Paper Reference(s)

6001/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary

Unit 1 – The Accounting System and Costing

Tuesday 8 January 2013 – 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. Organic Farm Shop has three departments: greengrocery, bakery and The Café. The following balances were extracted from the books for the year ended 31 December 2012:

	£
Revenue:	
Greengrocery	190 000
Bakery	96 000
The Café	81 000
Inventory 1 January 2012:	
Greengrocery	8 150
Bakery	4 700
The Café	850
Purchases:	
Greengrocery	126 000
Bakery	60 500
The Café	40 250
Wages:	
Greengrocery	32 000
Bakery	21 000
The Café	16 000
Manager's salary	18 350
Electricity and gas	9 820
General running expenses	2 750
Rent (for 9 months)	8 100
Refurbishment costs of The Café	15 000
Non-current assets at cost:	
Equipment	20 000
Fixtures and fittings	10 000
Provisions for depreciation:	
Equipment	8 000
Fixtures and fittings	2 000
Trade receivables	32 000
Trade payables	46 870
Bank	43 000 Dr
Capital	60 000
Drawings	16 800
Provision for doubtful debts	1 400

Additional information at 31 December 2012:

1. Inventory:

Greengrocery	£9 450
Bakery	£3 600
The Café	£1 100

2. During the year, goods were transferred to The Café from the other two departments. The value, at cost, of the transfers was: Greengrocery £5 700, Bakery £4 300.

3. General running expenses prepaid £250.

4. The refurbishment costs of The Café consisted of new fixtures and fittings £10 000 and redecoration £5 000.

5. On 1 December 2012 the owner of Organic Farm Shop purchased the shop premises from Global Property for the purchase price of £250 000. On the same day a 6% Bank loan was received from Ascot Bank for £200 000, repayable on 30 November 2022. The Bank also charged an arrangement fee of £4 250 for the loan. No entries had been made in the books to record these transactions.

6. Depreciation is to be charged on all non-current assets owned at the end of the year, on the following basis:

Shop premises	No depreciation
Equipment	30% per annum reducing balance method
Fixtures and fittings	10% per annum straight line method

7. A debt owed to Organic Farm Shop of £800 was considered irrecoverable. A provision for doubtful debts is to be maintained at the rate of 5% on the remaining debts.

Required:

(a) Prepare the:

(i) Journal entries to record the purchase of the shop premises in 5. above. Narratives are **not** required

(6)

(ii) Departmental Trading Account of Organic Farm Shop showing the profit/loss of each department for the year ended 31 December 2012

(8)

(iii) Statement of Comprehensive Income for the business as a whole for the year ended 31 December 2012

(16)

(iv) Statement of Financial Position at 31 December 2012.

(14)

(b) Evaluate the owner's decision to purchase the shop premises as an alternative to renting.

(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 balances were in the ledger of Arpan on 1 January 2012:

	£
Sundry expenses	600 Dr
Premises repairs	250 Dr
Rent receivable	300 Dr

The following were the transactions for the year ended 31 December 2012. All payments and receipts were made by cheque:

1. Sundry expense payments:

		£
14 May	Paid	500
30 October	Paid	900 for the six months to 31 March 2013

2. Premises repairs payments:

		£
8 January	Paid	450
1 April	Paid	900
18 August	Paid	875

On 31 December 2012 it was estimated that £340 was owing for premises repairs.

3. Rent receivable:

		£
6 February	Received	1 200
26 June	Received	900

The rent receivable for the year was £1 600.

Required:

(a) Explain the meaning of the debit balance on the Rent receivable account on 1 January 2012. **(4)**

(b) Prepare the following accounts for the year ended 31 December 2012, including the appropriate transfer to the financial statements:

(i) Sundry expenses account **(4)**

(ii) Premises repairs account **(4)**

(iii) Rent receivable account. **(4)**

On 1 January 2012 Arpan had the following additional balances in his ledger:

	£
Machine at cost	36 000
Machine – provision for depreciation	?

All machinery was purchased on 1 January 2010 and has a residual value of £2 000. Arpan has depreciated his machinery over a five-year period using the straight line method.

He has decided to change his method of depreciation to 25% per annum reducing balance, backdated to the date of machine purchase. The change and adjustment are to be recorded in the Statement of Comprehensive Income for the year ended 31 December 2012.

On 1 April 2012 a new machine was purchased:

	£
Cost	8 000
Installation	1 600
Staff training	2 000
Annual machine insurance	400
	12 000

He charges a full year's depreciation on machines in the year of purchase.

Required:

(c) State **one** accounting concept which:

(i) **supports** the change of depreciation method proposed by Arpan
(ii) does **not support** the change of depreciation method proposed by Arpan.

(4)

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

(4)

(e) State, giving your reasons, whether each of the following is capital expenditure or revenue expenditure:

- Machine installation
- Annual machine insurance.

