

Paper Reference(s)

6001/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary/Advanced Level

Unit 1 – The Accounting System and Costing

Monday 2 June 2008 – 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. Speedy Cycles sells and repairs motor cycles. The business has three departments: motor cycle sales, parts sales and motor cycle repairs. The following balances were extracted from the accounts on 30 April 2008:

Sales:	£
Motor cycle sales	311 000
Parts sales	160 000
Motor cycle repairs	68 400
Purchases:	
Motor cycles	223 500
Parts	170 500
Motor cycle repair	8 900
Stock at 1 May 2007:	
Motor cycles	64 000
Parts	65 200
Wages and commission:	
Motor cycle sales commission	32 000
Parts wages	17 050
Motor cycle repairs	21 200
Management salaries	15 400
Lease on premises (10 year)	30 000
Heat and light	6 700
Debtors:	
Motor cycle sales	50 000
Motor cycle repairs	6 000
Creditors	58 350
Bank overdraft	37 100
Capital	125 000
Drawings	19 500
Fixtures and equipment (at cost)	40 000
Fixtures and equipment– provision for depreciation	12 000
Repair department: loose tools (at cost)	5 900
Repair department: loose tools – provision for depreciation	4 000

Additional information:

- (i) The stock of parts on 1 May 2007 included obsolete parts which cost £9 000. On 1 May 2007 these were revalued to a net realisable value of £800.
- (ii) During the year parts costing £14 500 were transferred from the parts sales department to the motor cycle repairs department for the repair of customers' motor cycles.
- (iii) Stock at 30 April 2008: motor cycles £61 500; parts £63 000.
- (iv) Parts department wages owing on 30 April 2008 were £450.

- (v) Depreciation is charged on fixtures and equipment at the rate of 15% on cost using the straight line method.
- (vi) Repair department: loose tools were valued at £1 500 on 30 April 2008.
- (vii) A provision for doubtful debts is to be created at the rate of 5% of debtors.
- (viii) All costs which cannot be allocated to departments are to be apportioned on the most appropriate basis.

Further information:

	Motor cycle sales	Parts sales	Motor cycle repairs
Staff (number)	3	2	2
Area occupied (sq m)	300	300	400
Fixtures and equipment (£000)	10	12	18

Required:

- (a) Prepare the:
- departmental trading and profit and loss account of Speedy Cycles for the year ended 30 April 2008, showing clearly the net profit or net loss of each department. (*You are advised to use columnar format. A total column is not required.*)
 - balance sheet of Speedy Cycles as at 30 April 2008.
- (32)**

- (b) Calculate for the Parts sales department the:
- 'mark up' on cost
 - rate of stock turnover.
- (8)**

You are advised that the averages for this type of business are:

- 'mark up' on cost 25%
- rate of stock turnover 8 times

- (c) Comment upon the two ratios calculated in (b).
- (4)**

The owners of Speedy Cycles have been considering closing the Parts sales department of the business.

- (d) Evaluate whether the Parts sales department should be closed.
- (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. Aneesa is in business as a sole trader retailing satellite navigation units for cars. Aneesa has not kept a full set of double entry accounts.

Additional information for the year ended 30 April 2008:

- (i) Most of the sales are for cash. Where sales have been made on credit, these have been invoiced to customers.
- (ii) On 1 May 2007 Aneesa had a stock of 80 satellite navigation units in her shop which had cost £100 each. During the year she purchased stocks of navigation units on 1 May, 1 August, 1 November and 1 February on credit. Aneesa calculates the value of her stock on the Last In First Out (L.I.F.O.) basis. The following information is available:

	Purchases	Sales
1 May–31 July	90 units @ £110	120 units
1 August–31 October	270 units @ £120	150 units
1 November–31 January	150 units @ £130	180 units
1 February–30 April	120 units @ £140	150 units

- (iii) Sales are made at the rate of £200 per satellite navigation unit sold.
- (iv) During the year Aneesa was given a £1 200 discount from suppliers for prompt payment.
- (v) The following payments were made in cash in each of the 52 weeks of the year from the cash till.

	£
Rent of shop	100
Sales assistant's wages	250 plus bonus of 2% of sales
Drawings	80

- (vi) After deducting the cash expenditure in (v) above, all cash takings had been paid into the bank. The following analysis of the bank account is available:

	£
Receipts	
Cash sales	75 000
Credit sales banked	19 640
Payments	
Telephone and internet	890
Electricity	315
Sundry expenses	3 720
Suppliers of goods	69 850
Shop fixtures	900

(vii) Other assets and liabilities were valued as follows:

	1 May 2007	30 April 2008
	£	£
Shop fixtures	11 000	10 500
Telephone and internet due	130	210
Electricity prepaid	80	95
Sundry expenses due	450	630
Sundry expenses prepaid	–	160
Trade debtors	3 400	?
Trade creditors	5 350	?

