

Paper Reference(s)

7011/01

London Examinations GCE

Accounting

Ordinary Level

Thursday 8 January 2009 – Morning

**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. Freda Latte has opened a coffee shop which also supplies refreshments to companies. She paid £5 000 of her personal savings into a business bank account on 1 October 2008 and immediately set up a double-entry bookkeeping system.

VAT applies where indicated at the rate of 10%.

During the month of October 2008, Freda recorded the following transactions in her books of original entry.

Purchases Day Book

Date	Details	Goods	VAT	Total
		£	£	£
1 October	Espresso Supplies	700		
	Less trade discount	<u>(70)</u>		
		630	63	693

Sales Day Book

Date	Details	Goods	VAT	Total
		£	£	£
4 October	City Traders	1 300		
	Less trade discount	<u>(130)</u>		
		1 170	117	1 287

Purchases Returns Day Book

Date	Details	Goods	VAT	Total
		£	£	£
5 October	Espresso Supplies	100		
	Less trade discount	<u>(10)</u>		
		90	9	99

Main Journal

Date	Details	Debit	Credit
		£	£
1 October	Equipment	2 000	
	VAT	200	
	Filter Ltd		2 200
	Purchase of equipment on credit		

Cash Book

DR

CR

		Bank	Cash			Bank	Cash
		£	£			£	£
1 Oct	Capital	5 000		1 Oct	Cash	800	
1 Oct	Bank		800	12 Oct	Espresso Supplies	594	
20 Oct	City Traders	670		15 Oct	General expenses	535	
31 Oct	Sales for month (including VAT)	3 300		20 Oct	Purchases (including VAT)		550
				29 Oct	City Traders (returned cheque)	670	
				30 Oct	Drawings		150
				31 Oct	Rent	720	
		_____	_____	31 Oct	Balances c/d	<u>5 651</u>	<u>100</u>
		<u>8 970</u>	<u>800</u>			<u>8 970</u>	<u>800</u>

(a) Prepare the ledger accounts in the books of Freda Latte for the month of October 2008, using the information provided in the books of original entry and in the cash book. Balance and total these accounts. (27)

(b) Prepare a trial balance at 31 October 2008. (13)

Assume that a trial balance failed to agree.

(c) (i) Name the account used for entering the amount required to balance the trial balance. (1)

(ii) What actions can be taken to discover the errors? (3)

An error of original entry does **not** affect the agreement of the trial balance.

(d) (i) Using your own figures, give an example of an error of original entry. (2)

(ii) Name **two other** types of error in the ledger which would **not** affect the agreement of the trial balance. (2)

(Total: 48 marks)

Answer space for question 1 is on pages 2 to 7 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Matthew and Arnold are in partnership. They deal in spare parts for cars and also have a small workshop where they repair cars for their customers. Here is their trial balance at 31 December 2008.

	DR	CR
	£	£
Administration expenses	7 060	
Bank balance	1 860	
Buildings at cost	50 000	
Capital accounts:		
Matthew		30 000
Arnold		20 000
Carriage inwards on spare parts	975	
Cash	255	
Current accounts:		
Matthew	1 700	
Arnold		3 600
Debtors and creditors	12 900	2 150
Drawings:		
Matthew	15 700	
Arnold	13 200	
Equipment at cost	26 500	
Income from car repairs		68 250
Motor van at cost	8 400	
Provision for depreciation on equipment at 1 January 2008		14 200
Provision for depreciation on motor van at 1 January 2008		2 100
Provision for doubtful debts at 1 January 2008		720
Purchases of spare parts	36 330	
Rent	38 000	
Returns	470	300
Sales of spare parts		105 100
Stock of spare parts on 1 January 2008	2 570	
Wages	<u>30 500</u>	<u> </u>
	<u>246 420</u>	<u>246 420</u>

The partnership agreement provides that

- Each partner is to receive 10% interest on his capital account.
- Each partner is to pay 5% interest on drawings.
- The partners' annual salaries are: Matthew £15 000 and Arnold £8 000.
- The remaining profit is to be shared equally between the partners.

Additional information at 31 December 2008:

- The stock of spare parts for cars was valued at £3 415.
- Wages owing were £400 and rent prepaid was £600.
- The existing provision for doubtful debts is to be changed so that it equals 5% of debtors.
- Depreciation is to be charged as follows:
 - (i) Equipment at 30% using the reducing balance method.
 - (ii) The motor van at 10% of cost.

From the information provided, prepare for the partnership:

- (a) the trading account for spare parts for cars for the year ended 31 December 2008; **(8)**
- (b) the profit and loss account for the whole business for the year ended 31 December 2008; **(10)**
- (c) the profit and loss appropriation account for the year ended 31 December 2008; **(6)**
- (d) the partners' current accounts at 31 December 2008; **(8)**
- (e) the balance sheet at 31 December 2008. **(16)**

Note: In the balance sheet do not show details of the current accounts, but include only the balances of the current accounts at 31 December 2008.

(Total: 48 marks)

Answer space for question 2 is on pages 8 to 13 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Mohammed Khan is a management consultant who works from an office at his home. Up to the end of 2007 he did all his work on old computer equipment.

On 1 January 2008 he decided to borrow money to finance investment in a new system and the latest computerised accounting packages. He hopes that this will make his business more efficient and increase his profit.

Here is a summary of his balance sheets at the end of 2007 and 2008.

