

Paper Reference(s)

6001/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary/Advanced Level

Unit 1 – The Accounting System and Costing

Tuesday 2 June 2009 – Morning

**Source booklet for use with Questions
1 to 7.**

**Do not return the insert with the
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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Rania is in business as a general trader preparing final accounts on 30 April each year. Rania keeps a cash book but does not keep a full set of books.

The following information is available for the year ended 30 April 2009:

- (i) Sales are made for credit and for cash. All credit sales have been invoiced and cash sales have been banked after making the following deductions:

	£
Staff wages	150 per week
Operating expenses	450 per month

(Assume 52 weeks per year and 12 months per year).

- (ii) After deducting the cash expenditure in (i) above, all cash takings had been paid into the bank. The following is a summary of the bank account:

	£		£
Balance b/d	2 250	Operating expenses	7 250
Cash sales	19 850	Rent	5 500
Credit sales banked	77 600	Suppliers of goods	48 000
Equipment sale receipt	1 350	Drawings	25 000
Balance c/d	2 400	Carriage expenses	17 700
	103 450		103 450

- (iii) During the year Rania received discount of £2 500 from suppliers and gave discount of £3 200 to credit customers for prompt payment.
- (iv) Rent of £500 was owing at 30 April 2009.
- (v) One third of the carriage expenses were incurred in collecting purchases and two thirds in delivering goods to customers.
- (vi) During the year, equipment with a book value of £1 200 was sold for £1 350.

(vii) Other balances:

	1 May 2008	30 April 2009
	£	£
Capital	21 000	?
Equipment (book value)	15 000	12 000
Debtors	9 800	7 950
Creditors	4 300	4 800
Stock	8 250	5 150
8% Bank loan	10 000	10 000

- (viii) Interest on the bank loan is outstanding for the year.

Required:

(a) Calculate for the year ended 30 April 2009, the:

- (i) sales
- (ii) purchases.

(13)

(b) Prepare for Rania the:

- (i) trading and profit and loss account for the year ended 30 April 2009
- (ii) balance sheet as at 30 April 2009.

(27)

Rania has four employees all of whom carry out a range of duties. These duties include serving in the shop, delivery of goods and working in the store. Rania has decided to change the employees' remuneration from day-work to piecework.

(c) Explain the terms:

- (i) day-work
- (ii) piecework.

(4)

(d) Evaluate the decision of Rania to change the remuneration payment to her employees from day-work to piecework.

(8)

(Total 52 marks)

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

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Sayeda is in business as a trader buying and selling goods. The following balances were extracted from the accounts on 30 April 2009.

	£	£
Sales – cash		19 000
credit		205 000
Stock 1 May 2008	21 000	
Purchases on credit	195 000	
Expenses (including loan interest)	37 000	
10% Loan repayable 31 December 2012		40 000
Fixed assets (at cost)	100 000	
Fixed assets – provision for depreciation		40 000
Capital		15 000
Creditors		35 000
Debtors	14 000	
Bank		13 000
	367 000	367 000

Additional information:

- Stock at 30 April 2009 £56 000
- Depreciation is charged on fixed assets at the rate of 25% using the reducing balance method.

Required:

- (a) Prepare the trading and profit and loss account of Sayeda for the year ended 30 April 2009. (7)
- (b) Calculate for Sayeda the:
- ‘mark up’ on cost
 - stock turnover
 - return on capital employed
 - debtors collection period (in days)
 - creditors payment period (in days).

(15)

You are advised that the average for the sector is:

Mark up	30%
Return on capital employed	15%
Debtors collection period	22 days

(c) (i) Explain the term **profitability**.

(ii) Comment upon the profitability of the business of Sayeda.

(10)

Sayeda is considering how to improve profitability. She proposes both of the following:

- reduce prices by 20%
- purchase lower quality goods for resale.

(d) Evaluate the proposal for Sayeda.

(8)

Sayeda has also made the following four proposals to increase the profit for the year ended 30 April 2009. All proposals were rejected by the accountant. The proposals are as follows:

1. Staff have gained experience during the last year of working for Sayeda. It was proposed to include £2 000 profit for increased staff skill.
2. Premises to be re-valued to the current market value, an increase of £10 000.
3. Prepaid expenses, £3 500, to be charged within the current year.
4. Depreciation method be changed to straight line method. This would reduce depreciation by £4 000 for the year.

(e) (i) Identify the accounting concept or convention which forms the basis of the accountant's rejection of each proposal 1 to 4 above.

(ii) Explain the reasons for the rejection of each proposal.

(12)

(Total 52 marks)

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

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. The following were some of the balances extracted from the books of Tejal for the year ended 30 April 2009.