Required:

- (a) Calculate the value of the closing stock at 30 April 2008 using the Last In First Out (L.I.F.O.) perpetual valuation method. (10)
- (b) Prepare for Aneesa the trading and profit and loss account for the year ended 30 April 2008. (18)
- (c) Calculate at 30 April 2008 the value of the:
- trade debtors
 - trade creditors.
- (8)

Aneesa depreciates her shop fixtures by the revaluation method each year.

- (d) Discuss the alternative methods of depreciation available to Aneesa when calculating the value of her shop fixtures at the end of each year. (8)
- (e) Evaluate the decision of Aneesa **not** to keep a full set of double entry accounts. (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. Tofel owns a manufacturing business producing a single product. The following balances were extracted from the accounts on 30 April 2008.

	£
Purchases of raw material	311 000
Stock at 1 May 2007: raw material	39 000
work in progress	85 000
Manufacturing wages	296 000
Manufacturing salaries	247 000
Rent, rates and power	48 000
Plant at cost	200 000
Provision for depreciation on plant	60 000
Sundry manufacturing overheads	73 000
Direct expenses	54 000

Additional information:

- (i) Stocks at 30 April 2008 were: raw material £42 500, work in progress £91 500.
- (ii) Plant and equipment is depreciated at the rate of 25% per annum using the diminishing balance method.
- (iii) The factory has two production departments: machining and assembly. At the start of the year the manufacturing overheads were to be recovered **on the basis of direct labour hours**, at the rate of £15 per hour for the machining department and £10 per hour for the assembly department. The number of hours worked in the two departments during the year were forecast as follows.

	Machining department	Assembly department
Direct labour hours	12 000	26 000
Machining hours	8 000	—

Required:

- (a) Distinguish between **direct expenses** and **overhead costs**. (8)
- (b) Prepare the manufacturing account of Tofel for the year ended 30 April 2008. (12)
- (c) Calculate the total over-recovery or under-recovery of overheads for the year ended 30 April 2008. (10)

During the year, Tofel had prepared the following quotation for a customer, Jaz Ltd:

		£
Raw materials		7 500
Direct labour: machining	750 hours @ £5 per hour	3 750
assembly	500 hours @ £9 per hour	4 500
Manufacturing overheads:		
machining	750 hours @ £15 per hour	11 250
assembly	500 hours @ £10 per hour	<u>5 000</u>
		<u>32 000</u>
Profit margin		8 000
Fixed price to customer		<u><u>40 000</u></u>

The quotation was accepted by Jaz Ltd and the order was manufactured and delivered during the year. The following were the **actual** costs incurred by Tofel in completing the order to Jaz Ltd:

Raw materials	£11 950
Direct labour: machining	550 hours
assembly	700 hours

Required:

(d) Calculate, for the order completed for Jaz Ltd, the:

- total cost to Tofel of completing the order
- actual profit margin on the order.

(14)

Tofel currently uses overhead recovery rates based upon direct labour hours.

(e) Evaluate the replacement of direct labour hours by machine hours as a more appropriate basis for the recovery of overheads.

(8)

(Total 52 marks)

Answer space for question 3 is on pages 14 to 18 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. The International Friendship Club prepares final accounts on 30 April each year.

The following information is available for the year ended 30 April 2008:

- During the year the club had 200 senior members paying subscriptions of £150 per year each and 50 junior members paying £50 per year each.
- On 1 May 2007 subscriptions in arrears were £150 and in advance were £1 200.
- On 30 April 2008 10 senior members and 2 junior members had paid in advance for the following year but 2 senior members were in arrears for the current year.
- There were no bad debts during the year.
- The club runs a bar for which the accounts record

Sales	£14 700
Purchases	£11 850
Stock 1 May 2007	£3 100
Wages	£5 020

- The club 'marks up' stock for resale by 20%.
- The club does not carry out a stocktake at the end of the year but calculates the closing stock value from the trading account.

Required:

The club has been considering offering five-year membership for senior members costing £500.

- (a) Explain the accounting treatment of five-year membership in the income and expenditure account and the balance sheet of the club. (8)
- (b) Prepare for the year ended 30 April 2008 the:
- (i) subscriptions account showing clearly the subscriptions banked and the value transferred to the income and expenditure account. (12)
- (ii) bar trading account showing the profit or loss on the bar. (8)
- (c) Evaluate the practice of the club **not** to carry out a stock take at the end of each year but to calculate the closing stock value from the trading account. (4)

(Total 32 marks)

Answer space for question 4 is on pages 19 to 22 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Ramiz is in business as an electrician carrying out electrical installations in customers' homes.

