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|---------------------|--|------------------|--|
| Surname             |  | Other Names      |  |
| Centre Number       |  | Candidate Number |  |
| Candidate Signature |  |                  |  |

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General Certificate of Education  
 January 2003  
 Advanced Subsidiary Examination



**ACCOUNTING**  
**Unit 3: Financial Accounting:**  
**Determination of Income**

**ACC3**

Wednesday 15 January 2003 Afternoon Session

**No additional materials are required.**  
 You may use a calculator.

Time allowed: 1 hour

**Instructions**

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions in the spaces provided.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Make and state any necessary assumptions.
- Do all rough work in this book. Cross through any work you do not want marked.

**Information**

- The maximum mark for this paper is 80. This includes up to 4 marks for the Quality of Written Communication.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

| For Examiner's Use               |      |        |      |
|----------------------------------|------|--------|------|
| Number                           | Mark | Number | Mark |
| 1                                |      |        |      |
| 2                                |      |        |      |
| 3                                |      |        |      |
| 4                                |      |        |      |
| 5                                |      |        |      |
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| Total (Column 1)                 |      | →      |      |
| Total (Column 2)                 |      | →      |      |
| Quality of Written Communication |      |        |      |
| TOTAL                            |      |        |      |
| Examiner's Initials              |      |        |      |

Answer **all** questions in the spaces provided.

**1**

**Total for this question: 5 marks**

“Stocks should be valued at the lower of cost or net realisable value.”

**REQUIRED**

(a) Complete the following sentence.

The above statement is an example of the ..... concept.  
*(1 mark)*

(b) Explain what is meant by the term “net realisable value”.

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*(4 marks)*

5

**TURN OVER FOR THE NEXT QUESTION**

**Turn over** ▶

2

**Total for this question: 13 marks**

Lee Brown started in business on 1 January 2001. His financial year end is 31 December.

His fixed assets cost £40 000 on 1 January 2001 and had an expected useful life of 10 years.

None of the fixed assets are expected to have any value at the end of their useful life.

At 31 December 2001 Lee used the straight-line method of providing for depreciation on his fixed assets.

For the year ended 31 December 2002 he changed his method of providing for depreciation to the reducing-balance method. He continues to use an annual rate of 10%.

Lee's draft profit for the year ended 31 December 2002 was £34 700 **before** provisions for depreciation on fixed assets had been charged to the profit and loss account.

**REQUIRED**

- (a) Calculate Lee's net profit after using the reducing-balance method of providing depreciation on fixed assets.

|  | <b>£</b>         |
|--|------------------|
| Lee's draft net profit for the year ended 31 December 2002   | 34 700           |
| Provision for depreciation on fixed assets                   | .....<br>_____   |
| Lee's revised net profit for the year ended 31 December 2002 | .....<br>=====   |
|  | <i>(4 marks)</i> |

- (b) Prepare a balance sheet extract showing Lee's fixed assets as at 31 December 2002 after charging depreciation using the reducing-balance method.

|                      | <b>£</b>                  |
|----------------------|---------------------------|
| Fixed assets at cost | 40 000                    |
| Depreciation         | .....                     |
| Net book value       | .....<br><i>(3 marks)</i> |

(c) Name **two** accounting concepts used when providing for depreciation of fixed assets.

Concept 1.....  
*(1 mark)*

Concept 2.....  
*(1 mark)*

(d) Explain **two** reasons why fixed assets depreciate.

Reason 1 .....  
.....  
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*(2 marks)*

Reason 2 .....  
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*(2 marks)*

**TURN OVER FOR THE NEXT QUESTION**

**Turn over** ►

3

**Total for this question: 21 marks**

The following is the summarised draft balance sheet as at 31 December 2002 for David Mark Ltd.

|                                   | £             | £              |
|-----------------------------------|---------------|----------------|
| <b>Fixed assets</b>               |               | 700 000        |
| <b>Current assets</b>             |               |                |
| Stock                             | 85 000        |                |
| Debtors                           | 60 000        |                |
| Bank                              | <u>17 000</u> |                |
|                                   | 162 000       |                |
| <b>Less current liabilities</b>   |               |                |
| Trade creditors                   | <u>37 000</u> | <u>125 000</u> |
|                                   |               | <u>825 000</u> |
| <b>Share capital and reserves</b> |               |                |
| Ordinary shares of 50 pence each  |               | 250 000        |
| 8% preference shares of £1 each   |               | 100 000        |
| Profit and loss account           |               | 400 000        |
| General reserve                   |               | <u>75 000</u>  |
|                                   |               | <u>825 000</u> |

The company's retained profit for the year, before appropriations, was £150 000, which has been included in the profit and loss account figure shown in the balance sheet above.

**Additional information**

The following have **not** yet been taken into consideration.

