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### Purchases Returns Day Book


**(20)**







(d) (i) State what is meant by the sub-division of the ledger.

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(2)

(ii) Give **one** reason why a business sub-divides its ledger.

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(2)

Q1

(Total 48 marks)



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(20)






**(20)**

(c) (i) Using your profit or loss figure from (a), comment on the profitability of Ruby Biro's business.

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**(4)**



(ii) Suggest ways in which Ruby Biro might improve her profit and loss situation.

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(4)

Q2

(Total 48 marks)

**TOTAL FOR SECTION A: 96 MARKS**



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**(16)**



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(b) Phidippides is currently keeping his books on a manual system but is considering changing to customised accounting software. Evaluate the advantages and disadvantages to his business of making this change.

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**(10)**

**(Total 26 marks)**

**Q3**

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**Source material for use with question 4 can be found on pages 7 and 8 of the source booklet.**

4. (a) Prepare the following accounts in Penny Wise’s ledger for the year ended 31 August 2009:

(Show clearly in each account the amount to be transferred to the profit and loss account for the year. Where relevant, bring down each final balance to begin the next period.)

- (i) insurance


**(5)**

- (ii) wages


**(5)**



(iii) provision for doubtful debts


**(4)**

(iv) bad debts


**(2)**

(v) provision for depreciation on office furniture.


**(2)**



(b) Using an example, give **one** reason why it is necessary for a business to depreciate its fixed assets.

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**(4)**

(c) (i) State why a business makes a provision for doubtful debts.

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**(2)**

(ii) Give one reason why a business might reduce its provision for doubtful debts.

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**(2)**

**(Total 26 marks)**

**Q4**

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Source material for use with question 5 can be found on page 9 of the source booklet.

5. (a) Prepare the club's receipts and payments account and balance it on 31 December 2009.

**Sandy Beach Volleyball Club**  
**Receipts and Payments Account**


(9)





(c) Prepare the club’s balance sheet as at 31 December 2009.

**Sandy Beach Volleyball Club**

**Balance Sheet as at 31 December 2009**


(7)

Q5

(Total 26 marks)

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Source material for question 6 can be found on pages 10 and 11 of the source booklet.

6. (a) Showing your answers to **two** decimal places, calculate the following ratios for **each** of the two years (show all your calculations):

(i) return on capital employed

2008 .....

.....

2009 .....

.....

**(2)**

(ii) net profit to turnover

2008 .....

.....

2009 .....

.....

**(2)**

(iii) current ratio

2008 .....

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2009 .....

.....

**(2)**



(iv) rate of stock turnover.

2008 .....

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2009 .....

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**(4)**

(b) Evaluate Iroko's view that the performance of the business has improved since Sapele was taken on as a partner.

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**(10)**

The business's bank manager has suggested that it would be fairer if the partners allowed for 5% interest on fixed capitals before sharing profits and losses equally.

(c) Calculate the amount of income which Iroko would receive in the year ended 31 December 2009 under the:

(i) existing partnership agreement

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**(2)**

(ii) suggestion made by the bank manager.

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**(4)**

**(Total 26 marks)**

**Q6**

**TOTAL FOR SECTION B: 104 MARKS**

**TOTAL FOR PAPER: 200 MARKS**

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Paper Reference(s)

**7011/01**

# **London Examinations GCE**

## **Accounting**

### **Ordinary Level**

Thursday 7 January 2010 – Morning

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

**Do not return this booklet with the  
question paper.**

Printer's Log. No.

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## SECTION A

### SOURCE MATERIAL FOR USE WITH QUESTION 1

1. A Aubergine is a wholesale greengrocer.

On 1 November 2009, the following credit balances appeared in A Aubergine's purchases ledger:

O Okra: £2 100

P Pepper: £735

Z Zucchini: £4 540

The following transactions took place in A Aubergine's business during November 2009.

VAT applies where indicated at the rate of 10%.

3 November	Received an invoice from O Okra for goods purchased with a list price of £4 000 less 15% trade discount plus VAT. The terms of the invoice are a 5% cash discount if payment is made by the end of the month.
8 November	Received an invoice from P Pepper for goods purchased with a list price of £3 200 less 25% trade discount plus VAT.
10 November	Paid the opening balances owing to O Okra, P Pepper and Z Zucchini in full by electronic bank transfer (credit transfer).
11 November	Returned one-fifth ( $\frac{1}{5}$ ) of the goods purchased from P Pepper on 8 November as being damaged.
15 November	Received an invoice from Z Zucchini for goods purchased with a list price of £8 500 less 20% trade discount plus VAT.
20 November	Paid the balance on O Okra's account in full, taking the cash discount.
20 November	Returned damaged goods with a list price of £500 to Z Zucchini.
23 November	Purchased a new telephone system for the office for £820 on credit from ComTele Ltd.

