

Section A

Answer ALL questions

Question 1

For each question, choose the best answer **A**, **B**, **C** or **D** and write it in the box.

(a) Sales invoices are entered first in the

- A** cash book
- B** sales journal
- C** purchases journal
- D** sales account

(1)

(b) Cash discount is given when

- A** payment is made by cash only
- B** a large quantity of goods are purchased
- C** payment is made within a previously agreed time period
- D** purchases are not made on credit

(1)

(c) Capital expenditure is

- A** contributed by the business owner
- B** received from selling fixed assets
- C** spent on buying fixed assets
- D** spent on day to day running of the business

(1)

(d) Material purchased was debited incorrectly to the motor vehicles account. The effect on the profit and loss account would be

- A** net profit (only) understated
- B** net profit (only) overstated
- C** net profit unaffected
- D** both gross profit and net profit affected

(1)

(e) Rent owing is normally shown as a

- A** current asset in the balance sheet
- B** debit balance brought down in the rent account
- C** fixed asset in the balance sheet
- D** credit balance brought down in the rent account

(1)



- (f) On a motor vehicle purchased for £20 000, depreciation is 25% reducing balance. After two years the net book value of the vehicle is
- A £8 750
 - B £10 000
 - C £11 250
 - D £15 000

(1)

- (g) A bank reconciliation statement is
- A sent by the bank when an account is overdrawn
 - B prepared by a business to verify the cash book balance with the bank statement balance
 - C sent by the bank when a business has made an error
 - D prepared by the bank to verify the cash book

(1)

- (h) The word 'limited' after a business name indicates
- A the number of shareholders has a limit
 - B only a limited number of debentures can be issued
 - C shareholders' liability for business debts is limited
 - D there is a limited number of businesses of this type

(1)

- (i) Which one of the following should be included in a limited company's appropriation account?
- A debenture interest
 - B audit fees
 - C depreciation
 - D interim dividends

(1)

- (j) A limited company has an authorised capital of 100 000 shares of 50 pence each. The issued capital is £40 000 fully paid. The directors declare a dividend of 10 pence per share. Which one of the following is the correct amount of dividend?
- A £4 000
 - B £8 000
 - C £10 000
 - D £20 000

(1)

Q1

(Total 10 marks)



Question 2

Throughout Question 2, assume that the rate of VAT is 10%

Steven Brock is a wholesaler of electrical goods. He buys and sells mainly on credit terms. Currently none of his suppliers offer cash discount.

On the 1 April 2007 his purchases ledger contained the following credit balances.

T Farmer	£1 500
D Poynter	£4 500
H Judd	£6 000
D Jones	£3 000

The following are extracts from his books for April 2007.

Purchases Journal

Date	Narration	Goods	VAT	Total
		£	£	£
April 1	T Farmer	1 250	125	1 375
April 5	H Judd	2 000	200	2 200
April 13	D Poynter	500	50	550
April 21	T Farmer	2 750	275	3 025
April 28	D Jones	750	75	825
	Totals for Month	7 250	725	7 975

Returns Outwards Journal

Date	Narration	Goods	VAT	Total
		£	£	£
April 3	T Farmer	200	20	220
April 8	D Poynter	50	5	55
April 18	D Jones	140	14	154
April 29	H Judd	70	7	77
	Totals for Month	460	46	506



**Cash Book (Credit Side)
Bank Column**

Date	Narration	Bank
		£
April 1	Balance b/d	3 500
April 3	Purchases (including VAT)	240
April 5	T Farmer	1 500
April 8	D Jones	3 000
April 15	Purchases (including VAT)	600
April 21	H Judd	6 000
April 30	Wages	1 500
April 30	Stationery (including VAT)	120

The Journal

Date	Narration	Debit	Credit
		£	£
April 21	T Farmer (Purchases Ledger)	500	
	T Farmer (Sales Ledger)		500
	Being transfer of balance in sales ledger offset against balance in purchases ledger		



- (a) Prepare the account of T Farmer in Steven Brock's purchases ledger. Balance the account on 30 April 2007 and bring the balance down.

T Farmer Account

Date	Narration	£	Date	Narration	£

(6)

- (b) Prepare the total creditors account for the month of April 2007. Balance the account on 30 April 2007 and bring the balance down.

Purchase Ledger Control Account

Date	Narration	£	Date	Narration	£

(6)



(c) Explain **two** ways in which Steven might find the total creditors account useful in the running of the business.

(i)

 (2)

(ii)

 (2)

At the end of April, Steven is advised that one of his debtors, A Carter, is unable to pay his outstanding amount of £500. Steven decides to write this off as a bad debt.

(d) Set out the journal entry for this transaction.

The Journal

Date	Narration	Debit	Credit
		£	£

(3)



Steven has experienced problems in the past year in collecting payments from credit customers. He has been advised by his accountant to introduce a provision for doubtful debts account at the end of the accounting period.

- (e) State the double entry required to create the provision for doubtful debts at the end of the accounting period.

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..... (1)

- (f) Using the provision for doubtful debts as an example, evaluate the importance of the prudence concept to the preparation of the trading and profit and loss account and the balance sheet.

