Paper Reference(s)

6001/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary/Advanced Level

Unit 1 – The Accounting System and Costing

Monday 12 January 2009 – Afternoon

Source booklet for use with Questions 1 to 7.

Do not return the insert with the question paper.

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Kehly is in business installing computer networks for two customers: TB Internet and Super Broadband. The following balances were extracted from Kehly's books on 31 December 2008.

	£
Sales	300 000
Purchases of materials	62 500
Wages of network installers	84 000
Management salaries	31 500
Vehicle running expenses	11 250
Vehicles at cost	35 000
Vehicles provision for depreciation	14 000
Office rent and expenses	43 400
Office equipment at cost	18 000
Office equipment provision for depreciation	6 000
Stock of materials at 1 January 2008	7 850
Debtors	90 000
Creditors	47 950
10% Bank loan repayable 31 December 2011	30 000
Interest on bank loan	1 500
Bank overdraft	9 150
Provision for doubtful debts	2 500
Capital	25 000
Drawings	49 600

Additional information:

(i) Stock of materials at 31 December 2008, £10 350.

(ii) Office rent and expenses includes a payment of £7 200 for the 3 months to 31 January 2009.

(iii) Depreciation is charged at the rate of 10% on vehicles using the straight line method and 20% on office equipment using the reducing balance method.

(iv) Kehly has the credit control policy of issuing invoices immediately after jobs are completed; submitting monthly statements to debtors; and telephoning debtors when debts are 3 months old. A schedule of outstanding debts is as follows:

Age of debt	0 – 3 months	3 – 6 months	Over 6 months
TB Internet	£22 000	£18 000	£17 000
Super Broadband	£27 000	£6 000	£ Nil

(v) A provision for doubtful debts is to be maintained at 31 December 2008 at the following rate:

Age of debt	0 – 3 months	3 – 6 months	Over 6 months
Rate	3%	6%	10%

Required:

(a) Prepare for Kehly the:
- trading and profit and loss account for the year ended 31 December 2008
- balance sheet as at 31 December 2008.

(28)

Kehly remunerates the network installers by paying an hourly rate. To save money, Kehly is considering changing the remuneration method to a piecework system.

(b) Explain **two** disadvantages to Kehly of changing the remuneration system to piecework.

(8)

(c) Calculate for Kehly at 31 December 2008 the:
- debtors collection period in days
- liquid (acid test) ratio.

(Calculations should be made to the nearest **one** decimal place.)

(8)

(d) Evaluate the credit control policy of Kehly.

(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. The following information relates to the machinery owned by Keaton Manufacturing, for the year ended 31 December 2008.

(i) Balances 1 January 2008:

- Machinery account £110 000
- Provision for depreciation on machinery account £42 000

(ii) Disposal of machinery:

Low Speed Printer (machine number 108)

- Purchased on 20 December 2005 for £30 000
- Estimated economic life 10 years
- Residual value £5 000
- Depreciation has been charged using the straight line method
- Sold on 30 November 2008 for £13 000.

(iii) Purchase of machinery:

High Speed Printer (machine number 515)

- Purchased on 31 December 2008 for £60 000 plus £4 000 installation cost
- Estimated economic life 8 years
- Residual value £8 000
- Depreciation is to be charged using the straight line method.

(iv) The machinery depreciation policy of Keaton Manufacturing is to charge a full year's depreciation in the year of sale and to charge no depreciation in the year of purchase.

(v) The total depreciation on machinery for the year ended 31 December 2008 was £20 500.

Required:

(a) Explain

- the term depreciation
- why depreciation is an application of the going concern concept.

(8)

(b) Prepare, for the year ended 31 December 2008, the

- machinery account
- provision for depreciation account
- asset disposal account.

(12)

A director of Keaton Manufacturing has requested that the calculation for depreciation on machinery be changed from the present straight line method to the reducing balance method. The reducing balance method would be calculated at the rate of 25% per annum.