	£
Sales	132 000
Stock 1 May 2008	5 600
Rent	9 100
Electricity	3 000
General expenses	9 450
Provision for doubtful debts	565
Fixed assets	42 000
Provision for depreciation – fixed assets	14 000
Wages and salaries	28 100
Debtors	14 500
Creditors	14 800

- (i) After extracting the balances above, the following errors were discovered:

- A purchase of fixed assets for £2 000 had been incorrectly entered into the General Expenses Account.
- A debtor, A. Malan, had advised that he could only pay £300 of his £1 000 debt. It was agreed to accept this sum and to treat the remainder as a bad debt. No entries had been made in the books.
- A cash payment of wages for £270, had been correctly entered into the Cash Book but had been entered into the Wages and Salaries Account as £27.

- (ii) **Additional information:**

- Stock is valued on the periodic basis using the First In First Out (F.I.F.O.) method. The summary details were:

Balance 1 May 2008	100 items @ £56 per item
Receipts of stock for the year	1110 items @ £60 per item
Issues of stock for the year	1115 items

- Rent includes payment of £200 per month paid for the personal living accommodation of Tejal.
- The prepaid amount for electricity was;

1 May 2008	30 April 2009
£340	£735

All electricity payments were made by quarterly payments of £750 per quarter.

- The policy is that depreciation is charged on all assets owned on 30 April at the rate of 25% using the reducing balance method.
- A provision for doubtful debts of 4% of outstanding debtors is maintained at the end of each year.

Required:

- (a) (i) Distinguish between **bad debts** and a **provision for doubtful debts**.
(ii) Identify **one** accounting concept which is applied when a provision for doubtful debts is created. (8)
- (b) Prepare the journal to record the correction of the errors.
(Narratives are not required) (7)
- (c) Prepare the following accounts for the year ended 30 April 2009 showing the transfer to the final accounts and the balance carried down.
(i) Provision for doubtful debts account
(ii) Electricity account (9)
- (d) Prepare the trading and profit and loss account of Tejal for the year ended 30 April 2009. (20)
- Tejal has decided to change her basis of stock valuation for the next financial year from the First In First Out (F.I.F.O.) **periodic** to the Last In First Out (L.I.F.O.) **perpetual**.
- (e) Evaluate the implications of Tejal's decision. (8)

(Total 52 marks)

Answer space for question 3 is on pages 14 to 19 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Eleni and Gianna are in partnership sharing profits and losses in the ratio 2:1 respectively. Interest is paid on capital at the rate of 5% per annum. No interest is charged on drawings. Salaries are paid at the rate of £7 500 per annum to Eleni and £10 000 per annum to Gianna.

On 31 December 2008, the following balances were extracted from the partnership books after the preparation of the trading and profit and loss account.

	£	
Net profit	38 000	
Lease on premises	40 000	
Bank overdraft	5 000	
Creditors	58 400	
Debtors	34 000	
Stock	28 500	
Provision for doubtful debts	1 700	
Fixtures and fittings (net book value)	14 000	
Drawings:		
Eleni	17 500	
Gianna	16 600	
Current accounts: 1 January 2008		
Eleni	3 000	DR
Gianna	500	CR
Capital accounts: 1 January 2008		
Eleni	30 000	
Gianna	20 000	

Required:

(a) Prepare for the year ended 31 December 2008, the:

- profit and loss appropriation account of Eleni and Gianna. (5)

- current accounts of Eleni and Gianna. (6)

On 1 January 2009 Eleni and Gianna agreed to admit their office manager, Michalis, as a partner. It was agreed that:

(i) On 1 January 2009 Michalis would introduce the following assets into the business as capital:

Delivery Vehicle	£8 000
Stock	£7 500
Bank cheque	£9 500

(ii) Goodwill was valued at £60 000.

(iii) Goodwill would not be retained in the books of the business.

(iv) Profits and losses of the new partnership will be shared Eleni two fifths; Gianna two fifths; Michalis one fifth.

(v) No interest will be paid on capital or charged on drawings.

(vi) Each partner will receive a salary of £5 000 per annum.

(b) Prepare as at 1 January 2009, the:

- Journal entries recording the entry of Michalis to the partnership (8)

- Balance sheet of the new partnership. (9)

Before he was admitted as a partner on 1 January 2009, Michalis was paid a salary of £14 000 per annum as the business office manager. It is forecast that the net profit of the business will be £40 000 for the year ended 31 December 2009.