**Required:**

- (a) Prepare A Aubergine's purchases day book and purchases returns day book, showing columns for goods, VAT and total. Show details of the trade discounts deducted and total the columns at the end of each book. (20)
- (b) Prepare the accounts of O Okra, P Pepper and Z Zucchini in A Aubergine's purchases ledger. Balance the accounts at 30 November 2009 and bring down the balances to begin the next month. Do **not** prepare any other ledger accounts in this section. (17)
- (c) Prepare A Aubergine's purchases ledger control account on 30 November 2009. (7)
- (d) (i) State what is meant by the sub-division of the ledger. (2)
- (ii) Give **one** reason why a business sub-divides its ledger. (2)

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**(Total 48 marks)**

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

## SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Ruby Biro runs a stationery shop and makes deliveries to her customers. Here is her trial balance at 31 December 2009.

	DR	CR
	£	£
Administration expenses	5 273	
Advertising	60	
Bank	3 700	
Bank loan		5 000
Capital		60 000
Carriage inwards	717	
Carriage outwards	2 746	
Cash	500	
Creditors		4 610
Debtors	3 915	
Drawings	11 600	
Driver's wages	7 000	
Insurances	1 200	
Motor expenses	3 925	
Delivery van at cost	10 000	
Provision for depreciation on delivery van at 1 January 2009		7 500
Provision for depreciation on shop fixtures at 1 January 2009		3 200
Purchases	120 600	
Rent and rates	13 800	
Returns inwards	900	
Returns outwards		1 686
Sales		144 710
Shop fixtures at cost	4 520	
Stock at 1 January 2009	<u>36 250</u>	<u>          </u>
	<u>226 706</u>	<u>226 706</u>



### **Additional information**

- Stock on 31 December 2009 was valued at £35 700.
- £200 was owing to the driver in unpaid wages.
- Rent of £650 had been paid for the following year.
- The bank loan was taken out on 1 July 2009. Annual interest is 10% of the full amount of the loan. Interest for the current year has not yet been accounted for.
- Depreciation is to be charged on the delivery van and on the shop fixtures at 40% on the diminishing balance method.

### **Required:**

From the information provided, prepare the:

- (a) Trading and profit and loss account for the year ended 31 December 2009. **(20)**
- (b) Balance sheet at 31 December 2009, showing the net current assets (working capital). **(20)**
- (c) (i) Using your profit or loss figure from (a), comment on the profitability of Ruby Biro's business. **(4)**
- (ii) Suggest ways in which Ruby Biro might improve her profit and loss situation. **(4)**

**(Total 48 marks)**

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**Answer space for question 2 is on pages 8 to 12 of the question paper.**

## SECTION B

### SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Phidippides owns a sports shop. He does his accounts on the double entry system and also keeps a full set of books of original entry, including a journal.

During the month of December 2009, the following events took place.

- (i) On 3 December, Phidippides bought a shredding machine for his office on credit from Dodgy Dossiers Ltd. The machine cost £100 plus VAT at 10%.
- (ii) On the night of 10 December, there was a burglary at the shop and stock valued at £2 500 was stolen. The insurance company has agreed to pay full compensation but the money has not yet been received.
- (iii) On 15 December Phidippides paid £280 to Marathon Supplies Ltd, a creditor, in full settlement of an outstanding purchases invoice for £300. He thought that a cash discount had been agreed, but this was not the case. He must now make entries in the books to cancel this cash discount. He has not yet paid the balance of £20.
- (iv) In November, Phidippides had sold goods to the value of £500 to V Williams. On 22 December he discovered that he had debited the sale to the account of S Williams and entries must be made to correct the error.
- (v) On 31 December Phidippides decided to increase the existing provision for doubtful debts from £550 to £670.

#### Required:

- (a) Write entries in Phidippides' journal to record these events. You should give a suitable narration for each entry. (16)
- (b) Phidippides is currently keeping his books on a manual system but is considering changing to customised accounting software. Evaluate the advantages and disadvantages to his business of making this change. (10)

**(Total 26 marks)**

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

## SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Penny Wise is a financial consultant. The following information is taken from her books for the year ended 31 August 2009.

