Edexcel International

London Examinations

GCE Ordinary Level

Specimen Paper and Mark Scheme

London Examinations Ordinary Level GCE in Accounting (7011)

First Examination May/June 2005

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Contents

Paper Reference(s)

7011

London Examinations GCE

Accounting

Ordinary Level

Specimen Paper

First examination May/June 2005
Time: 3 hours

Materials required for examination	**Items included with question papers**
Answer Book (AB16)	Accounting paper (AB34) (6 sheets per candidate)

Instructions to Candidates

Answer **all** questions.

In the boxes on the answer book, write the name of the examining body (London Examinations), your centre number, candidate number, the subject title (Accounting), the paper reference (7011), your surname and signature.
Answer your questions in the answer book. Make sure your answers to parts of questions are clearly numbered. Use supplementary answer sheets if necessary. If the accounting paper provided does not allow you to set out your answer in the way you wish, rule up a page of the answer book to suit your requirements.

Information for Candidates

The total mark for this paper is 100. The marks for parts of questions are shown in round brackets: e.g. (**2**).
This paper has 6 questions.

Calculators may be used.

Advice to Candidates

Write your answers neatly and in good English.

Turn over

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SECTION A

Answer BOTH questions in this section

1. Throughout this question, assume that the rate of VAT is 10%.

P Kapur's business sells sports equipment on a strictly cash basis. During December 2002, P Kapur received the following invoices from the business's suppliers.

Dec 7	Cheng Sports Ltd, goods list price £800 less 25% trade discount plus VAT (no cash discount was offered on this transaction).
Dec 21	Hallom Ltd, goods value £2 000 plus VAT. The invoice offered a cash discount of 5% for payment within 14 days.

(a) Prepare the purchases journal for December 2002. The journal should have columns for Goods, VAT and Total, and should be totalled at the end of the month.

(6)

Goods were returned to suppliers during December and the following credit notes were received.

Dec 16	Cheng Sports Ltd., goods list price £40 (these were some of the goods supplied on 7 December).
Dec 28	Quinn Supplies: goods at list price £400 less a trade discount of 20%, plus VAT (no cash discount had been offered on the invoice for these goods).

(b) Prepare the returns outward journal (using the same layout as that required by (a) above.) The journal should be totalled at the end of the month.

(6)

As well as the information recorded in the purchases and returns outward journals, the following details are available regarding Cheng Sports Ltd.

Dec 1	Balance of account: £2 000.
Dec 9	Cheque sent in full settlement of the balance on 1 December less a cash discount of 5%.

(c) Prepare the account of Cheng Sports Ltd in P Kapur's purchases ledger. Balance the account on 31 December and bring the balance down.

(5)

As well as the VAT arising from credit purchases and returns out, the following transactions included VAT.

Dec 6	Purchase of stationery by cheque £200 plus VAT.
Dec 12	Purchase of new office equipment from Phillips Ltd, on credit £2 600 plus VAT.
Dec 31	Cash sales for the month totalled £11 000 including VAT.

(d) Prepare the VAT account in P Kapur's nominal (general) ledger starting with the opening debt balance on 1 December of £5 000. Balance the account on 31 December and bring down the balance.

(5)

(e) Explain fully what the balances of the VAT account represent. **(2)**

(Total 24 marks)

Turn over

2. Cassagne and Shah are partners in a retail business, sharing profits and losses equally.

At 31 December 2001 their balance sheet was as follows:

	£		£
Cassagne Capital	18 000	Buildings	29 000
Shah Capital	16 000	Equipment	3 300
Cassagne Current Account	1 070	Vehicles	2 240
Shah Current Account	160	Stock	7 124
Trade Creditors	5 392	Cash at bank and in hand	2 958
Loan (repayable before 2006)	4 000		
	44 622		44 622

The following is a summary of their transactions in the quarter ending 31 March 2002:

		£
Cash sales		17 980
Goods purchased on credit		12 284
Cheques sent to suppliers		11 840
Cash discount allowed by suppliers		148
Sundry expenses paid by cheque and in cash		1 440
Partners' cash drawings:	Cassagne	800
	Shah	600
Loan repayment		1 000
New equipment purchased by cheque		350

The following information is available at 31 March 2002.

