

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

ACCOUNTING

2502

Final Accounts

3808/7808

Wednesday

7 JUNE 2006

Afternoon

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 Westcliff Art Club prepares accounts annually on 31 December. The Receipts and Payments Account for the year ended 31 December 2005 was as follows:

	£		£
Sale of art materials	3 415	Balance b/f	145
Exhibition receipts	940	Heating and lighting	790
Subscriptions received		Insurance	65
for the year 2004	70	Purchase of art materials	1 760
2005	1 140	Premises maintenance	630
2006	85	Deposit account	400
Balance c/f	40	Exhibition expenses	380
		Rent	1 120
		Equipment purchase	400
	<u>5 690</u>		<u>5 690</u>

Additional information:

- (i) The deposit account pays a fixed rate of interest of 5% per annum. A single deposit of £400 was made into the account on 1 July 2005. There were no withdrawals made during the year. Interest due to 31 December 2005 had not been received.
- (ii) The remaining assets and liabilities of the Club at the beginning and end of the year were:

	1 January 2005	31 December 2005
	£	£
Stocks of art materials	490	365
Equipment at book value	4 500	4 600
Subscriptions due and unpaid	95	110
Subscriptions paid in advance	160	85
Deposit account	800	1 200
Rent prepaid	120	–
Rent in arrears	–	260

- (iii) The Accumulated Fund at 1 January 2005 was £5 700.
- (iv) All subscriptions due for the year 2004 but unpaid on 31 December 2005, were considered to be bad debts.

REQUIRED

- (a) The Trading Account for art materials for the year ended 31 December 2005. [4]
- (b) The Income and Expenditure Account for the year ended 31 December 2005. [16]
- (c) The Balance Sheet as at 31 December 2005. [10]

Total marks [30]

- 2 Fidel and Grant are in partnership as estate agents sharing profits and losses in the ratio 5:4. Interest is paid on capital at the rate of 4% per annum and charged on drawings at the rate of 6% per annum. Interest on capital and drawings are calculated on the closing balance. Salaries are paid at the rate of Fidel £8 000 per annum and Grant £6 000 per annum.

On 31 May 2006 the following balances were extracted from the partnership books:

	£
Commission received	112 000
Rent paid	11 550
Rent received	5 000
Debtors	9 200
Creditors	6 390
Heat and light	4 990
Fixtures and fittings at cost	48 000
Administration salaries	38 000
Insurance	1 150
Provision for depreciation on fixtures and fittings	15 500
Provision for doubtful debts	650
Advertising expenses	23 100
Wages	8 600
Capital Accounts	
Fidel	20 000
Grant	16 000
Drawings	
Fidel	15 000
Grant	12 500

Additional information:

- (i) Administration salaries of £38 000 include in error £3 000 salary paid to Fidel and £2 000 salary paid to Grant.
- (ii) Insurance includes a prepayment of £600.
- (iii) Advertising expenses due amounted to £1 300.
- (iv) Wages include an interest free loan of £500 made to an employee repayable on 31 December 2006.
- (v) Depreciation is provided on fixtures and fittings at 20% per annum using the reducing balance method.
- (vi) Provision for doubtful debts is to be maintained at 5% of debtors.

REQUIRED

- (a) The Profit and Loss and Appropriation Account for the year ended 31 May 2006. [19]
- (b) Fidel and Grant are considering increasing the number of partners in the business. Explain **three** advantages to Fidel and Grant of increasing the number of partners in the business. [6]

Total marks [25]

- 3 The following balances were extracted from the accounts of Taylor & Co, a general trading business, at the year ended 30 April 2006.

	£
Debtors	40 000
Stock	87 000
Bank overdraft	9 000
Prepaid expenses	1 000
Fixed assets	65 000
Creditors	55 000
Capital	80 000

There were no other current assets or current liabilities.

Additional information:

Ratios for the year ended 30 April 2006:

	Taylor & Co	Sector Average
Gross profit as a percentage of sales	30%	40%
Net profit as a percentage of sales	5%	20%
Stock turnover	13 times	8 times
Return on capital employed	3%	12%
Current ratio		1.9:1
Liquid (acid test) ratio		1:1

REQUIRED

- (a) Calculate for Taylor & Co the:

- (i) current ratio; [3]
- (ii) liquid (acid test) ratio. [3]

(Where appropriate, calculations should be made to one decimal place.)

- (b) (i) Explain the terms liquidity and profitability. [4]
- (ii) Explain why liquidity is important to a new business for its short term survival. [3]
- (c) Using the ratios given, together with those calculated in part (a), evaluate the liquidity and profitability of Taylor & Co compared to the sector average. [12]

Total marks [25]