- (1) Transfer from profit and loss account to the general reserve £45 000.
- (2) A proposed final dividend on preference shares of £4000.
- (3) A proposed final dividend on ordinary shares of 7 pence per share.
- (4) An issue of 200 000 ordinary shares of 50 pence each at 75 pence per share.  
(Note these shares are not eligible for dividend in the year ended 31 December 2002.)

**REQUIRED**

- (a) Calculate the retained profit for the year ended 31 December 2002 after appropriations.

|  |         |
|--|---------|
|  | £       |
| Retained profit for the year as per draft final accounts | 150 000 |
| .....  |         |
| .....  |         |
| .....  |         |
| .....  |         |
|  | _____   |
| Corrected retained profit for the year                   | =====   |

*(4 marks)*



(c) State the type of business ownership that would have “Ltd” as part of its name.

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(2 marks)

(d) Assess the importance of the term “Ltd” to an ordinary shareholder in David Mark Ltd.

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(5 marks)

21

4

**Total for this question: 23 marks**

Dewray plc manufactures bedroom furniture.

All completed furniture is transferred to the trading account at cost plus 20%.

The following figures have been extracted from the trial balance of the company as at 31 December 2002 **after** calculating prime cost.

|  | <b>Dr</b>   | <b>Cr</b>   |
|--|-------------|-------------|
|  | <b>£000</b> | <b>£000</b> |
| Prime cost                                     | 1 207       |             |
| Factory overheads                              | 915         |             |
| Factory machinery at cost                      | 150         |             |
| Office equipment at cost                       | 60          |             |
| Provision for depreciation – factory machinery |             | 90          |
| – office equipment                             |             | 18          |
| Provision for unrealised profit                |             | 26          |
| Stocks as at 1 January 2002                    |             |             |
| work in progress at cost                       | 34          |             |
| finished goods at cost plus 20%                | 156         |             |
| Sales  |             | 3 460       |

**Additional information**

(1) All fixed assets are depreciated at 10% per annum on cost.

|   |             |
|---|-------------|
| (2) Stocks as at 31 December 2002 – raw materials at cost | <b>£000</b> |
| – work in progress at cost                                | 75          |
| – finished goods at cost plus 20%                         | 36          |
|   | 192         |



**REQUIRED**

(a) Prepare a summarised manufacturing account for the year ended 31 December 2002.

**Dewray plc**  
**Summarised Manufacturing Account for the year ended 31 December 2002**

|            | <b>£000</b> |
|------------|-------------|
| Prime cost | 1 207       |

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*(7 marks)*

**QUESTION 4 CONTINUES ON THE NEXT PAGE**

**Turn over** ▶

(b) Prepare a trading account for the year ended 31 December 2002.

**Dewray plc**  
**Trading Account for the year ended 31 December 2002** £000

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*(6 marks)*

(c) Calculate the amount of the adjustment to the provision for unrealised profit to be shown in the profit and loss account for the year ended 31 December 2002.

The amount of the adjustment to the provision for unrealised profit to be shown in the profit and loss account is:

£ .....

*Workings* .....

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*(4 marks)*

(d) Explain how the amount calculated in (c) should be shown in the profit and loss account.

.....  
.....  
.....

(2 marks)

(e) Complete the following extract from the balance sheet.

**Dewray plc**  
**Balance Sheet extract as at 31 December 2002**

**Current assets**

Stock – raw materials .....  
    – work in progress .....  
    – finished goods .....

.....  
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(4 marks)

**TURN OVER FOR THE NEXT QUESTION**

**Turn over** ►

5

**Total for this question: 14 marks**

Jill and her brother Jack have recently inherited £10 000 each. They wish to invest all of their inheritance in Multar plc.

They could invest in one of the following:

- ordinary shares;
- 7% preference shares;
- 6% debentures.

Jill does not mind taking risks with any money she has whereas her brother is a much more cautious person. He is looking for an investment which will give him a steady income.

**REQUIRED**

(a) State **one** advantage **and one** disadvantage of each type of investment.

**Ordinary shares**

Advantage.....

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.....

.....

*(1 mark)*

Disadvantage .....

.....

.....

.....

*(1 mark)*

**7% preference shares**

Advantage.....

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.....

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*(1 mark)*

Disadvantage .....

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.....

*(1 mark)*

**6% debentures**

Advantage.....  
.....  
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.....  
*(1 mark)*

Disadvantage.....  
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.....  
*(1 mark)*

(b) Advise Jill which type of investment she should choose.

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*(4 marks)*

**QUESTION 5 CONTINUES ON THE NEXT PAGE**

**Turn over** ►

(c) Advise Jack which type of investment he should choose.

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*(4 marks)*

14

**END OF QUESTIONS**