

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) Which of the following accounts always has a credit balance?

- A capital
- B cash
- C drawings
- D premises

(1)

(b) Which one of the following is a primary accounting record?

- A general ledger
- B petty cash book
- C sales ledger
- D trial balance

(1)

(c) A credit note received from a supplier is entered in the

- A journal
- B purchases returns book
- C sales book
- D sales returns book

(1)

(d) Which of the following is debited to the trading account?

- A carriage inwards
- B carriage outwards
- C discount allowed
- D discount received

(1)

(e) Which of the following transactions affects a business's profit?

- A sale of a fixed asset at book value
- B settlement of a business debt with discount
- C settlement of a business debt in full
- D transfer of cash to the bank account

(1)

(f) A cricket club has received subscriptions totalling £800 during the year, of which £80 were received in advance. At the year end subscriptions of £120 were outstanding. What amount will be credited to the income and expenditure account for the year?

- A £720
- B £760
- C £800
- D £840

(1)

(g) The ordinary share dividend of a company is calculated as a percentage of:

- A net assets
- B nominal value of authorised share capital
- C nominal value of issued share capital
- D total assets

(1)

(h) To whom do the reserves in a limited company belong?

- A creditors
- B debenture holders
- C directors
- D ordinary shareholders

(1)

(i) A firm's mark up is the

- A gross profit expressed as a percentage of the cost of goods sold
- B gross profit expressed as a percentage of sales
- C net profit expressed as a percentage of the cost of goods sold
- D net profit expressed as a percentage of the sales

(1)



(j) The following information has been extracted from the accounts of Reeve Trading Ltd:

	2007	2008
Sales	£600 000	£700 000
Gross profit percentage	30%	31%
Net profit percentage	15%	4%

What conclusion do you draw?

- A closing stock has increased
- B expenses have increased
- C purchase prices have increased but selling prices have not
- D the company has paid a large dividend

(1)

Q1

(Total 10 marks)



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Question 2

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

Bhopesh Patel has recently completed his first month's trading as a retailer of computer software and games. His purchases of stock are made on credit and sales are on a cash only basis. He does not maintain any control accounts.

The transactions for the first month have been recorded in the subsidiary books.

The Journal

Date	Narrative	F	Debit (£)	Credit (£)
Oct 1	Shop Fittings		15 000	
	Bank		35 000	
	Capital			50 000
	Being the introduction of owner's capital into the business as at this date			

Purchases Day Book

Date	Narrative	Net	VAT	Total
Oct 1	Shah Software	4 500	450	4 950
Oct 8	Kormi Gaming	3 000	300	3 300
	Totals for month	7 500	750	8 250

Returns Outwards Day Book

Date	Narrative	Net	VAT	Total
Oct 21	Shah Software	900	90	990



Cash Book

Date	Narrative	Cash	Bank	Date	Narrative	Cash	Bank
Oct 1	Capital		35 000	Oct 2	Cash		2 000
Oct 2	Bank	2 000		Oct 3	Rent		750
Oct 30	Cash sales	4 950		Oct 20	Shah Software		3 960
Oct 31	Cash		4 000	Oct 25	Wages	850	
				Oct 26	Drawings		1 250
				Oct 31	Bank	4 000	
				Oct 31	Balance c/d	2 100	31 040
		<u>6 950</u>	<u>39 000</u>			<u>6 950</u>	<u>39 000</u>
Nov 1	Balance b/d	2 100	31 040				

The cash sales on October 30 includes VAT of 10%



(a) Record these transactions in the following ledger accounts for the month of October 2009.

(9)

**Nominal Ledger
Capital**

Date	Narrative	£	Date	Narrative	£

Drawings

Date	Narrative	£	Date	Narrative	£

Purchases

Date	Narrative	£	Date	Narrative	£

Rent

Date	Narrative	£	Date	Narrative	£

Returns Outwards

Date	Narrative	£	Date	Narrative	£



Sales

Date	Narrative	£	Date	Narrative	£

Shop Fittings

Date	Narrative	£	Date	Narrative	£

VAT

Date	Narrative	£	Date	Narrative	£

Wages

Date	Narrative	£	Date	Narrative	£



**Creditors (Purchases) Ledger
Shah Software**

Date	Narrative	£	Date	Narrative	£

Kormi Gaming

Date	Narrative	£	Date	Narrative	£

(b) Balance the VAT account showing clearly the balance carried down at 31 October 2009 and the balance brought down on 1 November 2009.

(1)

(c) Explain fully what the closing balance on the VAT account represents.

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(3)



At the end of his first month's trading Bhopesh is anxious to know how much profit he has made. He estimates that his closing stock is valued at £4 000.

(d) Prepare a trading and profit and loss account for the month ended 31 October 2009.

Bhopesh Patel
Trading and profit and loss account
For month ended 31 October 2009

(6)



Bhopesh is considering investing some capital in computerising the business's records.

(e) State two possible uses of new technology to Bhopesh's business.

