

Paper Reference(s)

7011/01

London Examinations GCE

Accounting

Ordinary Level

Friday 15 May 2009 – 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. Kofi Appiah is a wholesaler of household goods.

Vernon Chan is one of Kofi's regular customers. On 1 April 2009, Vernon owes Kofi £240 from the previous month. The following transactions take place during April.

VAT applies where indicated at the rate of 10%.

2 April	Kofi issues an invoice to Vernon for goods with a list price of £5 000 less 20% trade discount plus VAT. The terms of the invoice are a 2½ % cash discount if payment is received within 15 days of the invoice date.
3 April	Vernon sends a cheque to Kofi for £230 in full settlement of the balance owing on 1 April.
4 April	Vernon returns some of the goods invoiced on 2 April. The goods returned have a list price of £1 000.
20 April	Vernon pays £200 on account by cheque.
28 April	Vernon sends a cheque to Kofi for the balance owing on his account.
30 April	The bank returns the cheque issued on 28 April marked R/D.

You are required to do the following:

- (a) Prepare Kofi Appiah's sales day book and sales returns day book, showing columns for goods, VAT and total. **(12)**
- (b) Prepare the account of Vernon Chan in the ledger of Kofi Appiah. Balance the account at 30 April 2009 and bring down the balance to begin the next month. **(10)**
- (c) Explain why suppliers sometimes allow cash discounts to their customers. **(4)**

Kofi records cash transactions in an analytical petty cash book. The imprest is £400. The following cash transactions are made in the first two weeks of April 2009.

VAT applies where indicated at the rate of 10%

1 April	The petty cash balance b/f from March was £88.
1 April	Kofi restores the imprest from the business bank account.
2 April	Buys paper supplies £40 plus VAT.
5 April	Buys postage stamps £22.
8 April	Purchases toner for the printer £120 plus VAT.
14 April	Pays wages to assistant £150.

(d) Prepare Kofi Appiah's petty cash book for the period from 1 April to 14 April. Balance off the petty cash book to show the final balance. (There is no need to bring this balance down.)

(18)

(e) What actions might the petty cashier take if the amount of money in the petty cash box did **not** equal the balance on the petty cash book?

(4)

(Total 48 marks)

Answer space for question 1 is on pages 2 to 5 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Curly Kale owns and runs a greengrocer's shop. On 31 March 2009, she extracted the following trial balance from her books.

	DR	CR
	£	£
Administration expenses	3 122	
Bad debts	340	
Bank		500
Capital		40 000
Carriage inwards	1 200	
Carriage outwards	8 175	
Cash	147	
Debtors and creditors	1 800	4 674
Drawings	44 000	
Equipment at cost	2 600	
Fixtures and fittings at cost	3 200	
Income from delivery charges		10 500
Insurance	625	
Motor van at cost	8 400	
Provision for depreciation on fixtures and fittings at 1 April 2008		1 200
Provision for depreciation on motor van at 1 April 2008		1 680
Purchases	444 760	
Rent and rates	7 900	
Returns	621	846
Sales		516 280
Stock at 1 April 2008	36 190	
Wages	<u>12 600</u>	
	<u>575 680</u>	<u>575 680</u>

Additional information

- The stock on 31 March 2009 was valued at £27 380.
- Since the trial balance was prepared, a debt of £30, which had been written off as bad, has been paid in cash to Curly by the debtor. No record of this has been made in the books.
- £50 of the insurance paid is for the year ended 31 March 2010.
- £400 was owing in wages to the shop assistant on 31 March 2009.
- A provision for doubtful debts is to be created equivalent to 2½ % of the debtors.
- The fixed assets are to be depreciated as follows
 - (i) Motor van: 10% on cost;
 - (ii) Fixtures and fittings: 30% on the reducing balance method;
 - (iii) Equipment: £1,600 is to be deducted from the figure in the trial balance.

From the information provided:

- (a) prepare the trading account and profit and loss account for the year ended 31 March 2009; (22)
- (b) prepare the balance sheet at 31 March 2009; (22)
- (c) comment on the level of drawings taken out by Curly Kale. (4)

(Total 48 marks)

Answer space for question 2 is on pages 6 to 9 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Felicity Paper set up in business on 1 January 2007 as a sole trader, making and selling greetings cards. Here are some figures from her final accounts for the years ended 31 December 2007 and 2008.

