan is repayable in full during the year ended 31 March 2007.
- (vii) Glenn White acts as an agent for Stormy Limited and is owed commission of £3 700 for the year ended 31 March 2006.
- (viii) A new motor vehicle was purchased for £18 000 on 1 August 2005. This was the only fixed asset purchased during the year ended 31 March 2006. The full amount is included in the balance shown for motor vehicles.

(ix) Depreciation is to be provided as follows:

Equipment	10% per annum on cost using the straight line method. No residual value is allowed for.
Motor vehicles	25% per annum by the reducing balance method. Depreciation is calculated for each proportion of a year for which motor vehicles are held.

There were no fixed asset disposals during the year ended 31 March 2006.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 March 2006. [22]

(b) The Balance Sheet as at 31 March 2006. [17]

Total marks [39]

- 2 The following balances have been taken from the books of Wong Limited.

	1 April 2005	31 March 2006
	£	£
Insurance	700 prepaid	850 prepaid
Wages	4 300 owing	4 700 owing
Commission receivable	600 owing	920 owing

The following transactions relate to the year ended 31 March 2006. All the transactions were through the bank account.

	£
Insurance paid	5 300
Insurance refund	400
Wages	78 700
Commission receivable	6 200

REQUIRED

- (a) Prepare the following ledger accounts. Include in each case the transfer to the Profit and Loss Account for the year ended 31 March 2006, and the balance carried down to the next financial year.
- (i) Insurance [5]
- (ii) Wages [4]
- (iii) Commission receivable [5]
- (b) Prepare the Balance Sheet extracts as at 31 March 2006 for Insurance, Wages and Commission receivable. [5]
- (c) (i) State the underlying concept involved in preparing the accounts listed in part (a). [1]
- (ii) Explain why this concept is important. [3]

Total marks [23]

- 3 Betax Limited has recently purchased new machinery with the following pricing details.

	£
Cost per price list	60 000
Less 10% trade discount	<u>6 000</u>
	54 000
Delivery costs	1 000
Installation costs	2 000

The machinery maintenance costs are estimated to be £5 000 per annum. The business plans to keep the machinery for five years and then dispose of it for an estimated residual value of £4 000.

REQUIRED

- (a) Calculate the cost figure which should be used as the basis for depreciation. [2]
- (b) Calculate the annual depreciation charge using the straight line method. [2]
- (c) Prepare the Disposal of Machinery Account if the machinery is sold for £12 000 at the end of four years. [6]
- (d) 'Provision for depreciation is made to provide for the replacement of a fixed asset'. Discuss this statement. [8]

Total marks [18]

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