

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) Entries in the purchases day book are made from?

- A Credit notes
- B Delivery notes
- C Invoices
- D Petty cash vouchers

(1)

(b) In which section of a balance sheet will a debit balance on a firm's bank account be shown?

- A Current assets
- B Current liabilities
- C Fixed assets
- D Long term liabilities

(1)

(c) Capital expenditure is money

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

(1)

(d) An error of principle is made if

- A a total has been wrongly cast
- B an entry has been made in the wrong account within the correct class
- C a transaction has been entered on the wrong side of an account
- D an entry has been made in the wrong class of account

(1)

(e) Rent owing is normally shown as a

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

(1)



(f) On a machine purchased for £40 000, depreciation is 25% straight line method. After two years the net book value of the vehicle is

- A £10 000
- B £20 000
- C £22 500
- D £30 000

(1)

(g) A sports club has received subscriptions totalling £1 040 during the year, of which £80 was received in advance. At the end of the year £120 was outstanding. Which amount for subscriptions should be included in the income and expenditure account?

- A £960
- B £1 000
- C £1 040
- D £1 080

(1)

(h) A business issues an invoice for stock with a list price of £20 000. The invoice was subject to a trade discount of 25% and a cash discount of 5%. VAT is charged at 10%. How much VAT should be shown on the invoice?

- A £1 425
- B £1 500
- C £1 900
- D £2 000

(1)

(i) The word 'limited' after a business' name indicates

- A the number of shareholders is fixed
- B there is a limit to the number of debentures that can be issued
- C the shareholders' liability for the debts of the business is limited
- D there is a limit to the number of businesses of this type

(1)

(j) Which of the following should be included in a limited company's appropriation account?

- A Audit fees
- B Debenture interest
- C Depreciation
- D Interim dividends

(1)

Q1

(Total 10 marks)



Question 2

Throughout this question, assume VAT is 10%.

Selina Kaur owns a wholesale electrical supplies business. She buys and sells goods mainly on credit terms.

On 1 September 2010 her purchases ledger contained the following credit balances:

A Alda	£1 500
C Charles	£1 567
D Davis	£1 769
B Blair	£4 299

On 1 September 2010 her nominal ledger contained the following balances:

Purchases	£16 890
Returns Outwards	£1 733

The following are extracts from her books for September 2010.

Purchases Journal

Date	Narration	Goods	VAT	Total
Sept 1	A Alda	430	43	473
Sept 5	C Charles	280	28	308
Sept 13	B Blair	520	52	572
Sept 21	D Davis	1 320	132	1 452
Sept 28	C Charles	800	80	880
	Totals for Month	<u>3 350</u>	<u>335</u>	<u>3 685</u>

Returns Outwards Journal

Date	Narration	Goods	VAT	Total
Sept 3	A Alda	70	7	77
Sept 8	D Davis	220	22	242
	Totals for Month	<u>290</u>	<u>29</u>	<u>319</u>



Cash Book (Credit side)

Date	Narration	Bank
Sept 1	Cash purchases (including VAT)	198
Sept 3	A Alda	900
Sept 5	D Davis	1 769
Sept 8	B Blair	4 000
Sept 15	Cash purchases (including VAT)	660
Sept 21	C Charles	1 567
Sept 30	Wages	500
Sept 30	Rent	650

The Journal

Date	Narration	Debit	Credit
Sept 28	A Alda (Purchases Ledger)	600	
	A Alda (Sales Ledger)		600
	Being transfer of balance in purchases ledger offset against balance in the sales ledger		

(a) Prepare the account of A Alda in Selina Kaur’s purchase ledger. Balance the account on 30 September 2010 and bring the balance down.

(6)

A Alda Account

Date	Narration	£	Date	Narration	£



(b) Prepare the total creditors account for the month of September 2010. Balance the account on 30 September 2010 and bring the balance down.

(6)

Total Creditors

Date	Narration	£	Date	Narration	£

(c) Prepare the purchases account and returns outwards account for the month of September 2010. Balance the accounts on 30 September 2010 and bring the balances down.

(6)

Purchases

Date	Narration	£	Date	Narration	£

Returns Outwards

Date	Narration	£	Date	Narration	£



At 30 September 2010 Selina had not completed the VAT account for the month. In addition to the VAT amounts shown opposite, Selina obtained the following VAT totals from her other day books.

Sales book	£550
Returns inwards book	£65
Petty cash book	£12

There were no cash sales during the month of September.

There was no opening balance on the account at the start of the month.

(4)

(d) Prepare the VAT account for the month of September 2010. Balance the account on 30 September 2010 and bring the balance down.

VAT

Date	Narration	£	Date	Narration	£

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

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(3)

(Total 25 marks)

Q2



Question 3

Priteh Patel commenced business several years ago selling domestic appliances. She did not maintain a full set of accounting records.