- Stock at 31 March 2002 is valued at £2 620.
- Allow for £40 loan interest due but unpaid.
- Depreciation for the quarter: equipment £80; vehicles £150.
- The item 'sundry expenses £1 440' includes prepaid insurance £18 for the following quarter; apart from this item, all the sundry expenses relate to the current quarter.

You are asked to:

(a) prepare the combined cash and bank account, and the trade creditors account for the quarter ended 31 March 2002;

(8)

(b) prepare the trading and profit and loss accounts (including the appropriation section) for the quarter ended 31 March 2002 and the balance sheet **extract** at 31 March 2002.

Your balance sheet must include **only**:

- capital accounts;
- details of each partner's current account;
- long term liabilities;
- current liabilities.

There is no need to show fixed assets or current assets in the balance sheet.

(16)

(Total 24 marks)

TOTAL FOR SECTION A: 48 MARKS

Turn over

SECTION B

Answer ALL questions in this section

3. On 30 April 2002, the totals of the trial balance drawn up for Paula Cliffe's business did not agree. The difference between the totals was entered in a suspense account.

An investigation of the difference revealed the following errors relating to the period for which the trial balance had been prepared.

(i) The sales total had been under cast by £500.

(ii) An extension to Paula's home had been built during the year at a cost of £25 000. This amount had been debited to the business premises account and credited to the bank account. This should have been a private matter rather than a business transaction.

(iii) Discount received £95.20 had been credited to the discount received account. The correct entry of £20.95 had been made in the supplier's account.

(iv) Paula had taken cash amounting to £200 from the business for her own use. No entries had been made for this.

(v) Goods for resale had been purchased by cheque for £300. The correct entry had been made in the purchases account but the bank account had been debited with £300.

(vi) Sales on credit to V Williams £600 were debited to the account of Z Williams.

You are asked to:

(a) Set out the journal entries for the items that do **not** involve the suspense account. Narratives are required and must state the **type** of error involved.

(6)

(b) Write up the suspense account, including the opening balance. Assume that the trial balance totals agree after the errors have been corrected.

(5)

(c) Before discovery of the errors, which side of the trial balance was deficient and by how much?

(2)

(Total 13 marks)

4. Yau Marks is a retailer. The following information is available from his accounts for the year ended 31 December 2003.

	£
Stock at 31 December 2003	4 980
Purchases	44 508
Sales	60 520
Returns inward	280
Returns outward	420
Mark up on cost 50%	

You are asked to:

(a) Prepare Yau Marks' trading account for year ended 31 December 2003, showing the value of stock at 1 January 2003.

(7)

(b) Yau Marks thinks it would be a good idea to overvalue closing stock since this will result in better profits. Write a short note to Yau Marks explaining why this would not be good accounting practice. In your note, name and explain the accounting concept involved in this case.

(3)

(c) A firm's closing stock was overvalued at the end of year 1. Analyse the effect on the net profit over years 1 and 2 of this overvaluation.

(3)

(Total 13 marks)

Turn over

5. Rubble Ltd has a registered capital of £600 000 divided into 400 000 ordinary shares of £1 each and 200 000 6% preference shares of £1 each.

The following balances remained in the accounts of the company after the trading and profit and loss accounts had been prepared for the year ended 30 April 2002.