(c) (i) Calculate, for the High Speed Printer (machine number 515), the annual depreciation for the first **three** years of ownership, 2009, 2010 and 2011, using the:

- straight line method
- reducing balance method.

(ii) Explain **two** advantages to Keaton Manufacturing of changing to the reducing balance method of depreciation.

(12)

(d) (i) Distinguish between capital and revenue expenditure.

(ii) Advise, stating clearly your reasons, whether each of the following are capital or revenue expenditure:

- machinery installation costs
- staff training costs.

(12)

(e) Evaluate whether, by charging annual depreciation, Keaton Manufacturing will have sufficient cash to replace the High Speed Printer (machine number 515) with a new machine at the end of its economic life.

(8)

(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 treasurer of the Gateway Social Club prepares yearly accounts on 31 December. The following information was available for the year ended 31 December 2008.

(i) Receipts and Payments Account (extract)

	£		£
Sales receipts:		Payments to suppliers:	
Food	47 500	Food	17 800
Drinks	27 000	Drinks	19 150
Subscriptions	23 800	Wages: Catering staff	17 950
		Bar steward	10 650
		Club manager	15 000
		Newspapers and journals	1 600
		General running expenses	9 250
		Expenditure – fixtures and fittings	3 500
		Loan interest	2 700

(ii) Stock at 1 January 2008:

Food	Nil
Drinks	80 boxes @ £6.50

(iii) Receipts and issues for boxes of drinks for the year were:

	Receipts (boxes)	Issues (boxes)
January – March	480 @ £7.00 per box	460
April – June	560 @ £7.50 per box	480
July – September	700 @ £8.00 per box	750
October – December	600 @ £8.50 per box	614

(iv) The club uses the Last In First Out (L.I.F.O) perpetual inventory method for valuing all stock.

(v) There were no stocks of food on 31 December 2008.

(vi) Other balances:

	1 January 2008 £	31 December 2008 £
Fixtures and fittings (book value)	40 000	37 500
Creditors – Food	1 900	3 100
Drink	5 070	4 180
Subscriptions in advance	5 320	4 120
Subscriptions in arrears	660	480
8 % Loan	35 000	35 000

(vii) During the year subscriptions of £180 had to be written off as irrecoverable.

(viii) The expenditure on fixtures and fittings which is shown in the Receipts and Payments Account includes an amount of £2 000 which was spent during the year on additional fixtures and fittings. The remainder of the total spent was for repairs, which the Club considers to be revenue expenditure.

Required:

(a) Calculate the value of the stock of drinks at 31 December 2008.

(8)

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

- subscriptions account
- bar trading account, in columnar format, showing the profit or loss on the sale of food and the sale of drinks (a total column is **not** required)
- income and expenditure account.

(32)

The cost of membership of the Gateway Social Club is £50 per year. On 1 January 2007, the Club offered a 5 year membership for a single discounted payment of £150.

(c) Explain the accounting treatment of a 5 year membership fee in **both** the income and expenditure account and the balance sheet for the year ended 31 December 2008.

(4)

(d) Evaluate, from the view of the Gateway Social Club, the offer of a 5 year membership for £150.

(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. Maisha and Shiban are partners in a business but they have no partnership agreement. The partners decided to dissolve the partnership on 30 November 2008.

After the preparation of the final accounts for the year ended 30 November 2008, the following balances remained in the books:

		£	£
Fixed assets			
Premises		65 000	
Vehicle		8 700	
Fixtures		2 000	
		75 700	
Current assets			
Stock		15 000	
Debtors		9 400	
		24 400	
			100 100
Current liabilities			
Creditors		(28 300)	
Bank overdraft		(1 800)	
			(30 100)
			70 000
Financed by:			
Capital	Maisha	40 000	
	Shiban	30 000	70 000

The details of the dissolution were as follows:

(i) As part of the settlement, Maisha would take the vehicle at an agreed valuation of £6 500.

(ii) A cheque for sale of the premises, £100 000, was received from City Developments.

(iii) A cheque was received for £25 000 for all other assets.

(iv) Creditors were paid £27 000 in full settlement.