(c) Evaluate the decision of Michalis to become a partner of the business. Your answer should consider **one** financial and **one** non-financial factor. (4)

(Total 32 marks)

Answer space for question 4 is on pages 20 to 24 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Hanif started business as a self-employed maker of garden furniture on 1 May 2008. He decided to concentrate on manufacturing and selling a single product, the picnic table. A garden centre agreed to retail the product in exchange for a 30% trade discount from the list price. Hanif would also sell direct to customers at the full list price.

At the end of the first year's trading the following information is available:

- (i) The list price of the picnic table was £100 per table.
- (ii) Sales – Garden centre 80 picnic tables
 Direct to customers 80 picnic tables
- (iii) Raw materials with a value of £4 500 were purchased in the year. Hanif estimates that 20% of these raw material stocks remain unused at the end of the year.
- (iv) Rental of premises was £50 per month.
- (v) General expenses paid were £1 600 of which £75 are prepaid.
- (vi) Marketing expenses include £2 000 for newspaper advertising and £750 for the printing of brochures. Half of the brochures printed remain at the end of the year.
- (vii) Hanif uses a range of loose hand tools costing £800. These were revalued at the end of the year at £500.
- (viii) Hanif spent seven and a half hours manufacturing each picnic table for which he paid himself £5 per hour.
- (ix) There were no stocks of work in progress or finished goods at the end of the year.

Required:

- (a) Explain the terms **fixed cost** and **variable cost**, giving an example of each from (i) to (ix) opposite. (6)
- (b) Calculate the:
- profit or loss of Hanif's business for the year ended 30 April 2009 (12)
 - cost of making **one** picnic table, including the time spent by Hanif in manufacture. (4)

On 30 April 2008, in addition to the stock of raw materials:

- (i) Payment for 10 picnic tables was outstanding from the garden centre
- (ii) Creditors were owed £6 000
- (iii) The bank statement showed that Hanif had £200 in the bank.
- (c) Calculate, for Hanif, the **liquid (acid test) ratio** at 30 April 2009. (6)
- (d) Evaluate the decision of Hanif to commence self-employment making picnic tables. (4)

(Total 32 marks)

Answer space for question 5 is on pages 26 to 29 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Slawin Manufacturing has two production departments, Machining and Assembly, and one service department, Administration. Budgeted overheads are as follows:

	Machining	Assembly	Administration
	£	£	£
Allocated costs	14 400	15 300	13 300

Unallocated costs:

	Total
	£
Supervision	45 000
Electricity	18 000
Rent	9 000
Depreciation	27 000

Additional information for the year ended 30 April 2009:

- (i) Other information:

	Machining	Assembly	Administration
Floor area (sq m)	600	700	200
Employees	4	8	3
Machinery capacity (kWh)	60	20	10
Machinery value (£000)	200	50	50

- (ii) It is estimated that the services of Administration are used 40% Machining and 60% Assembly.

- (iii) Projected hours:

Machining	8 000
Direct labour	14 000

Required:

- (a) Distinguish between **allocation** and **apportionment** in overhead recovery. (4)
- (b) (i) Apportion the unallocated costs between the departments using the basis of apportionment that is most appropriate from the information provided. Determine the total overhead cost for each department.
- (ii) Re-allocate the costs of the service department (Administration) and calculate the absorption rates per hour **for each** of the production departments. (18)

If the actual figures for the Assembly department in the year were:

Actual assembly hours	14 800
Actual assembly overhead	£77 500

- (c) Calculate for the Assembly department, the over or under recovery of overhead for the year. (6)
- (d) Evaluate apportionment as a means of recovering overhead costs. (4)

(Total 32 marks)

Answer space for question 6 is on pages 30 to 34 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. Sadiq purchases and sells goods on credit. He believes that one of his employees has been carrying out a fraud by submitting false purchase invoices to the business.

The following balances were available for the year ended 30 April 2009.

	£
Creditors 1 May 2008	4 000
Credit purchases	64 000
Purchase returns	1 500
Cheques paid to suppliers	57 000
Discount received	2 000
Creditors 30 April 2009	7 500

Required:

- (a) Prepare for Sadiq the **purchases ledger control account** for the year. (10)
- (b) Advise Sadiq whether his employee has carried out a fraud. (4)
- (c) Evaluate the extent to which control accounts will detect fraud in a business. (4)

On 30 April 2009 a fire in the warehouse destroyed a quantity of stock. In addition to the information given above, the following information is available:

	£
Sales	90 000
Stock 1 May 2008	26 500
Remaining stock 30 April 2009	11 000

During the year, Sadiq traded with a 25% 'mark up' on cost.

- (d) Prepare the trading account of Sadiq for the year ended 30 April 2009. (6)
- (e) Calculate the value of the stock destroyed in the fire at the warehouse. (8)

(Total 32 marks)

Answer space for question 7 is on pages 36 to 39 of the question paper.

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