

**ADVANCED SUBSIDIARY GCE
ACCOUNTING**

Financial Accounting

MONDAY 2 JUNE 2008

F002

Afternoon
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, 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 the 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 The Walton Heath Tennis Club prepares accounts annually on 31 March. The Receipts and Payments Account for the year ended 31 March 2008 prepared by the Treasurer is as follows.

	£		£
Balance b/d	1 050	Salaries – groundsman	3 400
Subscriptions received		– bar staff	4 900
for the year 2006–2007	2 700	Bar purchases	8 500
2007–2008	12 000	Premises – extension	9 500
2008–2009	5 500	– maintenance	4 150
Club disco receipts	1 800	Equipment purchase	6 870
Bar takings	11 800	Club disco costs	1 570
Balance c/d	8 290	Heat and light	2 300
		Insurance	1 950
	<u>43 140</u>		<u>43 140</u>

The following additional information is available:

- (i) All subscriptions received were paid by cheque.
- (ii) All subscriptions are due on 1 April each year and are valid until 31 March of the following year.
- (iii) All subscriptions due for the year ending 31 March 2007 but remaining unpaid on 31 March 2008 are to be treated as bad debts.
- (iv) Bar staff salaries are the only expense chargeable to the Bar Trading Account.
- (v) The remaining assets and liabilities of the Club at the beginning and end of the year were:

	1 April 2007 £	31 March 2008 £
Premises	250 000	249 120
Equipment	59 600	53 176
Bar stocks	2 470	5 050
Insurance prepaid	350	490
Subscriptions due and unpaid	3 300	4 200
Subscriptions paid in advance	4 800	5 500
Creditors – bar purchases	600	570
Accumulated fund	311 370	?

REQUIRED

- (a) The Subscriptions Account for the year ended 31 March 2008. [8]
- (b) The Bar Trading Account for the year ended 31 March 2008. [7]
- (c)* The Income and Expenditure Account for the year ended 31 March 2008 and the Balance Sheet as at that date. [27]
- (d) The Treasurer is concerned about the financial state of the Club. Explain **two** ways in which the Club could improve its finances. [6]

Total marks [48]

- 2 The Sales Ledger Control Account for Kaynine Ltd for the year ended 31 December 2007 has been prepared from the following information.

	£
Debit balance b/d 1 January 2007	105 000
Credit balance b/d 1 January 2007	6 800

Totals for the year 1 January 2007 to 31 December 2007:

Cash sales	65 000
Credit sales	750 000
Cash received from debtors	5 800
Cheques received from debtors	698 000
Sales returns from debtors	9 200
Contra purchases ledger	18 700
Discounts allowed	16 200
Dishonoured cheques	9 300

There was no debit balance c/d at 31 December 2007.

The Sales Ledger Control Account balance did not agree with the total shown in the Schedule of Debtors of £114 450. The following errors were discovered:

- (i) A cheque for £18 300 received from a debtor had been correctly posted to the Cash Book but omitted from the Sales Ledger.
- (ii) Two debtor balances are more than six months old. A. Baker owes £5 250 and S. Briggs owes £4 700. It was decided to make a specific provision for the full amount of A. Baker's debt and to write off in full the amount owed by S. Briggs as a bad debt.
- (iii) A credit sale of £8 950 to P. Winter had been correctly recorded in the Sales Journal but had not been posted to the Sales Ledger.
- (iv) A cheque for £4 500 received from B. Brookes, a debtor, was subsequently dishonoured. This had been correctly recorded in the Cash Book but the double entry had not been posted to the Sales Ledger.

REQUIRED

- (a) A corrected Sales Ledger Control Account for the year ended 31 December 2007. [12]
- (b) A statement reconciling the total of the Schedule of Debtors with the corrected balance on the Sales Ledger Control Account. [7]
- (c) Discuss **three** advantages of using control accounts. [9]

Total marks [28]

- 3 Rahee Patel is the owner of a retail furniture business. He has just received the financial accounts for his business for the year ending 31 March 2008 from his accountant and these are reproduced below, with the previous year's accounts for comparison.

Trading and Profit and Loss Account for the year ended:

	31 March 2007	31 March 2008
	£	£
Sales	350 000	382 000
Cost of sales	<u>195 000</u>	<u>201 000</u>
Gross profit	155 000	181 000
Expenses	<u>130 000</u>	<u>136 500</u>
Net profit	<u>25 000</u>	<u>44 500</u>

Balance Sheet as at:

	31 March 2007		31 March 2008	
	£	£	£	£
<i>Fixed Assets</i>		250 000		240 000
<i>Current Assets</i>				
Stock	120 000		137 300	
Debtors	22 000		35 000	
Bank	9 500		—	
Cash	<u>50</u>		<u>2 000</u>	
	151 550		174 300	
<i>Current Liabilities</i>				
Creditors	32 000		19 000	
Bank	<u>—</u>		<u>8 500</u>	
	32 000		27 500	
<i>Working Capital</i>		<u>119 550</u>		<u>146 800</u>
		<u>369 550</u>		<u>386 800</u>
<i>Financed by:</i>				
Capital at 1 April		367 850		369 550
Net Profit		<u>25 000</u>		<u>44 500</u>
		392 850		414 050
Drawings		<u>23 300</u>		<u>27 250</u>
		<u>369 550</u>		<u>386 800</u>

Note: Stock on 1 April 2006 was valued at £92 000.

Rahee Patel has also obtained comparative information about his competitors for the years ended 31 March 2007 and 31 March 2008.

Competitors year ending:	31 March 2007	31 March 2008
Net profit as a % of sales	23%	25%
Return on capital employed	15.1%	15.5%
Current ratio	3.5:1	3.2:1
Liquid (acid test) ratio	1.9:1	2.1:1
Stock turnover	2.9 times	3 times

REQUIRED

- (a)** Calculate each of the listed ratios (to **two** decimal places) for Rahee Patel's business for the years ended 31 March 2007 **and** 31 March 2008.

Note: Return on Capital Employed is based on capital employed at the end of the year. [10]

- (b)*** Based on the ratios calculated in **(a)** above and all other information provided, evaluate the performance (profitability and liquidity) of Rahee Patel's business. [14]

Total marks [24]

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