<b>Balances at 1 September 2008</b>	<b>£</b>
• Insurance account prepaid	65
• Wages account owing	7 250
• Provision for doubtful debts account	1 870

<b>Balances at 31 August 2009</b>	
• Insurance account owing	70
• Wages account owing	5 100
• Provision for doubtful debts account	1 500

### **During the year ended 31 August 2009 the following transactions occurred**

• Total insurance paid by direct debit	820
• Total wages paid by credit transfer	36 000
• On 31 August 2009, a debt owing by Norman Rock, a customer, was written off as bad	300
• On 28 February 2009 a new office desk was purchased for £1 600. This is to be depreciated using the straight line method at an annual rate of 20%. (Depreciation is charged for the proportion of the year for which the asset is owned.)	

### **Required:**

- (a) Prepare the following accounts in Penny Wise's ledger for the year ended 31 August 2009:

(Show clearly in each account the amount to be transferred to the profit and loss account for the year. Where relevant, bring down each final balance to begin the next period.)

- (i) insurance (5)
- (ii) wages (5)
- (iii) provision for doubtful debts (4)
- (iv) bad debts (2)
- (v) provision for depreciation on office furniture. (2)

- (b) Using an example, give **one** reason why it is necessary for a business to depreciate its fixed assets. (4)
- (c) (i) State why a business makes a provision for doubtful debts. (2)
- (ii) Give one reason why a business might reduce its provision for doubtful debts. (2)

**(Total 26 marks)**

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**Answer space for question 4 is on pages 17 to 19 of the question paper.**

## SOURCE MATERIAL FOR USE WITH QUESTION 5

5. The Sandy Beach Volleyball Club was formed on 1 January 2009 and accounts will be prepared on 31 December each year.

The club's Treasurer has produced the following information for the year ended 31 December 2009.

	£
Subscriptions received from members during the year	15 000
General expenses	8 150
Purchase of equipment	5 000
Cost of attendance at training course by club coach	200
Sale of tickets for trip to the national championships	1 630
Purchase of block of tickets for the national championships	800
Cost of travel to the national championships	585

### Additional information:

- On the day the club was formed, one of the founder members made an interest-free loan to the club, in cash, of £1 000.
- The amount received for members' subscriptions includes £1 300 in respect of the year ended 31 December 2010. £175 is still owing in subscriptions for the current year and it is expected that these will be received.
- The tickets for the national championships sold to the club members include travel.
- The equipment, which was purchased on 1 January 2009, is to be depreciated by 10% on cost.

### Required:

- (a) Prepare the club's receipts and payments account and balance it on 31 December 2009. (9)
- (b) Prepare the club's income and expenditure account for the year ended 31 December 2009. You should show the profit or loss on the trip to the national championships. (Show your workings.) (10)
- (c) Prepare the club's balance sheet as at 31 December 2009. (7)

**(Total 26 marks)**

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Answer space for question 5 is on pages 20 to 22 of the question paper.

## SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Iroko is a craftsman who makes and sells handmade wooden furniture. During the year ended 31 December 2008, he operated as a sole trader and had a fixed capital of £55 000.

On 1 January 2009, Iroko took on a partner, Sapele, who is an expert salesman and manager and who brought capital of £20 000 into the business. The two partners have agreed that neither of them will receive interest on capital or a salary but that they will share profits equally.

The following table shows some differences between the two years.

	Year ended 31 December 2008	Year ended 31 December 2009
Net profit	15 000	35 000
Gross profit	32 000	68 000
Sales turnover	82 500	153 800
Stocks	20 750	12 300
Debtors	8 475	4 320
Creditors	10 900	9 065
Bank overdraft	5 600	1 580
Computer	–	3 500

### Required:

- (a) Showing your answers to **two** decimal places, calculate the following ratios for **each** of the two years (show all your calculations):
- (i) return on capital employed (2)
  - (ii) net profit to turnover (2)
  - (iii) current ratio (2)
  - (iv) rate of stock turnover. (4)
- (b) Evaluate Iroko's view that the performance of the business has improved since Sapele was taken on as a partner. (10)

The business's bank manager has suggested that it would be fairer if the partners allowed for 5% interest on fixed capitals before sharing profits and losses equally.

(c) Calculate the amount of income which Iroko would receive in the year ended 31 December 2009 under the:

(i) existing partnership agreement

(2)

(ii) suggestion made by the bank manager.

(4)

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**(Total 26 marks)**

**Answer space for question 6 is on pages 23 to 25 of the question paper.**

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