



**SECTION A**

**Answer BOTH questions in this section**

**Source material for use with question 1 can be found on pages 2 and 3 of the source booklet.**

1. (a) Record the transactions as appropriate in the following books of original entry:
- (i) purchases day book
  - (ii) sales day book
  - (iii) returns inwards day book
  - (iv) general journal.

**Note 1:** The day books in (i) to (iii) should be set out in three columns (Goods, VAT and Total).

(i) **Purchases Day Book**


(ii) **Sales Day Book**




(iii)

**Returns Inwards Day Book**


(iv)

**General Journal**


(18)





(c) Prepare the following ledger accounts, including all relevant information:

- (i) Harmony account
- (ii) Superstrings account
- (iii) VAT account.

**Note 2:** Other ledger accounts are **not** required.

(i) **Harmony Account**


(ii) **Superstrings Account**


(iii) **VAT Account**


(12)



(d) (i) Why is it impossible for the cash account to have a credit balance b/d?

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(2)

(ii) Which account should Carlos use in order to complete the double entry for the transaction on 20 April?

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(2)

(Total 48 marks)

Q1















Source material for use with question 4 can be found on page 7 of the source booklet.

4. (a) Calculate the following for each business:

(i) return on capital employed

(ii) acid test ratio.

**Return on Capital Employed**


**Acid Test Ratio**


(8)







Source material for use with question 5 can be found on page 8 of the source booklet.

5. (a) (i) With which accounting concept does the creation of a provision for doubtful debts comply?

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(2)

- (ii) Write up the bad debts account and the provision for doubtful debts account in Fazia's ledger on 31 March 2008.

**Bad Debts Account**


**Provision for Doubtful Debts Account**


(6)







Fazia's sales for the year ending 31 March 2008 were £200 000.

- (b) Calculate Fazia's debtors' collection period in days, based on net debtors at the end of the year.

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(4)

- (c) (i) Suggest **one** method which Fazia could use to encourage her debtors to pay their bills more quickly.

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(2)

- (ii) Describe **one** disadvantage to Fazia which might arise from using the method you have suggested in your answer to (c)(i) above.

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(4)

(Total 26 marks)

Q5

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The debentures are described as **8%** and **2015**.

(b) Explain the meaning of the terms in bold, in relation to debentures.

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(4)

The issued ordinary shares are described as **£1 each, fully paid**.

(c) Explain the meaning of the terms in bold, in relation to issued ordinary shares.

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(4)

(Total 26 marks)

Q6

**TOTAL FOR SECTION B: 104 MARKS**

**TOTAL FOR PAPER: 200 MARKS**

**END**



1686

Paper Reference(s)

**7011/01**

**London Examinations GCE**

**Accounting**

**Ordinary Level**

Wednesday 14 May 2008 – Afternoon

**Source booklet for use with Questions  
1 to 6.**

**Do not return the insert with the  
question paper.**

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## SECTION A

### SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Carlos has won £6 000 in a lottery and has decided to use the money to open a music shop.

On 1 April 2008 he placed the £6 000 in a business bank account and the following transactions took place during the first month of trading.

VAT applies where indicated at the rate of 10%.

1 April	Paid 3 months' rent in advance on shop premises, £1 500, by credit transfer (bank transfer).
2 April	Purchased shop fittings on credit from Shop Space for £4 200 plus VAT.
3 April	Purchased a computer for the shop for which he paid £800 by cheque. The supplier is not registered for VAT.
4 April	Purchased a consignment of electric guitars on credit from Superstrings at list price £3 200 less 25% trade discount plus VAT.
5 April	Took £300 out of the bank and placed it in cash.
8 April	Made cash sales of £1 100, including VAT.
10 April	Sold instruments on credit to Harmony, a local band, list price £1 400 less 20% trade discount plus VAT.
14 April	Paid shop assistant's wages, £180 in cash.
18 April	Harmony returned an instrument which had a list price of £150.
20 April	Took £250 out of cash to cover personal expenses.
24 April	Received a cheque from Harmony for £1 050 in full payment of their account.
26 April	Paid Superstrings £2 600 by credit transfer (bank transfer) in full settlement of their account.
30 April	Transferred all remaining cash to the bank account except for a cash balance of £100.