	Debit £	**Credit £**
Light and heat accrued		175
VAT		15 000
Ordinary share capital: fully paid		400 000
6% preference share capital: fully paid		20 000
Cash at bank	25 000	
Profit and loss account balance 1 May 2001		90 000
Debtors and creditors	20 000	8 600
Net profit for year ended 30 April 2002		40 400
Machinery and plant at cost	200 000	
Provision for depreciation on machinery and plant		50 000
Stock	39 175	
Premises at cost	350 000	
General reserve		10 000
	634 175	634 175

The directors have recommended the following:

- a transfer of £5 000 to general reserve;
- an ordinary share dividend of 10%;
- a provision for the full year's preference share dividend.

You are asked to:

(a) prepare the profit and loss appropriation account for year ended 30 April 2002;

(3)

(b) prepare a balance sheet at 30 April 2002, showing fixed assets, current assets, current liabilities, working capital and shareholders' funds.

(10)

(Total 13 marks)

6. (a) Explain the meaning of the terms **profitability** and **liquidity**. **(2)**

(b) Give **two** accounting formulae used to measure a firm's profitability. **(2)**

(c) Give **one** accounting formula used to measure a firm's liquidity. **(1)**

(d) Evaluate the figures given below, for two separate businesses taken over the same time period, in terms of profitability and liquidity.

Tom's Business		**Seyi's Business**	
	£ 000		**£ 000**
Capital	200	Capital	160
Net profit	20	Net profit	40
Creditors	40	Creditors	80
Equipment	180	Premises	140
Bank	40	Debtors	10
Stock	20	Motor van	60
Debtors	20	Stock	20
		Equipment	40
		Bank	10

(8)

(Total 13 marks)

TOTAL FOR SECTION B: 52 MARKS

TOTAL FOR PAPER : 100 MARKS

END

1.

(a) **Purchases Journal** ✓

		Goods	VAT	Total
Dec 7	Cheng Sports Ltd	800 ✓		
	Less trade discount 25%	200 ✓		
		600	60 ✓	660 ✓
Dec 21	Hallom Ltd	2 000 ✓	190 ✓✓	2 190 ✓
Dec 31	Totals	2 600 ✓	250 ✓	2 850 ✓

12 x ✓ = 6 marks

(b) **Returns Outwards Journal** ✓

		Goods	VAT	Total
Dec 16	Cheng Sports Ltd	40 ✓		
	Less trade discount	10 ✓		
		30	3 ✓	33 ✓
Dec 28	Quinn Supplies	400 ✓		
	Less trade discount 20%	80 ✓		
		320	32 ✓	352 ✓
Dec 31	Totals	350 ✓	35 ✓	385 ✓

12 x ✓ = 6 marks

(c) **Cheng Sports Ltd Account**

Dec 9	Bank	1 900 ✓		Dec 1	Balance b/d	2 000✓
Dec 9	Disc Rec	100 ✓		Dec 7	Purchases	660 ✓✓
Dec 16	Rets Outw	33 ✓✓				
Dec 31	Balance c/d	627 ✓✓				
		2 660				2 660
				Jan 1	Balance b/d	627 ✓

10 x ✓ = 5 marks

(d) **VAT account**

Dec 1	Balance b/d	5 000 ✓		Dec 31	Cash (Sales)	1 000 ✓✓
Dec 6	Bank (Stationery	20 ✓		Dec 31	Sundry Creditors	35 ✓
Dec 12	Phillips Ltd	260 ✓		Dec 31	Balance c/d	4 495 ✓✓
Dec 31	Sundry Creditors	250 ✓				
		5 530				5 530
Jan 1	Balance b/d	4 495 ✓				

10 x ✓ = 5 marks

(e) In the above case there are two balances on the VAT account. One at the beginning of December and one at the end. Both balances are debits and therefore assets (✓). HM Customs and Excise (✓) owes P Kapur £5 000 at the beginning of December (✓) and £4 395 at the end of December (✓)

4 x ✓ = 2 marks

Total 24 marks

2.

