

**ADVANCED SUBSIDIARY GCE UNIT
ACCOUNTING**

Accounting Principles

THURSDAY 11 JANUARY 2007

2500

Morning

Time: 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.



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 document consists of **6** printed pages and **2** blank pages.

- 1 Martin Griffiths, a trader, prepared the following Trial Balance from his accounts on 31 December 2006.

	Dr £	Cr £
Sales		680 000
Purchases	285 000	
Sales returns	10 000	
Discount		2 000
Capital		243 562
Drawings	6 500	
Carriage outwards	2 800	
General expenses	138 012	
Salaries	132 000	
10% Loan		45 000
Loan interest	3 750	
Commission receivable		4 100
Provision for doubtful debts		1 000
Premises	360 000	
Provision for depreciation of premises		28 800
Machinery	45 000	
Provision for depreciation of machinery		16 500
Debtors	69 600	
Creditors		82 700
Bank	12 000	
Stock	39 000	
	<u>1 103 662</u>	<u>1 103 662</u>

The following information is also available.

- (i) The closing stock as at 31 December 2006 was valued at £41 000.
- (ii) The balance shown for salaries covers the 11 months to 30 November 2006. Salaries for December 2006 are due and unpaid. There have been no salary increases over the previous 12 months and an equal amount is paid each month.
- (iii) During the year Martin Griffiths had withdrawn for his personal use goods costing £3 000. This had not been recorded in the accounts.
- (iv) The provision for doubtful debts is to be adjusted to 2% of debtors.
- (v) At 31 December 2006, two months' interest is due on the loan. One half of the loan is repayable during the year ending 31 December 2007, and the balance after that date.
- (vi) Commission receivable of £200 was owed to the business on 31 December 2006.
- (vii) Depreciation is to be provided on all machinery at 20% per annum by the reducing balance method. Machinery costing £7 500 was purchased on 1 August 2006, and this is included in the balance shown for machinery. Depreciation is calculated for each proportion of a year for which machinery is held. There were no disposals of machinery during the year.
- (viii) Premises are depreciated by equal instalments on cost over a 50 year period.

REQUIRED

(a) The Trading and Profit and Loss Account for the year ended 31 December 2006. [21]

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

Total marks [38]

2 On 1 January 2006, Beese Traders had the following entries in its ledger accounts.

Insurance	£500 owing
Commission receivable	£400 owing to Beese Traders
Provision for doubtful debts	£1 400

The following information is available for the financial year ended 31 December 2006.

(i) Insurance was paid as follows:

26 February 2006	£1 900
15 October 2006	£2 400

The payment on 15 October 2006 related to the period 1 October 2006 to 31 March 2007.

(ii) Commission receivable was as follows:

10 January 2006	£300
18 January 2006	£100
13 November 2006	£2 800

On 31 December 2006, £500 was owing in commission to Beese Traders.

(iii) The trade debtors balance at 31 December 2006 was £38 700. The provision for doubtful debts is to be provided as £500 for a specific debt, plus 2% on the remainder of debtors.

REQUIRED

(a) Prepare the following ledger accounts, including in each case the transfer to the Profit and Loss Account, for the year ended 31 December 2006, and the balance carried down to the next financial year. Dates are not required.

- | | |
|-------------------------------------|-----|
| (i) Insurance. | [5] |
| (ii) Commission receivable. | [6] |
| (iii) Provision for doubtful debts. | [5] |

(b) Explain how maintaining a provision for doubtful debts is an application of the prudence concept. [6]

Total marks [22]

- 3 The following Balance Sheet extract has been taken from the accounts of Watkins Ltd as at 31 December 2005.

Fixed Assets

	Cost	Depreciation To Date	Net Book Value
	£	£	£
Office equipment	163 400	89 100	74 300

During the year ended 31 December 2006 the following transactions took place for office equipment.

Disposals

Disposal Date	Purchase Date	Original Cost	Disposal Proceeds
		£	£
30 April 2006	1 January 2003	20 000	3 800
30 June 2006	1 January 2002	28 000	4 920

Additions

Date	Cost
	£
1 October 2006	30 000

Depreciation for office equipment is charged by the straight line method based on a five year life and estimated residual value of 10% of original cost. Depreciation is applied from the date office equipment is bought until it is sold. All transactions were by cheque.

REQUIRED

- (a) The following ledger accounts for the year ended 31 December 2006. Dates are not required.
- (i) Office equipment [5]
- (ii) Disposal of office equipment [9]
- (b) Discuss Watkins Ltd's policy of using the straight line method of depreciation for office equipment. [6]

Total marks [20]

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