

**ADVANCED SUBSIDIARY GCE UNIT
ACCOUNTING**

2502

Final Accounts

THURSDAY 11 JANUARY 2007

Morning

Each candidate must be given:

(1) one copy of this question paper, 2502;

(2) one 8 page Answer Book.

Item (2) is sent with the stationery parcel.

Time: 1 hour

Candidates may use calculators in this examination.



INSTRUCTIONS TO CANDIDATES

- Complete the front page of the Answer Book as directed.
- Answer **all** the 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 4 printed pages.

- 1 The Loxton Sports Club prepares accounts annually on 31 December. The Receipts and Payments Account for the year ended 31 December 2006 was prepared by the treasurer as follows.

	£		£
Subscriptions received	1 850	Balance b/f	32
Competition receipts	1 617	Competition prizes	986
Annual dinner ticket sales	2 050	Annual dinner - hire of band	1 000
Donations	60	- catering	950
Deposit account	2 000	Insurance	230
Sale of equipment	160	Clubhouse maintenance	800
		New equipment	2 000
		Rent and rates	320
		Electricity	185
		Balance c/f	1 234
	<u>7 737</u>		<u>7 737</u>

The following additional information is available.

- (i) The withdrawal from the deposit account was made on 1 September 2006. The deposit account pays a fixed rate of interest of 6% per annum. Interest received to 31 December 2006 had not been entered in the Receipts and Payments Account.
- (ii) The remaining assets and liabilities of the Club at the beginning and end of the year were:

	1 January 2006	31 December 2006
	£	£
Clubhouse	25 000	24 500
Equipment	6 000	7 250
Rates prepaid	70	75
Rent accrued	100	–
Subscriptions due and unpaid	55	110
Subscriptions paid in advance	165	195
Deposit account	6 000	4 000

- (iii) All subscriptions due and unpaid on 1 January 2006 were received in full.
- (iv) During the year, equipment with a book value of £300 was sold for £160.

REQUIRED

- (a) The Income and Expenditure Account for the year ended 31 December 2006. [16]
- (b) The Balance Sheet as at 31 December 2006. [9]
- (c) Explain **two** differences between an Income and Expenditure Account and a Receipts and Payments Account. [4]

Total marks [29]

- 2 Sadeek and Emma are business partners. The partnership agreement states that they share profits and losses equally. Interest is charged on drawings at the rate of 5% per annum on the balances at the end of the year. Interest is paid on capital at the rate of 8% per annum on the balances at the end of the year. Sadeek is paid a salary of £5 000 per annum. After calculating the net profit for the year ended 31 December 2006, the remaining ledger balances were as follows.

	£
Net profit	27 500
Capital Account – Sadeek	40 000
Emma	25 000
Current Account – Sadeek	2 700 Cr
Emma	400 Cr
Drawings – Sadeek	12 000
Emma	10 000

On 1 January 2007, Sadeek and Emma agreed to admit Kevin as a partner. At that date the goodwill was valued at £60 000. The following was agreed between the three partners.

- (i) Goodwill would not remain in the books of the new partnership.
- (ii) The partners would share profits and losses: one half Sadeek, one third Emma, one sixth Kevin.
- (iii) Kevin would pay £15 000 into the business bank account. He would also bring stock valued at £5 500 into the partnership.

REQUIRED

- (a) The Appropriation Account for Sadeek and Emma for the year ended 31 December 2006. [6]
- (b) (i) The Current Accounts of Sadeek and Emma as at 31 December 2006. [7]
- (ii) The Capital Accounts of Sadeek, Emma and Kevin as at 1 January 2007. [7]
- (c) (i) Explain the term goodwill. [3]
- (ii) Explain **two** reasons why goodwill is **not** normally recorded in the accounts of a business. [4]

Total marks [27]

- 3 Lindsay is a general trader who buys and sells goods on credit. She has prepared her accounts for the year ended 31 December 2006.

The following balances at 31 December 2006 are available.

	£
Net profit	24 000
Debtors	22 000
Creditors	54 000
Bank	14 000
Capital Employed	60 000
Stock	18 000

There were no other current assets and current liabilities at 31 December 2006.

REQUIRED

- (a) Calculate each of the following ratios:

- (i) return on capital employed; [2]
- (ii) current ratio; [2]
- (iii) liquid (acid test) ratio. [2]

(Where appropriate, calculations should be made to two decimal places.)

- (b) Comment on each of the ratios calculated in (a) above. [6]

- (c) Lindsay has been considering the future of her business and she needs to purchase £20 000 of fixed assets immediately. There are two methods by which Lindsay might finance the purchase.

- 30 days credit. This will result in a loss of £1 000 interest receivable for the next year;
- OR**
- obtaining a £20 000 10% business loan repayable in 5 years.

Evaluate the effect on the **profitability** and **liquidity** of her business of the purchase of fixed assets by each of the **two** alternative payment methods under consideration. [12]

Total marks [24]