(a)

Cash and Bank Account

Balance b/d	2 958 ✓	Creditors	11 840 ✓
Sales	17 980 ✓	Sundry Exps	1 440 ✓
		Drawings F	800 ✓
		Drawings B	600 ✓
		Loan	1 000 ✓
		Equipment	350 ✓
		Balance c/d	4 908 ✓✓
	20 938		20 938

Total Creditors Account

Bank	11 840 ✓	Balance b/d	5 392 ✓
Disc Rec	148 ✓	Purchases	12 284✓
Balance c/d	5 688 ✓✓		
	17 676		17 676

16 x ✓ = 8 marks

(b)

Trading and profit and loss account of Cassagne and Shah for 3 months ended 31 March 2002✓

Opening Stock	7 124 ✓				Sales	17 980 ✓
Purchases	12 284 ✓	19 408				
Less Closing Stock		2 620 ✓				
Cost of sales			16 788			
Gross Profit			1 192 ✓			
			17 980			17 980
Sundry expenses	1 440 ✓				Gross Profit	1 192 ✓
Less prepaid Insurance	18	1 422 ✓			Discount Received	148 ✓
Loan Interest owing		40 ✓			Net Loss	352 ✓
Depr. on Equipment	80 ✓					
Depr. on Vehicles	150	230 ✓	1 692			1 692
Net Loss			352 ✓		**Share of Loss**	
					Cassagne	176 ✓
					Shah	176 ✓
			352			352

17 x ✓ = 8½ marks

Balance Sheet at 31 March 2002 ✓

Capital Accounts				**Fixed Assets**			
Cassagne	18 000 ✓			Buildings		29 000	
Shah	16 000 ✓	34 000		Equipment	3 300		
Current Accounts				Add new equipment	350		
Cassagne Balance b/d	1 070 ✓			Less depreciation	80	3 570	
-Share of Loss	-176 ✓			Vehicles	2 240		
-Drawings	-800 ✓	94		Less depreciation	150	2 090	34 660
Shah Balance b/d	160 ✓			**Current Assets**			
-Share of Loss	-176 ✓			Stock	2 620		
-Drawings	-600 ✓	-616		Prepaid Insurance	18		
Long Term Liabilities				Cash and Bank	4 908	7 546	
Loan	4 000 ✓			**Less Current Liabilities**			
Less repaid	1 000	3 000 ✓✓		Creditors	5 688 ✓		
				Loan interest owing	40 ✓	5 728 ✓	1 818
		36 478					36 478

15 x ✓ = 7½ marks

Total 24 marks

Please note that the question asked for a Balance Sheet Extract. Fixed Assets and Current Assets were not required and do not receive any marks.

3. (a)

Paula Cliffe's Journal ✓

	Debit ✓	**Credit** ✓
Drawings Dr	25 000 ✓	
Premises		25 000 ✓
Being correction of error of principle ✓		
Drawings Dr	200 ✓	
Cash		200 ✓
Being correction of error of principle ✓		
V Williams Dr	600 ✓	
Z Williams		600 ✓
Being correction of error of commission ✓		

12 x ✓ = 6 marks

(b)

Suspense Account

Sales ✓✓	500.00	Balance c/d ✓✓	1 174.25
Discount Received ✓✓	74.25		
Bank ✓✓	600.00		
	1 174.25 ✓		1 174.25 ✓

10 x ✓ = 5 marks

(c) Credit side deficient ✓✓ by £1 174.25 ✓✓ 4 x ✓ = 2 marks

Total 13 marks

4.

(a)

Trading Account✓ of Yau Marks✓ for year ended 31 December 2003✓

Opening Stock	1 052 ✓✓			Sales	60 520 ✓	
Purchases	44 508 ✓	45 560		Less Returns Inward	280	
Less Closing Stock	4 980 ✓			Net Sales		60 240 ✓
Less Returns Outward	420 ✓	5 400				
Cost of Sales			40 160 ✓			
Gross Profit			20 080 ✓✓✓			
			60 240			60 240

14 x ✓ = 7 marks

(Gross Profit is 50% on cost and is, therefore, 33⅓ on sales. £60 240/3 gives GP of £20 080)

(b) The accounting concept of prudence (✓✓) means that profits should not be overstated because this gives an unfair view of the business (✓✓).