You are asked to do the following for the month of April 2008.

(a) Record the transactions as appropriate in the following books of original entry:

- (i) purchases day book
- (ii) sales day book
- (iii) returns inwards day book
- (iv) general journal.

**Note 1:** The day books in (i) to (iii) should be set out in three columns (Goods, VAT and Total). (18)

(b) Prepare a cash book for the month with columns for Bank, Cash and Discounts. Balance the cash book at the end of the period and bring down the bank and cash balances to begin the next period. (14)

(c) Prepare the following ledger accounts, including all relevant information:

- (i) Harmony account
- (ii) Superstrings account
- (iii) VAT account.

**Note 2:** Other ledger accounts are **not** required. (12)

(d) (i) Why is it impossible for the cash account to have a credit balance b/d? (2)

(ii) Which account should Carlos use in order to complete the double entry for the transaction on 20 April? (2)

**(Total 48 marks)**

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**Answer space for question 1 is on pages 2 to 6 of the question paper.**

**SOURCE MATERIAL FOR USE WITH QUESTION 2**

2. Kim Lee is a sole trader who deals in computer software. The following trial balance was extracted from his books on 31 December 2007.

**Trial Balance at 31 December 2007**

	Debit	Credit
	£	£
Bank		250
Capital		23 000
Carriage on purchases	410	
Carriage on sales	635	
Debtors and creditors	45 900	31 600
Discounts	915	789
Drawings	36 000	
Electricity	1 250	
Equipment at cost	38 400	
General office expenses	4 624	
Insurance	520	
Office furniture at cost	13 500	
Provision for depreciation on equipment on 1 January 2007		3 200
Provision for depreciation on office furniture on 1 January 2007		1 000
Purchases	202 000	
Rent	6 400	
Returns	192	478
Sales		310 129
Stock on 1 January 2007	5 400	
Wages	<u>14 300</u>	<u>          </u>
	<u>370 446</u>	<u>370 446</u>

After Kim had prepared the above trial balance, he noticed that he had made several errors and omissions.

- (i) He had included an electricity bill for £120 in the insurance account.
- (ii) A debtor, who owed £400, had paid her account on 31 December 2007 by credit transfer (bank transfer) but neither entry for this payment had been recorded in Kim's books.
- (iii) Kim spent £800 on the purchase of software for stock but he decided to take it home and use it himself. He has not recorded this change of use in the books.



**Additional information**

- Stock at 31 December 2007 is valued at £6 300.
- £70 of the insurance is a payment for the first quarter of 2008.
- Kim promised his assistant an end-of-year bonus of £200 but has not paid this yet.
- The equipment and the office furniture are to be depreciated by 10% of cost.

(a) Write entries in the main journal in order to correct errors (i), (ii) and (iii).

**(8)**

(b) Prepare the trading, profit and loss account for the year ended 31 December 2007, using the corrected figures where relevant.

**(24)**

(c) Prepare the balance sheet as at 31 December 2007, using the corrected figures where relevant.

**(16)**

**(Total 48 marks)**

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**Answer space for question 2 is on pages 7 to 9 of the question paper.**

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## SECTION B

### SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Scoupa Ltd makes mops and brooms. The following figures are available from the company's books for the year ended 31 March 2008.

	£
Carriage on raw materials	2 600
Carriage on sales	700
Factory wages	64 000
Indirect factory overheads	7 500
Office computers at cost	4 000
Factory equipment at cost	30 000
Purchases of raw materials	128 000
Purchases returns of raw materials	750
Rent and rates	12 000
Sales	240 000
Selling and administration expenses	4 400
Stocks at 1 April 2007: raw materials	850
work in progress	630
finished goods	920

#### Additional information

- Stocks at 31 March 2008 were: raw materials £1 300; work in progress £320; finished goods £1 420.
- Rent and rates are to be apportioned 75% to the factory and 25% to the office.
- The factory equipment and the office computers are to be depreciated at 10% on cost.

