

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ACCOUNTING

2502

Final Accounts

3808/7808

Wednesday

11 JANUARY 2006

Morning

1 hour

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.

Candidates may use calculators in this examination.

TIME 1 hour

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 question paper consists of 4 printed pages.

- 1 The following information is available for the general trading business of Delliton for the years 2004 and 2005.

<u>Trading and Profit and Loss Account for the year ended</u>				
	31 December 2004		31 December 2005	
	£'000	£'000	£'000	£'000
Sales		240		360
Opening stock	10		20	
Purchases	130		166	
	<u>140</u>		<u>186</u>	
Closing stock	20		26	
Cost of sales		<u>120</u>		<u>160</u>
Gross profit		120		200
Administrative expenses	40		80	
Marketing costs	20		50	
Depreciation	<u>20</u>		<u>30</u>	
		80		160
Net profit		<u>40</u>		<u>40</u>

The following information is available from the Balance Sheets:

	31 December 2004	31 December 2005
	£'000	£'000
Capital	150	220
Fixed assets	110	170
Working capital	40	50

REQUIRED

- (a) Calculate the following ratios for each of the two years:
- (i) gross profit as a percentage of sales; [4]
 - (ii) stock turnover; [4]
 - (iii) return on capital employed. [4]
- (Where appropriate, calculations should be made to one decimal place.)
- (b) Explain how a faster stock turnover can increase the profitability of a business. [4]
- (c) In the year 2005, the owner of Delliton set the objective of improving the profitability of the business by increasing the level of marketing expenditure.

Using the ratios calculated in part (a), together with other information available from the accounts, evaluate the success of the owner's objective to increase the profitability of the business. [12]

Total marks [28]

2 Craig Electrical has two departments: sales of spares and electrical repairs.

On 31 December 2005 the following balances were extracted from the accounts:

	£
Stock of spares 1 January 2005	10 420
Loose repair tools at valuation: 1 January 2005	9 000
Purchases of spares	41 910
Sales of spares	116 450
Receipts from customers for electrical repairs	98 700
Wages:	
Sales of spares	22 000
Electrical repairs	38 500
Management salaries	48 000
Rent, light and heating	14 500
Motor vehicle expenses	6 000
Fixed assets at cost:	
Shop fixtures	24 000
Vehicles	36 000
Provision for depreciation:	
Shop fixtures	8 000
Vehicles	20 000
Provision for doubtful debts	800
Debtors	22 500

Additional information:

- (i) Stock of spares as at 31 December 2005 £11 600.
- (ii) Management salaries are apportioned between sales of spares and electrical repairs on the basis of 3:2. Management salaries include £500 prepaid and the sum of £2 000 drawings by the owner.
- (iii) Purchases of spares £600 had been returned to the supplier on 30 December 2005. No entries have been made in the accounts to record this transaction.
- (iv) Rent, light and heating is apportioned between sales of spares and electrical repairs on the basis of 4:1. Rent of £500 is owing.
- (v) Spares with a cost price of £12 200 were drawn from stock for electrical repairs, but no entries were made in the books. A transfer from sales of spares to electrical repairs is necessary.
- (vi) Depreciation is charged on all fixed assets: Shop fixtures 25% per annum on cost using the straight line method. This is all charged to sales of spares. Vehicles 25% using the reducing balance method. This is all charged to electrical repairs. Loose repair tools using the revaluation method. On 31 December 2005, loose repair tools were valued at £7 500. This is all charged to electrical repairs.
- (vii) The provision for doubtful debts is to be maintained at 6% of debtors. All debtors are for electrical repairs.

REQUIRED

- (a) The Departmental Trading and Profit and Loss Account for the year ended 31 December 2005. (You are advised to present your answer in columnar format. A total column is not required.) [23]
- (b) Explain **two** advantages of preparing departmental accounts. [4]

Total marks [27]

[Turn over

- 3 Sundeep and Tracy are partners in a business. Their accounting year ended 31 December 2005. The partnership agreement states that they share profits and losses in the ratio 2:1. A salary of £9000 per annum is paid to Tracy. Interest on drawings is charged at 4% per annum on balances at the end of the year. There is no interest on capital payable.

The following balances have been extracted from the books at 31 December 2005:

	£
Capital Accounts:	
Sundeep	10 000
Tracy	6 000
Current Accounts:	
Sundeep	5 200 CR
Tracy	4 750 CR
Drawings:	
Sundeep	8 000
Tracy	15 250
Net profit	6 990

On 1 January 2006, Sundeep and Tracy agreed to admit Ravi as a partner. The following was agreed between the three partners.

- (i) On 31 December 2005, goodwill was valued at £9000. Goodwill will not remain in the books of the new partnership.
- (ii) Ravi would bring £10000 in cash and £2000 in stock into the partnership as capital.
- (iii) The partners would share profits and losses: one half Sundeep, one quarter Tracy, one quarter Ravi.

REQUIRED

- (a) The Appropriation Account for Sundeep and Tracy for the year ended 31 December 2005. [5]
- (b) (i) The Current Accounts for Sundeep and Tracy as at 31 December 2005. [5]
(ii) The Capital Accounts for Sundeep, Tracy and Ravi as at 1 January 2006. [8]
- (c) Explain the significance of a debit balance on a partner's current account. [2]
- (d) State the provisions of the Partnership Act 1890 which would apply in the absence of a Partnership Agreement. [5]

Total marks [25]