Award up to a further ✓✓ for further development of answer e.g. I would advise Yau Marks to value stock at cost or net realisable value, whichever is lower, rather than (say) selling price because this is a conservative or prudent valuation.

6 x ✓ = 3 marks

(c) Year 1: An overvalued Closing Stock would over state gross profit ✓ and therefore over state Net Profit ✓✓

Year 2: The Closing Stock becomes Opening Stock ✓. Overvalued Opening Stock would understate Gross Profit✓ and therefore Net Profit ✓

6 x ✓ = 3 marks

Total 13 marks

5.

(a) **Rubble Limited**

Profit and loss appropriation account for year ended 30 April 2002

Balance b/d		90 000 ✓
Net profit		40 400 ✓
		130 400
General reserve	5 000 ✓	
Proposed ordinary share dividend	40 000 ✓	
Proposed preference share dividend	1 200 ✓	46 200
Balance c/d		84 200 ✓

6 x ✓ = 3 marks

(b) **Balance sheet at 30 April 2002**

Fixed Assets	**Cost/Valuation**	**Agg Depreciation**	**Net Value**
Premises	350 000		350 000 ✓
Machinery and Plant	200 000 ✓	50 000	150 000 ✓
			500 000 ✓
Current Assets			
Stock	39 175 ✓		
Debtors	20 000 ✓		
Cash and bank	25 000 ✓	84 175 ✓	
Less Current Liabilities			
Light & heat accrued	175 ✓		
Proposed ordinary share dividend	40 000 ✓		
Creditors	8 600 ✓		
Proposed preference share dividend	1 200 ✓		
VAT	15 000 ✓	64 975 ✓	
Working Capital			19 200 ✓
			519 200
Represented by			
400 000 £1 Ord Shares fully paid		400 000 ✓	
20 000 £1 6% Pref shares fully paid		20 000 ✓	
Profit and loss b/d		84 200 ✓	
General reserve	10 000		
Add transfer	5 000	15 000 ✓	
Shareholders' Funds			519 200 ✓
			519 200

20 x ✓ = 10 marks

Total 13 marks

6.

(a) Profitability measures how much profit a firm has made ✓. This can be compared with capital or sales to give more meaningful information. ✓

Liquidity measures the ease with which a firm can pay its debts ✓ as they fall due ✓. (Award one ✓ for statement and further ✓ for development.)

4 x ✓ = 2 marks

(b) Any 2 acceptable formulae for profitability

e.g. Net Profit/Capital ✓ times 100/1 ✓
Gross Profit/Sales ✓ times 100/1 ✓

4 x ✓ = 2 marks

(c) Either Current ratio or Quick Assets ratio

Current Ratio = Current Assets : Current Liabilities
Quick Assets Ratio = Current Assets – Stock : Current Liabilities

2 x ✓ = 1 mark

(d) Award up to ✓✓ for each correct calculation.
2 profitability and 2 liquidity required gives

8 x ✓ = 4 marks

Award up to ✓✓ for 2 comparative points given — 4 x ✓ = 2 marks

e.g. Y's return on capital is 25% in comparison to X's 10% ✓✓

Y's Current Ratio is 0.5:1 in comparison to X's 2:1 ✓✓

Award up to ✓✓✓✓ for an acceptable conclusion — 4 x ✓ = 2 marks

Example Conclusion:
Tom appears to be the much safer business, it has an ideal liquidity situation so will comfortably be able to meet its current liabilities. However, its profitability is low in comparison to Seyi ✓.

Seyi makes excellent profits from a lower capital base but it might be overstretching itself reflected by its liquidity problems ✓✓.

Overall Seyi is the better proposition providing its creditors stay friendly ✓✓.

Total 13 marks

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