Her receipts and payments account for the year ended 30 June 2010 was as follows:

Receipts			Payments		
Date	Narrative	£	Date	Narrative	£
July 1	Balance b/d	5 600	June 30	Payments to trade creditors	36 000
Jan 1	Loan – National Bank	25 000	June 30	Rent	7 500
June 30	Receipts from debtors	93 500	June 30	Motor expenses	5 400
			June 30	Wages	24 000
			June 30	Drawings	18 000
			June 30	General expenses	9 297
			June 30	Balance c/d	23 903
		124 100			124 100
July 1	Balance b/d	23 903			

The following additional information is available on 30 June 2010 and is to be taken into account.

- The receipts and payments details have been prepared from the business bank account through which all receipts and payments have passed.
- The loan from the National Bank was received on 1 January 2010. Interest is payable at 5% per annum.
- Discount received from suppliers for the year ended 30 June 2010 was £2 800.

Her records also showed the following assets and liabilities:

	1 July 2009 £	30 June 2010 £
Motor vehicle (net book value)	10 000	8 500
Stock	4 500	5 940
Debtors	4 600	7 500
Trade creditors	2 400	3 600
Rent prepaid	500	750
Wages accrued	1 000	2 000



(c) Prepare a balance sheet as at 30 June 2010.

**Priteh Patel
Balance Sheet
As at 30 June 2010**

	£	£	£



Section B

Answer ALL questions

Question 4

At the close of business on 31 August 2010, the business bank account of Rekha Singh showed a balance of £1 345.98 (Dr), but this did not agree with the balance shown on the bank statement at this date.

He identified the following reasons for the difference.

- Bank charges of £56 for the month of August 2010 had been debited directly by the bank, but had not yet been recorded in the cash book.
- An error had occurred when balancing the cash book. The bookkeeper had overcast the total of the credit entries by £200.
- The bank statement included a direct debit for rent of £750, which had not been recorded in the cash book.
- Cash takings of £1 485.55 banked on 30 August 2010 had not yet appeared on the bank statement.
- Two cheques sent to suppliers during the month of August 2010 had not yet been presented for payment:

Cheque No: 45122	S Rami	£261.55
Cheque No: 45125	K Zaroh	£399.00

- A customer, T Ricardo, had paid his account of £2 300 by credit transfer directly into the bank account. This had not yet been recorded in the cash book.
- (a) Update the business bank account for the month of August 2010 and bring down the corrected balance at the end of the month.

Bank Account

Date	Narration	£	Date	Narration	£

(6)



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(b) Prepare a bank reconciliation statement as at 31 August 2010, clearly showing the bank statement balance at that date.

Rekha Singh
Bank Reconciliation Statement
At 31 August 2010

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(c) Evaluate the usefulness to Rehka's business of regularly preparing a bank reconciliation statement.

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(5)

Q4

(Total 16 marks)



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Question 5

High and Lowe have been in partnership for a number of years sharing profits and losses equally. Their partnership agreement also provided for interest on capital at 5% and for High to receive a salary of £5 000 per annum.

On 30 April 2010 the following balances have been extracted from the partnership books after the completion of the profit and loss account.

Account	£
Net profit for the year	79 000
Capital account – High	50 000
Capital account – Lowe	30 000
Current account – High	3 600 (Cr)
Current account – Lowe	500 (Dr)
Drawings – High	22 850
Drawings – Lowe	21 320

- (a) Prepare an appropriation account for the partnership for the year ended 30 April 2010.

**High and Lowe
Appropriation Account
Year ended 30 April 2010**

(6)



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(b) Prepare the current account of High for the year ended 30 April 2010. Balance the account on 30 April 2010 and bring the balance down.

High – Current Account

Date	Narration	£	Date	Narration	£

(6)

(Total 12 marks)

Q5



Question 6

The following information is available concerning the retail business of Dharma Greig.

	Year ended 30 June 2009	Year ended 30 June 2010
Sales	£580 000	£650 000
Return on capital employed	18%	16%
Liquid (acid test) ratio	1.5:1	0.9:1
Gross profit margin	60%	55%
Net profit margin	15%	8%
Rate of stock turnover	6 times	8 times

(a) State clearly the formulas used to calculate:

(i) Gross profit margin.

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 (1)

(ii) Liquid (acid test) ratio.

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 (1)

(iii) Rate of stock turnover.

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 (1)



(b) Calculate the following amounts:

(i) the net profit for the year ended **30 June 2010**.

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(2)

(ii) the capital employed during the year ended **30 June 2010**.

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(2)



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Due to the rise in the sales for the year, Dharma believes that his business has improved during the year ended 30 June 2010 compared to the previous year.

- (c) Using the figures calculated in part (b) and the other information provided, evaluate Dharma's claim that his business has been more successful in 2010 than 2009. In your report make reference to both the profitability and liquidity of his business.

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(5)

Q6

(Total 12 marks)

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TOTAL FOR PAPER: 100 MARKS

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