	2007	2008
	£	£
Sales	56 400	92 600
Total expenses	40 700	72 200
Capital employed	30 000	30 000
Current assets	3 660	2 810
Current liabilities	1 220	2 370
Bad debts	160	560
Debtors as a % of current assets	50%	50%

- (a) Showing your workings, calculate for both 2007 and 2008 (to two decimal places):

- (i) the net profit ratio;
- (ii) the return on capital employed;
- (iii) the current ratio;
- (iv) bad debts as a percentage of debtors.

(12)

Felicity believes that the financial performance of her business is better in 2008 than it was in 2007.

- (b) Evaluate her claim, making equal reference in your answer to her **profitability** and **liquidity**.
(10)
- (c) Give **two** ways in which a business could increase its working capital.
(4)

(Total 26 marks)

Answer space for question 3 is on pages 10 to 13 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. The bank account in Pedro Garcia's cash book shows a credit balance b/d of £250 on 30 April 2009. On the same day Pedro receives a bank statement which shows that he has a credit balance of £991 in the bank's books.

Pedro identified the following reasons for the difference between the cash book and bank statement balances.

- (i) The bank had made a direct debit payment to Pedro's internet service provider for £120 but Pedro has not entered this in his cash book.
 - (ii) The bank had debited Pedro's account with charges of £44 but Pedro has no knowledge of this.
 - (iii) Pedro had paid the following cheques to his suppliers but the cheques have not yet been presented to the bank for payment: Alpha Supplies Ltd £685; Omega & Co £410.
 - (iv) The bank had received an electronic payment of £560 made to Pedro by one of his customers but Pedro does not know this payment has been made to him.
 - (v) Pedro had received and banked cheques from the following customers: Leila Khan £300; Omar Ali £150. These cheques have not yet been cleared.
 - (vi) The bank had made an error in crediting Pedro with an amount of £200. This should have been credited to the account of a different customer.
- (a) Update Pedro Garcia's cash book to find the balance at 30 April 2009. (6)
- (b) Prepare a bank reconciliation statement at 30 April 2009 to reconcile the bank statement balance with the up-to-date cash book balance. (10)

Pedro believes that it is useful to draw up a bank reconciliation statement but a friend has told him that such a statement is of only limited usefulness.

- (c) Evaluate these two views. (10)

(Total 26 marks)

Answer space for question 4 is on pages 14 to 16 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Ram Singh purchased a computer system for his business on 1 January 2007, paying by cheque. The computer system cost £3 500 and Ram decided to depreciate it over 3 years at 60% per annum on the diminishing balance method.

Ram sold the computer to Tony Rom on 31 December 2008 for £430. Tony paid £230 by cheque and has promised to pay the balance by the end of March 2009.

- (a) Prepare the computer account in Ram Singh's ledger for the years ended 31 December 2007 and 31 December 2008. (4)

- (b) Prepare the provision for depreciation account for the years ended 31 December 2007 and 31 December 2008. (7)

- (c) Prepare the disposal account for the computer system at 31 December 2008. (7)

A business can use either the straight line method or the diminishing balance method when depreciating its fixed assets.

- (d) Explain **two** advantages of **each** of these methods. (8)

(Total 26 marks)

Answer space for question 5 is on pages 17 to 20 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Vaso has been in business as a trader for several years and has not kept double entry bookkeeping records. She has produced the following summary of her bank account for the year ended 31 December 2008.

Bank Account			
DR			CR
	£		£
Cash takings banked	58 420	Balance at 1 January 2008	1 600
Sale of equipment	2 980	Rent and rates	3 500
Bank loan	10 000	Interest on bank loan	980
Receipts from debtors	22 610	Administration expenses	4 630
		New equipment	7 000
		Payments to suppliers	32 530
		Drawings	16 500

Vaso can also provide the following information:

	1 Jan 2008	31 Dec 2008
	£	£
Stock	1 780	2 835
Debtors	3 970	3 034
Creditors	2 814	3 662
Rent and rates owing	583	935

All the cash sales were banked except for an amount of £1 250, which Vaso took as drawings.

The new equipment is to be depreciated at 20% of cost. No depreciation is to be charged on the equipment which was sold.

- (a) Prepare Vaso's trading and profit & loss account for the year ended 31 December 2008. Show all your calculations. (14)

- (b) Prepare Vaso's balance sheet as at 31 December 2008. (12)

(Total 26 marks)

Answer space for question 6 is on pages 21 to 23 of the question paper.

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