OCR
RECOGNISING ACHIEVEMENT

ADVANCED SUBSIDIARY GCE UNIT **F002**

ACCOUNTING

Financial Accounting

THURSDAY 11 JANUARY 2007 Morning

Time: 1 hour 30 minutes

Each candidate must be given:
(1) one copy of this question paper, F002;
(2) one 8 page Answer Book.
Item (2) is sent with the stationery parcel.
Candidates may use calculators in this examination.

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 100.

QUALITY OF WRITTEN COMMUNICATION (QWC)

* In these two questions/sub-questions, you will be assessed on the quality of your written communication. In one of these questions, the focus will be on your ability to present numerical information legibly and in an appropriate accounting format. In the other, you will be assessed on the legibility and style of writing, the clarity and coherence of your arguments and the accuracy of your spelling, punctuation and grammar.

This document consists of **6** printed pages and **2** blank pages.

1 RW Ltd uses control accounts to check the accuracy of its debtors and creditors as shown by its double entry book keeping system. The Sales Ledger Control Account and the Purchases Ledger Control Account for the financial year ended 31 December 2006 have been prepared from the following information.

1 January 2006 balances b/d:

	£
Sales Ledger Control Account	262 000 Dr
Purchases Ledger Control Account	307 000 Cr

Totals for the year 1 January 2006 to 31 December 2006:

Credit sales	376 000
Credit purchases	287 500
Sales returns	12 700
Purchases returns	13 700
Cheques received from debtors	327 800
Cash received from debtors	18 200
Cheques paid to creditors	212 700
Discounts received	7 600
Discounts allowed	8 800
Dishonoured cheques from debtors	4 500

At the financial year end 31 December 2006, RW Ltd's Schedule of Debtors had a total of £267 000, which differed from its Sales Ledger Control Account balance at that date.

At the same date, RW Ltd's Schedule of Creditors had a total of £324 000, which differed from its Purchases Ledger Control Account balance at that date.

Subsequent investigation revealed the following.

(i) The total of sales in the Sales Journal had been undercast by £66 500.

(ii) A cheque received from a debtor for £2 500, correctly processed through the books, had subsequently been dishonoured. The books have not yet been adjusted to reflect this.

(iii) £4 000 purchases made on 30 December 2006 were correctly entered in the Purchases Journal but had not been posted to the individual supplier's account in the Purchases Ledger.

(iv) A credit sale to T. Cook for £45 200 had been correctly entered in the Sales Journal but had not been posted to T. Cook's account.

(v) D. Hubbard is both a customer and a supplier to RW Ltd. He purchased goods to the value of £62 500 from RW Ltd and supplied RW Ltd with goods to the value of £32 500. The correct entries have been made in the Sales Ledger and the Purchases Ledger but no contra entries have been made in the control accounts.

(vi) Purchases of £15 300 from a supplier had been found to be unsuitable and were returned on 14 December 2006. This transaction to record the return had not been processed through the books.

(vii) A cheque for £6 200 sent to a supplier, for goods received, had been returned to RW Ltd as it had not been signed. As at 31 December 2006 a replacement cheque had not been issued and the return of the original cheque had not been recorded in RW Ltd's books.

(viii) Sales returns of £3 200 had been correctly entered in the Sales Returns Journal but had not been posted to the individual debtor's account.

REQUIRED

(a) A corrected Sales Ledger Control Account for the year ended 31 December 2006. [11]

(b) A corrected Purchases Ledger Control Account for the year ended 31 December 2006. [10]

(c) Statements reconciling:

(i) The Schedule of Debtors total with the corrected balance in the Sales Ledger Control Account. [5]

(ii) The Schedule of Creditors total with the corrected balance in the Purchases Ledger Control Account. [5]

(d) Explain why books of prime (original) entry are important in the production of control accounts. [4]

Total marks [35]

2 Pritchard and Singh had been in partnership for a number of years. As good friends, they had never drawn up a formal partnership agreement. On 1 January 2006, the first day of the partnership's financial year, they admitted Jones as a partner. Jones paid £40 000 capital into the partnership and also brought a motor vehicle, valued at £7 000, for partnership use.

As the number of partners had increased, a formal partnership agreement was drawn up, effective from 1 January 2006. From this date:

(i) Partners share profits in the ratio Pritchard 2/5, Singh 2/5, Jones 1/5.

(ii) Interest on capital is payable at the rate of 10% on the balance of capital as shown in the partners' capital accounts at the end of each financial year.

(iii) Interest on drawings is charged at 5% on the balance of drawings as shown in the partners' current accounts at the end of each financial year.

(iv) Singh would receive a salary of £10 000 per annum.

On 1 January 2006 goodwill in the business was valued at £40 000 and the partners agreed that this would not remain in the books.

The following information relates to the year ended 31 December 2006.

		£	
Sales		2 600 000	
Sales returns		200 000	
Purchases		1 625 000	
Stock at 1 January		120 000	
Stock at 31 December		145 000	
General expenses		480 000	
Capital account balances (before goodwill) at 1 January			
	– Pritchard	120 000	
	– Singh	80 000	
Current account balances at 1 January			
	– Pritchard	17 000	Cr
	– Singh	12 000	Dr
Drawings	– Pritchard	96 000	
	– Singh	120 000	
	– Jones	35 000	

REQUIRED

(a) Capital Accounts for each of the partners for the year ended 31 December 2006. [7]

(b)* The Trading and Profit and Loss and Appropriation Account for the year ended 31 December 2006. [15]

(c) Current Accounts for each of the partners for the year ended 31 December 2006. [10]

(d) The partners are considering changing their business from a partnership to a private limited company. Discuss the benefits and drawbacks to the partners of such a change. [9]

Total marks [41]

3 Ashover and Leek are two businesses that compete in the same market and have been trading for a number of years.

The following information relates to their results for the year ended 31 December 2006.

	Ashover £000's	Leek £000's
Sales	4000	4600
Cost of sales	2285	2300
Net profit	960	990
Stock at 1 January	690	455
Stock at 31 December	910	435
Capital employed	2218	1733
Debtors	470	1230
Bank	50	940
Creditors	650	620

There are no other current assets or current liabilities.

REQUIRED

(a) Calculate the following ratios (to two decimal places) for each of the two businesses.

(i) Return on capital employed [2]

(ii) Gross profit as a percentage of sales [2]

(iii) Net profit as a percentage of sales [2]

(iv) Current ratio [2]

(v) Liquid (acid test) ratio [2]

(vi) Stock turnover [2]

(b)* Discuss which of the two businesses appears to be performing better. [12]

Total marks [24]

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