Balance Sheet as at 31 December

	2007	2008
Office equipment	1 000	3 800
Stocks of office materials	200	50
Debtors	5 100	1 750
Bank balance	<u>710</u>	<u>160</u>
	<u>7 010</u>	<u>5 760</u>
Capital	2 000	2 000
5-year bank loan	–	3 000
Creditors	<u>5 010</u>	<u>760</u>
	<u>7 010</u>	<u>5 760</u>

	2007	2008
Total sales of services	40 500	62 300
Total expenses	12 400	15 700

Since Mohammed is self-employed and provides a personal service, his total expenses are low when compared to his sales and so his profit is high when compared with his capital.

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

- (i) the return on capital employed;

(6)

- (ii) the current ratio.

(4)

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

(b) Evaluate his claim, making equal reference in your answer to his **profitability** and **liquidity**.
(8)

(c) Evaluate the benefits to small businesses of using computerised accounting packages.
(8)

(Total: 26 marks)

Answer space for question 3 is on pages 14 to 16 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Sam Soap runs a dry-cleaning business. He has just produced his accounting books for the year ended 31 October 2008 and his accountant has discovered the following errors.

- (i) A customer, Gina Sapouni, who had owed £95, had paid her bill by cheque but Sam had not accounted for this payment.
- (ii) Another customer, Joe Starch, went out of business and Sam had to write off a bad debt of £160. He debited the customer's account and credited the bad debts account with £160.
- (iii) Sam had purchased an item of equipment for £2 000 and had debited this amount to the purchases account. He had done the credit entry correctly.
- (iv) Sam had returned cleaning materials worth £832 to a supplier, Clean-Up Ltd. He had entered the £832 correctly in the purchases returns account but had not made the second entry.

(a) Write entries in Sam's journal to correct errors (i), (ii), (iii) and (iv).

(12)

Although Sam's business has made a profit over the current year, he discovers that his business bank account, which had shown a positive balance of £380 at the beginning of the year, has ended the year as an overdraft of £3 380.

(b) Give **two** reasons which might explain why the bank balance has got worse even though the business has made a profit.

(4)

Sam's sister Sally owns and runs a shop which sells fashion accessories. She keeps her own accounts but not always in line with accepted accounting concepts.

- (i) Sally calculates her stock at the end of each year. She values each item at the current selling price.
- (ii) Sally displays her goods on special shop fittings. She believes that these fittings will last for many years and so she does not depreciate them in her books.
- (iii) Sally purchased a computer last year and depreciated it by 20% of cost. This year she has calculated the depreciation on a reducing balance formula.
- (iv) The recent opening of a supermarket close to Sally's shop has increased her trade. Because of this, she has added an amount to the value of her assets and to her profit for the current year.
- (v) Sally attaches special named labels to all the products she sells. At the end of the year she counted how many labels she had left over, gave a value to each according to its size and added the overall sum to her closing stock.

(c) Name the accounting concept which Sally is failing to observe in each of (i) to (v). State what Sally should have done in each case.

(10)

(Total: 26 marks)

Answer space for question 4 is on pages 17 and 18 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. The Busy Pages Reading Club meets once a month and organises various social events.

On 1 January 2008 the club's assets and liabilities were as follows.

	£
Kitchen equipment	350
Cash at bank	230
Subscriptions due for 2007	125
Subscriptions received in advance for 2008	85

The Club's Treasurer drew up the following receipts and payments account for the year ended 31 December 2008.

Receipts and Payments Account

DR		CR	
	£		£
Balance b/d	230	Purchases of refreshments	680
Subscriptions	2 400	Coach hire for day-trip	455
Sales of refreshments	910	Purchase of laptop computer	290
Sales of tickets for day-trip	450	Rent of room	360

On 31 December 2008 the club's assets and liabilities were as follows.

	£
Kitchen equipment	270
Cash at bank	?
Subscriptions due for 2008	180
Subscriptions received in advance for 2009	75

- (a) Draw up the subscriptions account for the year and balance it at 31 December 2008. (There is no need to bring the balances down to begin the next period). (7)
- (b) Prepare the club's income and expenditure account for the year ended 31 December 2008. You should show the profit or loss on the sale of refreshments and on the day-trip. (10)
- (c) Prepare the club's balance sheet as at 31 December 2008. (9)

(Total: 26 marks)

Answer space for question 5 is on pages 19 to 21 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. The following account appears in one of the ledgers in the books of Captain Cat. It has been prepared by an inexperienced bookkeeper.

Marina Swansea Ltd Account

DR			CR		
		£			£
9 July	Cheque	330	1 July	Balance b/d	350
9 July	Discount	20	10 July	Goods and services	720
11 July	Credit note	35			
28 July	Contra from Sales Ledger	160			
31 July	Balance c/d	<u>525</u>			<u> </u>
		<u>1 070</u>			<u>1 070</u>

- (a) State the meaning of the entries dated:

- (i) 9 July (cheque);
- (ii) 9 July (discount);
- (iii) 10 July;
- (iv) 11 July;
- (v) 28 July;
- (vi) 31 July.

(12)

- (b) Re-write Marina Swansea Ltd's account using the running balance format. Use correct narrations.

(12)

- (c) Name **one** advantage of setting out accounts in the running balance format.

(2)

(Total: 26 marks)

Answer space for question 6 is on pages 22 to 24 of the question paper.

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