

SECTION A

Answer TWO questions from this section

If you answer question 1, put a cross in this box (☑).

Source material for use with question 1 can be found on pages 2 and 3 of the source booklet.

- 1. (a) Prepare the:**
 - (i) book trading account for the year ended 30 April 2007 (below);
 - (ii) income and expenditure account for the year ended 30 April 2007 (on page 3);
 - (iii) balance sheet as at 30 April 2007 (on page 4).

Book Trading Account for the year ended 30 April 2007

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The policy of the Club is that all books held in stock for more than three months are valued at the lower of cost or net realisable value.

(b) Explain the term **net realisable value**.

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(2)

(c) Explain why the application of the **accruals (matching) concept** will be important in determining how the redecoration of the premises **and** the extension to the premises will be treated in the income and expenditure account.

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(4)

(d) Evaluate the decision of the Club to offer ten year subscriptions at a reduced rate.

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(4)

(Total 26 marks)

Q1

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If you answer question 2, put a cross in this box (☒).

Source material for use with question 2 can be found on pages 4 and 5 of the source booklet.

- 2. (a) Prepare for the year ended 30 April 2007, the:
 - (i) Manufacturing account, showing the production cost of the Regular and Premium;
 - (ii) Premium production line – machinery account;
 - (iii) Premium production line – provision for depreciation account;
 - (iv) Machinery disposal account.

Manufacturing Account for the year ended 30 April 2007

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Machinery Account

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Machinery – Provision for Depreciation Account

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Disposal Account

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(16)



7
Turn over

(b) Explain **three** characteristics of overhead expenses.

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(6)

(c) Evaluate the benefits of using straight line depreciation for production machinery rather than using reducing balance.

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(4)

(Total 26 marks)

Q2

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(b) Prepare, incorporating any adjustments required from (a), and showing the balance at 30 April 2007, the:

(i) purchases ledger control account;

(ii) sales ledger control account.

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(c) (i) Explain **two** limitations of the trial balance.

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(2)

(ii) Distinguish between **errors of principle** and **errors of reversal**.

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(2)

(d) Evaluate the contribution of control accounts in ensuring that the debtors and creditors accounts are always accurate.

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(4)

(Total 26 marks)

Q3

TOTAL FOR SECTION A: 52 MARKS



SECTION B

Answer THREE questions from this section

If you answer question 4, put a cross in this box (☑).

Source material for use with question 4 can be found on pages 8 and 9 of the source booklet.

- 4. (a) Prepare for the dissolution of the partnership, the:
 - (i) realisation account;
 - (ii) capital accounts of Gill and Hameed;
 - (iii) bank account.

Realisation Account

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Capital Accounts

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Bank Account

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(8)

(b) Explain:

- (i) the term **goodwill**;
- (ii) why goodwill would be entered into the books when the partnership is being dissolved.

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(c) Evaluate the need for a formal Partnership Agreement when trading as a partnership.

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(2)

Q4

(Total 16 marks)

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If you answer question 5, put a cross in this box (☒).

Source material for use with question 5 can be found on pages 10 and 11 of the source booklet.

5. (a) Calculate for both Jameel and Kalid the:

- (i) gross profit to sales percentage;
- (ii) rate of stock turnover;
- (iii) fixed assets to sales;
- (iv) current ratio;
- (v) liquid (acid test) ratio.

Gross Profit to Sales Percentage

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Rate of Stock Turnover

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Fixed Assets to Sales

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Current Ratio

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Liquid (Acid Test) Ratio

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(8)



(b) Explain the term **profitability**.

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(2)

(c) In each of (i) and (ii) below, identify **two** differences between the businesses of Jameel and Kalid from the point of view of:

(i) a customer visiting both retailers' premises;

(ii) a creditor of both retailers.

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(4)

(d) Evaluate the usefulness of accounting ratios in assessing the success of a business.

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(2)

(Total 16 marks)

Q5

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If you answer question 6, put a cross in this box (☒).

Source material for use with question 6 can be found on pages 12 and 13 of the source booklet.

6. (a) Explain each of the following terms, using an example:

- (i) fixed cost;
- (ii) semi-fixed cost.

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(4)

(b) Calculate for the year, the daily cost to:

- (i) hire the mini digger on its own;
- (ii) hire the mini digger together with Greg as the operator.

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(6)

- (c) (i) Comment on the two rates currently being charged by Greg.
- (ii) Explain **two** ways in which Greg could change his pricing policy to improve income from his mini digger hire service.

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(4)

- (d) Evaluate whether Greg should employ an accountant to assist his business.

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(2)

(Total 16 marks)

Q6

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If you answer question 7, put a cross in this box (☒).

Source material for use with question 7 can be found on pages 14 and 15 of the source booklet.

7. (a) Prepare the following ledger accounts for the year ended 31 March 2007. Each account should include the transfer to the profit and loss account for the year, and the balances to be carried down.
- (i) Provision for doubtful debts account.
 - (ii) Rent receivable account.
 - (iii) Telephone account.

Provision for Doubtful Debts Account

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Rent Receivable Account

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Telephone Account

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(b) Explain why:

- (i) a business might maintain a provision for doubtful debts account;
- (ii) the accounting concepts of **accruals** and **materiality** may be in conflict when preparing the final accounts of a business.

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(4)

(c) Evaluate the usefulness of accounting standards in the preparation of the final accounts of a business.

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(2)

Q7

(Total 16 marks)

TOTAL FOR SECTION B: 48 MARKS

TOTAL FOR PAPER: 100 MARKS

END