The following information is available for the year ended 30 April 2008:

- He charges £20 per hour for work carried out in customers' homes.
- He works 50 hours per week for 50 weeks per year.
- It is estimated that he spends 60% of his working time doing work that can be charged to customers.
- The overheads of the business are the operating costs of a vehicle at £2 500 per year and insurance at £800 per year.

Required:

- (a) Explain **two** characteristics of job costing. (8)
- (b) Calculate the profit for Ramiz's business for the year ended 30 April 2008. (8)

Ramiz is considering a new approach to operating his electrical installation business.

- Ramiz would manage the business and would prepare customer quotations. None of his working time would be charged to customers.
 - He would employ two electricians at £1 000 per month each, plus a 10% government employment tax.
 - Each electrician would work 40 hours per week for 50 weeks per year. It is estimated that 80% of this time would be charged to customers at a rate of £20 per hour.
 - In addition to the vehicle used by Ramiz, each of the two electricians would be supplied with a vehicle costing £2 500 per year.
 - It is estimated that the cost of insurance would rise to a total of £2 000.
- (c) Calculate what the profit for Ramiz's business would be if he were to use this new approach. (12)
- (d) Evaluate whether Ramiz should use this new approach in his electrical installation business. (4)

(Total 32 marks)

Answer space for question 5 is on pages 23 to 26 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Sadia is a general trader buying and selling goods on credit. During the year ended 31 March 2008 the business was expanded by Sadia with the following three business changes:
- The existing showroom was redecorated and repaired at a cost of £12 000.
 - The building next to the showroom was purchased by Sadia at a cost of £80 000 and a further £8 000 was spent on changes to make it into a warehouse.
 - The business computer system was repaired and replacement microchips were installed in each computer at a total cost of £5 000.

The above expansion was financed by Sadia from her business bank balance.

One of Sadia's major stock suppliers has just advised her that he will not supply further goods until his account is paid. Sadia is finding it increasingly difficult to pay her creditors on time.

The following balances were available from the accounts on 31 March 2007 and 31 March 2008

	31 March 2007	31 March 2008
	£	£
Net profit for the year	10 000	50 000
Debtors	60 000	42 000
Capital	100 000	100 000
Bank	45 000	–
Bank overdraft	–	30 000
Creditors	90 000	75 000
Stock	84 000	84 000
Long term loan	30 000	20 000

Required:

- (a) (i) Distinguish between **capital expenditure** and **revenue expenditure**. (4)
- (ii) Explain, giving your reasons, whether each of the three business changes is capital expenditure or revenue expenditure. (6)
- (b) (i) Calculate for Sadia the following ratios for **both** 31 March 2007 **and** 31 March 2008. (12)
- Return on capital employed.
 - Current ratio.
 - Liquid (acid test) ratio.
- (ii) Comment upon the sufficiency of the above ratios. (6)

(c) Evaluate the decision taken by Sadia to pay for the business expansion from her bank balance.

(4)

(Total 32 marks)

Answer space for question 6 is on pages 27 to 29 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. Farha is in business trading in goods on credit. Coldstream Traders, a debtor, has received the following statement from Farha.

Coldstream Traders			
	£	£	
Balance b/d	2 500	Bank	2 450
Discount allowed	50		
Office expenses	600		
Sales	<u>4 300</u>	Balance c/d	<u>5 000</u>
	<u>7 450</u>		<u>7 450</u>

The following errors were discovered in the books of Farha.

- (i) A payment by Coldstream Traders of £2450 with £50 discount allowed had been correctly recorded in the cash book of Farha, but incorrectly recorded in Coldstream Traders account.
- (ii) A cash payment for office expenses by Farha had been entered into the account of Coldstream Traders.
- (iii) Sales of £3 400 had been correctly entered in the sales account of Farha. This transaction had been recorded as £4 300 in the account of Coldstream Traders.
- (iv) The sale of £450 worth of goods to Coldstream Traders had been entered in error into the account of R. Crossland.
- (v) A further sale of goods to Coldstream Traders of £1 750 had not been recorded in the books of Farha.

Required:

- (a) Prepare for Farha the:
 - (i) journal entries correcting the errors (10)
 - (ii) corrected ledger account of Coldstream Traders. (10)
- (b) (i) Distinguish between **errors of commission** and **errors of principle**. (4)
- (ii) From the ledger account of Coldstream Traders, identify **one** example of an error of commission and **one** example of an error of principle. (4)

(c) Evaluate the role of the trial balance in ensuring the accuracy of the books of account.

(4)

(Total 32 marks)

Answer space for question 7 is on pages 30 to 33 of the question paper.

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