(v) Dissolution expenses were £700.

Required:

(a) State the provisions of the Partnership Act which would apply in the absence of a partnership agreement.

(6)

(b) Prepare for the dissolution of the partnership, the:

- realisation account
- bank account
- capital accounts of Maisha and Shiban.

(22)

(c) Evaluate the need for a Partnership Agreement when trading as a partnership.

(4)

(Total 32 marks)

Answer space for question 4 is on pages 20 to 23 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Faraz manufactures two products: the Standard and the Classic. The following information relates to the manufacture and sale of the **Standard** for December 2008.

(i) Raw materials used:
- 400 kilos @ £9.60 per kilo list price
- Trade discount received 12.5%

(ii) Labour costs:
- 280 hours @ £7 per hour
- 30 hours @ time and a half
- Bonus payment of £215

(iii) Overheads:

	£
Premises rent	4 000
Supervision and management	1 800
Electricity	800
Depreciation	1 600

Additional information:

	Standard	Classic	Administration
Employees (Number)	2	4	2
Area occupied (Sq m)	400	200	200
Value of equipment (£)	1 000	2 000	5 000
Capacity (Kwh)	20	30	30

Total administration costs are re-allocated on the basis of 60% Standard and 40% Classic.

(iv) All units of Standard manufactured in December were sold in the month.

(v) 1 150 units of Standard were sold in December at a price of £12 per unit.

Required:

(a)
- Distinguish between allocation and apportionment of overheads.
- State **two** reasons why overheads are fixed costs or have a large fixed cost element.

(8)

(b) Calculate, for the month of December 2008:
- Overhead cost of manufacturing the Standard.
- **Total** cost of manufacturing **one** unit of Standard.
- Percentage profit margin on **one** unit of Standard.

(20)

(c) Evaluate the use of apportionment of overheads in product costing.

(4)

(Total 32 marks)

Answer space for question 5 is on pages 24 to 27 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. The following information relating to the month of December 2008 was extracted from the books of Mafruda:

	£
Debtors at 1 December	9240
Creditors at 1 December	10450
Stock at 1 December	22600
Sales on credit	89710
Sales for cash	15390
Sales returns	1400
Cheques received from debtors	78580
Discount allowed	2450
Discount received	1100
Bad debts written off	3200
Cheques paid to creditors	64500
Debtors at 31 December	?
Creditors at 31 December	11900
Stock at 31 December	20850

Required:

(a) State **three** reasons why a business might offer cash discount to customers.

(6)

(b) Calculate the purchases for the month of December 2008.

(6)

(c) Prepare, for the month of December 2008, the:

- sales ledger control account
- trading account.

(16)

Mafruda recently stated that control accounts ensure that the ledgers are always correct and without errors.

(d) Evaluate this statement.

(4)

(Total 32 marks)

Answer space for question 6 is on pages 28 to 32 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. On 1 January 2008 the following balances remained in the books of Gibbs Wholesalers:

	£
Electricity	164 Cr
Buildings insurance	160 Dr
Rent receivable	200 Cr

During the year ended 31 December 2008 the following bank transactions were recorded:

(i) Electricity

2 April	Payment	£462
1 May	Receipt for refund	£38
9 October	Payment	£365

On 31 December 2008 it was estimated that £175 was due for electricity used.

(ii) On 1 April 2008 a payment of £360 was made for 12 months buildings insurance to 31 March 2009.

(iii) Ten monthly payments of £200 were received from the tenant. The rent of the premises is £200 per month.

Required:

(a) Distinguish between an error of commission and an error of principle, giving an example of each type.

(8)

(b) Prepare the following ledger accounts for the year ended 31 December 2008, showing the transfers to the profit and loss account and the balances brought down.

- Electricity account.
- Buildings insurance account.
- Rent receivable account.

(20)

(c) Evaluate the role of the accruals (matching) concept in calculating the profitability of a business.

(4)

(Total 32 marks)

Answer space for question 7 is on pages 33 to 36 of the question paper.