

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

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General Certificate of Education  
January 2004  
Advanced Subsidiary Examination



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

**ACC3**

Wednesday 14 January 2004 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			
6			
7			
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: 16 marks**

The draft balance sheet for Atul Patel's business as at 31 December 2003 has been prepared. However, adjustments need to be made for the following items.

1. No entry has been made for rent accrued and unpaid £400.
2. A bad debt £900 has not yet been written off.
3. £250 business rates for the period 1 January – 31 March 2004 has been entered in the profit and loss account for the year ended 31 December 2003. No other entries were made in the final accounts.
4. A vehicle with a net book value of £1500 was sold for £900 cash. No entries have been made in the books of account.
5. Repairs to a machine £1600 had been included in the machinery account.

**REQUIRED**

Show in the table below how each of the items listed above will affect the balance sheet. An example has been given.

	Fixed assets	Current assets	Current liabilities	Capital
Item 1	<i>No change</i>	<i>No change</i>	<i>Increase by £400</i>	<i>Reduce by £400</i>
Item 2				
Item 3				
Item 4				
Item 5				

*(16 marks)*

2

**Total for this question: 8 marks**

Consistency is a generally accepted accounting principle used in the preparation of financial statements.

**REQUIRED**

- (a) Explain what is meant by the principle of consistency.

Consistency means

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*(3 marks)*

- (b) Explain why it is important to apply the principle of consistency when preparing final accounts.

It is important to apply the principle of consistency because

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*(3 marks)*

- (c) Give **one** example of the use of consistency in the preparation of final accounts.

An example of the use of the principle of consistency is

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*(2 marks)*

8

**Turn over** ▶

3

**Total for this question: 10 marks**

The following information has been extracted from the books of Cora Smythe after preparing her draft final accounts.

	£
Net profit for the year ended 31 December 2003	21 630
Net current assets as at 31 December 2003	4 260

She has not yet made **any** entries to record the following.

Bad debts written off during the year	420
Increase in provision for doubtful debts at 31 December 2003	85
Wages owing at 31 December 2003	720
Insurance premiums paid in advance at 31 December 2003	135
Cash withdrawn for private use on 31 December 2003	210

**REQUIRED**

- (a) Calculate the corrected net profit for the year ended 31 December 2003 after recording the above entries. Show **all** the adjustments.

	£
Draft net profit for the year ended 31 December 2003	21 630

	_____
Corrected net profit for the year ended 31 December 2003	=====
	<i>(5 marks)</i>

- (b) Calculate the corrected total of net current assets as at 31 December 2003 after recording the above entries. Show **all** the adjustments.

	£
Draft net current assets as at 31 December 2003	4260

	_____
Corrected net current assets as at 31 December 2003	=====
	<i>(5 marks)</i>

10
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4

**Total for this question: 12 marks**

Tecyl Products is a manufacturing business. It transfers all goods manufactured to the trading account at production cost plus 20%.

The following figures relate to stocks held by the business.

	<b>as at 1 December 2002</b>	<b>as at 30 November 2003</b>
	<b>£</b>	<b>£</b>
Stocks of raw materials	27 000	28 000
work in progress	9 000	8 500
finished goods	22 200	23 400
Provision for unrealised profit	3 700	3 900

**REQUIRED**

- (a) Calculate the amount of provision for unrealised profit to be entered in the profit and loss account for the year ended 30 November 2003.

What effect will the change have on the gross profit?

The profit and loss entry is £ .....

The effect will be.....

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.....

*(3 marks)*

- (b) Show in detail how the information relating to **all** stocks should be shown on the balance sheet as at 30 November 2003.

**Tecyl Products**  
**Balance sheet extract as at 30 November 2003**

<b>Current assets – Stocks</b>	<b>£</b>
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*(5 marks)*

(c) Explain why it is necessary for Tecyl Products to provide for unrealised profit.

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*(4 marks)*

12

**TURN OVER FOR THE NEXT QUESTION**

**Turn over** ►

5

**Total for this question: 13 marks**

The following is an extract from the business balance sheet of Gorg Hammann as at 31 December 2002.

<b>Fixed assets</b>	<b>£</b>	<b>£</b>
Machinery at cost	170 000	
Depreciation to date	105 000	65 000

On 31 December 2003 Gorg purchased a new machine.

The cost of the machine was £30 000. To be settled as follows:

	<b>£</b>
Old machine trade-in	8 000
Deposit paid on 31 December 2003	11 000
Instalment to be paid on 31 May 2004	11 000

The old machine cost £24 000 on 1 January 2001 and had been depreciated by £18 000 up to 31 December 2003.

**REQUIRED**

- (a) Calculate the profit or loss on disposal of the old machine.

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(5 marks)

*Workings* .....

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- (b) Prepare a balance sheet extract as at 31 December 2003 showing **all** items relating to machinery. (No depreciation is to be charged on the new machine.)

**Gorg Hammann**  
**Balance sheet extract as at 31 December 2003**

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*(8 marks)*

13

**TURN OVER FOR THE NEXT QUESTION**

**Turn over** ►



6

**Total for this question: 10 marks**

Arthur wishes to purchase £1000 worth of ordinary shares in Cerne plc, a new company. The company has an authorised ordinary share capital of 1 000 000 ordinary shares of £1 each. The company is to issue the shares at a price of £2.50 each. Arthur says “I would like to purchase the authorised shares because they are cheaper than the issued shares.”

**REQUIRED**

- (a) Explain to Arthur the difference between the authorised ordinary share capital and the issued share capital of Cerne plc.

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*(6 marks)*

- (b) Explain to Arthur why the authorised shares have a nominal value of only £1 each and yet they are being issued at a price of £2.50 each.

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*(4 marks)*

10

7

**Total for this question: 7 marks**

Declan Murphy is stock-taking. He is unsure how to value three items shown below.

	<b>Item A</b>	<b>Item B</b>	<b>Item C</b>
Cost	£200	£300	£400
Selling price	£460	£450	£550
Net realisable value	£190	£300	£460

**REQUIRED**

(a) State the value of each item of stock to be included in Declan’s closing stock figure.

**Item A** should be valued at £.....

**Item B** should be valued at £.....

**Item C** should be valued at £ ..... *(3 marks)*

(b) Explain the importance of using the concept of prudence when valuing stock.

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*(4 marks)*

7

**END OF QUESTIONS**