- (a) Prepare the following accounts for Scoupa Ltd for the year ended 31 March 2008:
- (i) a manufacturing account showing the cost of raw materials consumed, prime cost and the manufacturing cost of finished goods (14)
- (ii) a trading account showing the cost of sales and the gross profit or loss for the year. (6)
- (b) Explain briefly why a manufacturing business depreciates its equipment. (6)

**(Total 26 marks)**

**Answer space for question 3 is on pages 10 and 11 of the question paper.**

#### SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Lagos and Nairobi are two businesses operating in the same sector. Here are some figures taken from their books on 31 December 2007.

	Lagos	Nairobi
	£000	£000
Sales	300	600
Cost of sales	160	380
Overhead expenses	30	90
Stocks	12	70
Debtors	10	24
Creditors	15	18
Bank balance (debit)	5	
Bank balance (credit)		14
Capital	800	1 300

- (a) Calculate the following for each business:

(i) return on capital employed

(ii) acid test ratio.

(8)

- (b) Using relevant information, compare the liquidity of the two businesses. Give reasons for the differences you identify.

(8)

‘Cash is more important to a business than profit.’

- (c) To what extent do you agree with this statement? Give reasons for your answer.

(10)

**(Total 26 marks)**

**Answer space for question 4 is on pages 12 to 14 of the question paper.**

**SOURCE MATERIAL FOR USE WITH QUESTION 5**

5. Fazia Khan runs a small translation business. On 31 March 2008, the last day of her financial year, her debtors amounted to £7 500. After calculating this total, Fazia learned that Louis Swiss, one of these debtors, had gone bankrupt and will not be able to pay the £500 which he owes to her.

In the year ended 31 March 2007, Fazia had created a provision for doubtful debts of £200. She now decides to make this provision equal to 5% of her net debtors figure at the end of each year.

- (a) (i) With which accounting concept does the creation of a provision for doubtful debts comply? (2)
- (ii) Write up the bad debts account and the provision for doubtful debts account in Fazia's ledger on 31 March 2008. (6)
- (iii) Referring to relevant information, explain how Fazia will treat the change in the provision for doubtful debts in her profit and loss account for the year ended 31 March 2008 and in her balance sheet as at that date. (8)

Fazia's sales for the year ending 31 March 2008 were £200 000.

- (b) Calculate Fazia's debtors' collection period in days, based on net debtors at the end of the year. (4)
- (c) (i) Suggest **one** method which Fazia could use to encourage her debtors to pay their bills more quickly. (2)
- (ii) Describe **one** disadvantage to Fazia which might arise from using the method you have suggested in your answer to (c)(i) above. (4)

**(Total 26 marks)**

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**Answer space for question 5 is on pages 15 to 17 of the question paper.**

## SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Tropical Fruits Ltd had the following balances on its books on 31 December 2007:

	£
Accumulated depreciation on equipment	70 000
Bank overdraft	18 000
Buildings at cost	250 000
Cash	2 000
8% debentures 2015	90 000
Dividends and taxes owing	30 000
Equipment at cost	150 000
Issued ordinary shares £1 each, fully paid	?
Profit and loss account	26 000
Share premium account	25 000
Stocks	22 000
Trade creditors	20 000
Trade debtors	15 000

- (a) Draw up the balance sheet for Tropical Fruits Ltd as at 31 December 2007. Include the figure for the ordinary shares, which you have to calculate. Give complete details for all entries and show sub-totals for fixed assets, current assets, current liabilities, working capital and shareholders' funds.

(18)

The debentures are described as **8%** and **2015**.

- (b) Explain the meaning of the terms in bold, in relation to debentures.

(4)

The issued ordinary shares are described as **£1 each, fully paid**.

- (c) Explain the meaning of the terms in bold, in relation to issued ordinary shares.

(4)

(Total 26 marks)

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**Answer space for question 6 is on pages 18 to 20 of the question paper.**

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