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..... (5)

(Total 25 marks)

Q2



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Question 3

Michael and Morgan are partners in a retail business. Their partnership deed states that:

- (i) Michael is to receive a salary of £30 000 per annum.
- (ii) Remaining profits or losses are to be shared:

Michael 2/5
Morgan 3/5.

On 30 September 2007, after the trading account had been prepared, the following balances were extracted from the partnership's books.

	£
Capital Account: Michael	50 000
Morgan	40 000
Current Account: Michael (debit)	1 500 (debit)
Morgan (credit)	2 000 (credit)
Drawings: Michael	9 650
Morgan	8 200
Shop Fittings	76 000
Provision for Depreciation: Shop Fittings	28 000
Gross Profit	385 000
Administration Expenses	6 790
Advertising	7 375
Discounts Received	15 000
Rent and Rates	12 000
Wages and Salaries	135 000

The following additional information is available at 30 September 2007.

- Staff salaries of £5 000 were outstanding
- Depreciation on shop fittings to be charged at the rate of 25% per annum using the reducing balance method
- On 1 January 2007 a payment of £6 000 was made for rates for the year ending 31 December 2007.
- No entry has been made in the books for advertising charges of £125 which Michael had paid from his private funds



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(b) Prepare the current account of Michael as it would appear in the ledger.

Michael – Current Account

Date	Narration	£	Date	Narration	£

(7)



(c) Prepare a balance sheet extract for the partnership as at 30 September 2007, showing in detail the partners' capital and current accounts.

**Michael and Morgan
Balance Sheet Extract
As at 30 September 2007**

(8)

Q3

(Total 25 marks)

TOTAL FOR SECTION A: 60 MARKS



Section B**Answer ALL questions****Question 4**

Joey Peterson is a manufacturer of musical instruments. The following balances were extracted from the business records at the end of the financial year, 30 June 2007.

	£
Stocks at 1 July 2006:	
Raw materials	81 600
Work in progress	125 300
Finished goods	115 440
Stocks at 30 June 2007:	
Raw materials	94 500
Work in progress	154 300
Finished goods	85 440
Insurance	66 900
General expenses	43 200
Factory rent and rates	96 000
Selling and distribution expenses	29 700
Direct factory power	40 000
Purchases of raw materials	314 000
Direct factory wages	450 000
Indirect factory wages	98 600
Administration staff salaries	136 800
Sales of finished goods	2 000 000

The following additional information is available at 30 June 2007 and is to be taken into account:

- Direct factory wages £8 900 are accrued
- Insurance £6 900 is prepaid
- Factory plant and machinery is to be depreciated by £50 000
- Expenditure on insurance and general expenses is to be allocated on the following basis: Factory one third, Administration two thirds



(a) Prepare a manufacturing account for the year ended 30 June 2007 showing clearly:

- Cost of raw materials consumed
- Prime cost
- Cost of production

Joey Peterson
Manufacturing Account
For year ended 30 June 2007

(12)



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(b) Prepare a Trading Account for the year ended 30 June 2007 showing clearly:

- **Cost of Goods Sold**
- **Gross Profit**

**Joey Peterson
Trading Account
For year ended 30 June 2007**

(4)

Q4

(Total 16 marks)



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Question 5

Cruise Furnishings and Holmes Supplies are two rival businesses. The following information has been extracted from their recent sets of accounts:

	Cruise Furnishings	Holmes Supplies
Results for Year Ended 31 August 2007	£000	£000
Turnover	1 800	2 400
Cost of Sales	1 200	1 800
Average Stock	120	150
Gross Profit	600	600
Net Profit	150	160

	Cruise Furnishings	Holmes Supplies
Balances at 31 August 2007	£000	£000
Fixed Assets	2 136	2 910
Current Assets	210	180
Stock (included in Current Assets)	111	120
Current Liabilities	66	60
Long Term Liabilities	30	2 070
Owner's Capital	2 250	960

(a) Calculate the following for both businesses to two decimal places:

(i) The gross profit margin

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..... (2)

(ii) The net profit margin

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..... (2)



(iii) Current ratio

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(2)

(b) Calculate the rate of stock turnover for Cruise Furnishings.

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(1)

The owner of Holmes Supplies believes the performance of her business is superior to that of her rival, Cruise Furnishings.

(c) Using figures and including both profitability and liquidity, evaluate the owner's belief.

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(5)

(Total 12 marks)

Q5

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Question 6

(a) Define each of the following terms:

Accumulated Fund

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(1)

Surplus

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(1)

(b) Where should the items below appear in the balance sheet of a sports club?

Subscriptions in arrears

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(1)

Rent of cricket pitch accrued

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(1)

(c) (i) What is the purpose of a receipts and payments account?

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(1)

(ii) In which section of the balance sheet would the debit balance of the receipts and payments account be shown?

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(1)



(iii) Name **one** item that would appear in the receipts and payments account but **not** in the income and expenditure account.

..... (1)

(iv) Name **one** item that would appear in the income and expenditure account but **not** in the receipts and payments account.

..... (1)

(d) A sports club has received a donation of £10 000 from a local business. Explain, giving reasons, how the club should account for this donation.

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(4)

Q6

(Total 12 marks)

TOTAL FOR SECTION B: 40 MARKS

TOTAL FOR PAPER: 100 MARKS

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