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(2)

(f) Explain two advantages and two disadvantages to his business of this change.

Advantage 1

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Advantage 2

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Disadvantage 1

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Disadvantage 2

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(4)

Q2

(Total 25 marks)

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Question 3

At the end of the financial year on 30 June 2009, the following balances remained in the books of sole trader John Blake.

	£
Debtors control account	43 200
Provision for doubtful debts (balance as at 1 July 2008)	1 900
Bad debts written off (balance as at 1 June 2009)	1 322
Draft net profit for the year ended 30 June 2009	25 421

After the preparation of the draft profit and loss account, it is agreed to make the necessary adjustments:

- Write off additional bad debts of £200 as at 30 June 2009
- Adjust the provision for doubtful debts to 5% of debtors after the additional bad debts have been written off

(a) Prepare the journal entries necessary to account for these two adjustments, including suitable narratives.

The Journal

Date	Narrative	Folio	Debit (£)	Credit (£)

(4)



(b) Prepare the bad debts account and provision for doubtful debts account for the year ended 30 June 2009, showing clearly the opening and closing balances and amounts transferred to the profit and loss account.

Bad debts account

Date	Narrative	£	Date	Narrative	£

(3)

Provision for doubtful debts account

Date	Narrative	£	Date	Narrative	£

(3)

(c) Calculate the revised net profit figure.

(2)



(d) Prepare a balance sheet extract as at 30 June 2009 clearly showing debtors and provision for doubtful debts.

John Blake
Balance sheet extract
As at 30 June 2009

(2)

(e) Evaluate how the accounting concept of prudence is relevant to the writing off of a bad debt and the provision for doubtful debts.

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(5)



John Blake has been approached by a friend who wishes to join him in his business and form a partnership.

(f) State two advantages and two disadvantages to John of forming a partnership.

Advantage 1

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Advantage 2

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Disadvantage 1

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Disadvantage 2

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(2)



(g) Explain the changes which would be necessary in the accounting system if John was to form a partnership with his friend.

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(4)

(Total 25 marks)

Q3

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TOTAL FOR SECTION A: 60 MARKS



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Section B

Answer ALL questions

Question 4

Tatiana Micallef has been in business for a number of years and during that time has seen her profits rise every year.

The results for the year ended 30 September 2009 were:

	£
Turnover	900 000
Cost of Sales	225 000
Variable expenses	180 000
Fixed expenses	225 000
Capital employed	1 500 000

- (a) (i) Stating clearly the formula used, calculate the gross profit margin for the year ended 30 September 2009.

Formula

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Gross profit margin

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(3)



(ii) Stating clearly the formula used, calculate the net profit margin for the year ended 30 September 2009.

Formula

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Net profit margin

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(3)

(iii) Stating clearly the formula used, calculate the return on capital employed for the year ended 30 September 2009.

Formula

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Return on capital employed

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(3)



Tatiana has made the following forecasts for the year ending 30 September 2010:

- Turnover can be increased by 50% by reducing the gross profit margin to 60% and by spending extra on advertising
- Variable expenses will remain the same proportion of turnover except for the cost of extra advertising which will cost £50 000
- Fixed expenses will decrease by £5 000
- Capital employed will increase to £1 800 000 by 30 September 2010

(b) Prepare a summarised forecast trading and profit and loss account for the year ending 30 September 2010.

Tatiana Micallef
Forecast trading and profit and loss account
Year ending 30 September 2010

(5)



(c) Using the figures calculated in (a) and (b), evaluate whether Tatiana’s strategy will result in an improvement in her business’s profitability next year.

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(5)

Q4

(Total 19 marks)



Question 5

The following balances remained in the books of Asia plc after the preparation of the profit and loss and appropriation account.

Trial balance as at 31 July 2009

	DR £000	CR £000
Ordinary shares @ £1 each		500
8% preference shares @ £1 each		100
Fixed assets – cost	2 000	
Fixed assets – provision for depreciation		700
Debtors	20	
Creditors		24
Accruals		20
Prepayments	12	
Bank		30
Bank loan – long term		14
Proposed dividends		25
Share premium		50
General reserve		85
Profit and loss account		532
Closing stock	48	
	2 080	2 080



Prepare a balance sheet as at 31 July 2009.

Asia Plc
Balance Sheet
As at 31 July 2009

Q5

(Total 9 marks)



Question 6

- (a) Using an appropriate example to illustrate your answer, define the terms capital and revenue income and expenditure.

Capital income

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Capital expenditure

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Revenue income

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Revenue expenditure

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(6)



(b) Using an appropriate example to illustrate your answer, explain the effects on the final accounts of a business if revenue and expenditure are incorrectly classified.

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(3)

(c) Explain how the accounting concept of materiality affects the treatment of capital and revenue expenditure items.

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(3)

Q6

(Total 12 marks)

TOTAL FOR SECTION B: 40 MARKS

TOTAL FOR PAPER: 100 MARKS

END



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