

**ADVANCED SUBSIDIARY GCE
ACCOUNTING**

F001

Accounting Principles

THURSDAY 10 JANUARY 2008

Morning

Time: 1 hour 30 minutes

Additional materials (enclosed): Answer Booklet (8 page)

Additional materials (required):
Calculators may be used



INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- You must show the calculations leading to your answers.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- The quality of your written communication will be taken into account when marking your answers to questions labelled with an asterisk (*).
- 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* On 30 September 2007 the following information was available from the books of Jill Sport, a sole trader.

	Dr	Cr
	£	£
Debtors	20 000	
Creditors		14 100
Bank		1 500
Stock	8 000	
Sales		189 000
Sales returns	1 400	
Purchases	97 000	
Carriage inwards	1 200	
Carriage outwards	800	
Rent	13 000	
Insurance	2 100	
Salaries	28 400	
Discounts received		900
Discounts allowed	1 250	
General expenses	6 600	
Repairs and maintenance	3 500	
Bad debts	450	
Provision for doubtful debts		100
8% Loan		15 000
Loan interest	1 100	
Shop fittings	40 000	
Provision for depreciation of shop fittings		9 000
Motor vehicles	28 000	
Provision for depreciation of motor vehicles		6 000
Drawings	18 800	
Capital		36 000
	271 600	271 600

The following information is also available.

- (i) The closing stock as at 30 September 2007 was valued at £18 000.
- (ii) At 30 September 2007, salaries owing amounted to £600; whilst general expenses prepaid amounted to £450.
- (iii) At 30 September 2007, one month's interest is due on the loan. The loan is repayable in full during the year ending 30 September 2008.
- (iv) Jill Sports incurs rent of £1 000 per month and this has been paid up to 31 October 2007.
- (v) The provision for doubtful debts is to be adjusted to 2% of debtors.
- (vi) Included in the repairs and maintenance is a payment for £1 000 to repair Jill Sport's private house.

- (vii) Shop fittings at a cost price of £3 000 were purchased on 1 April 2007. This was the only item of shop fittings purchased during the year and is included in the balance for shop fittings. There were no disposals during the year.
- (viii) Depreciation is to be provided as follows:
- | | |
|----------------|--|
| Shop fittings | 10% per annum on cost, using the straight line method. The rate being charged for each proportion of the year the asset is held. |
| Motor vehicles | 25% by the reducing balance method. There were no additions or disposals during the year. |

REQUIRED

The Trading and Profit and Loss Account for the year ended 30 September 2007 **and** the Balance Sheet as at 30 September 2007.

Total marks [44]

- 2 Penny Case started business on 1 January 2006. At the end of the first year in business she decided to set up a provision for doubtful debts calculated at 3% of debtors. Debtors as at 31 December 2006 amounted to £160 000.

During the period 1 January 2007 to the 30 November 2007, Penny Case wrote off bad debts totalling £1 600. The debtors as at 31 December 2007 amounted to £182 000; however, Penny Case has not yet processed the following transactions, which need to be dealt with in the accounts of the business.

- (i) S Tapler, a debtor who owed £5 000, had been declared bankrupt in December 2007. Penny Case received payment of £0.40 in the pound in final settlement. The remainder of the debt is to be written off.
- (ii) Penny Case has also decided to write off other bad debts totalling £2 300.

On 31 December 2007 Penny also decided to adjust the provision for doubtful debts to cover a specific debt of £1 700, plus a general provision of 3% of the remaining debtors.

REQUIRED

- (a) Calculate the amount which Penny Case should provide as a provision for doubtful debts for the year's ended:
 - (i) 31 December 2006; [1]
 - (ii) 31 December 2007. [3]
- (b) The following ledger accounts for the year ended 31 December 2007, showing (where appropriate) the transfer to the final accounts at the end of the year.
 - (i) Provision for Doubtful Debts. [4]
 - (ii) Bad Debts. [4]
 - (iii) S Tapler. [3]
- (c) The Profit and Loss Account extract for the Provision for Doubtful Debts and Bad Debts for the year ended 31 December 2007. [2]
- (d) The balance sheet extract as at the 31 December 2007 for debtors (net). [2]
- (e) Explain why a business would create a provision for doubtful debts. [4]
- (f) Discuss **three** factors which should be used in determining provision for doubtful debts. [9]

Total marks [32]

3 Ralph is in business and it has a financial year ended 31 December 2007. He is unsure how to deal with the following transactions in the accounts of the business.

- (i) On 1 December 2007, Ralph started an agreement to rent additional premises. On this date he paid £7 200 by cheque to cover the rent for the period 1 December 2007 to 31 May 2008. He intends to charge all of this payment to his Profit and Loss Account for the year ended 31 December 2007. An equal amount is charged for rent each month.
- (ii) During the year ended 31 December 2007, Ralph's general expense account showed that he paid £15 000. This includes an amount of £2 500 for the family holiday which has been paid out of the business bank account.
- (iii) In December 2007, Ralph was negotiating a sale of goods to the value of £10 000. He was fairly certain that during January 2008, the client would sign the contract to purchase the goods. He planned to include this amount in the sales figures for the year ending 31 December 2007.
- (iv) Ralph feels that his management team is an asset to the business and wants to include the team at a value of £50 000 on the balance sheet of the business.

REQUIRED

- (a)* Advise Ralph how he should deal with **each** of the above transactions in his final accounts, identifying and applying appropriate accounting concepts. [18]
- (b) The following ledger accounting entries to record transactions **(i) and (ii)** above for the year ended 31 December 2007, showing (where appropriate) the transfers to the final accounts.
- (i) Rent. [3]
 - (ii) General expenses. [3]

Total marks [24]

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