(4)

(f) Calculate, showing clearly all workings, the:

(i) adjustment required to the provision for depreciation on the machines to 31 December 2011 to account for the change in depreciation method

(ii) depreciation charge on **all** the machines for the year ended 31 December 2012.

(8)

(g) Prepare, for the year ended 31 December 2012, the:
(i) Machinery account

(3)

(ii) Machinery – provision for depreciation account.

(5)

(h) Evaluate Arpan's decision to change the basis of charging depreciation on machines from the straight line method to reducing balance method.

(8)
(Total 52 marks)

Answer space for question 2 is on pages 8 to 16 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Xevena commenced business on 1 January 2012 buying and selling goods on credit. She commenced business with fixtures and fittings £2 000 and bank £10 000.

She has little accounting knowledge, but has prepared a draft Statement of Comprehensive Income for the year ended 31 December 2012:

	£	£
Revenue		110 000
Less		
Purchases	103 500	
Less Purchase returns	(2 300)	
	101 200	
Less Inventory (at selling price)	(20 000)	
		(81 200)
Gross profit		28 800
Plus other income:		
Sale of fixtures and fittings		1 200
Rent receivable		1 000
		31 000
Less expenses:		
Carriage of goods	3 600	
Rent and rates	4 000	
Wages	6 000	
General running expenses	4 550	
Purchase of fixtures and fittings	2 800	
Purchase of motor van	9 000	
		(29 950)
Profit for the year		1 050

Additional information:

1. Revenue included goods with a selling price of £2 000 sent to a customer on 'sale or return'. On 31 December 2012 the customer had not advised an intention to keep or return the goods. The transaction had been recorded as a credit sale.
2. Xevena used a 25% mark up on cost throughout the year.
3. Half of the fixtures and fittings brought into the business on 1 January 2012 were sold during the year for £1 200. Additional fixtures and fittings were purchased during the year.
4. Part of the premises were sub-let on 1 July for a rent receivable of £1 000 per 3 months.
5. One third of the carriage related to collecting purchases and two thirds to deliveries to customers.
6. General running expenses included £750 prepaid, but did not include £470 owing.
7. During the year Xevena paid suppliers by cheque £93 030 and received a discount of £1 870.
8. Other balances on 31 December 2012:

	£
Motor van (at valuation)	7 500
Fixtures and fittings (at valuation)	3 400
Trade receivables	12 870
Trade payables	?
Bank overdraft	18 450
Drawings	4 800

Required:

(a) Explain the following accounting concepts. For each concept give **one** example from the draft Statement of Comprehensive Income prepared by Xevena and from the additional information given, where the concept has **not** been correctly applied:

(i) Realisation

(3)

(ii) Accrual (matching)

(3)

(iii) Going concern.

(3)

(b) Redraft the corrected Statement of Comprehensive Income after taking into account the additional information given for the year ended 31 December 2012.

(14)

(c) Prepare the Purchases Ledger Control Account, calculating the trade payables balance at 31 December 2012.

(6)

(d) Prepare the Statement of Financial Position at 31 December 2012.

(15)

(e) Evaluate the use of accounting concepts when preparing financial statements.

(8)

(Total 52 marks)

Answer space for question 3 is on pages 17 to 21 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Molara commenced business on 1 January 2012 with inventory £12 000 and bank £25 000. She also had a five-year 8% bank loan of £15 000 and trade payables of £3 000.

Her objectives for the first year of trading were to:

- Make a gross profit of £0.20 in every £1 of goods sold
- Have a profit for the year of £15 000
- Ensure that at the end of the year the business has sufficient liquidity.

The following information is available for the year ended 31 December 2012:

1. Revenue (sales) £140 000, gross profit £36 000.
2. Purchases £119 000.
3. Non-current assets purchased £15 000 with £3 000 charged as depreciation.
4. Other expenses paid including bank loan interest, £22 000, of which £2 000 was prepaid. Other expenses accrued were £1 000.
5. Drawings £8 000.
6. Other balances at 31 December 2012:
   Trade receivables £7 000
   Trade payables £10 000
   Bank £1 000
   Inventory ?

Required:

(a) Explain the term **profitability**.

(4)

(b) Prepare the Statement of Comprehensive Income for the year ended 31 December 2012, showing clearly the:

(i) value of the inventory at 31 December 2012
(ii) profit for the year.

(6)

(c) Calculate the percentage return on capital employed for the year.

(3)

(d) Prepare the Statement of Financial Position at 31 December 2012.

(9)

(e) Calculate the:

(i) current ratio
(ii) liquid (acid test) ratio.

(6)

(f) Evaluate the success of Molara in achieving her financial objectives for the year.

(4)
(Total 32 marks)

Answer space for question 4 is on pages 22 to 26 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Fahl Manufacturing has a machine shop producing products for the building industry. The machine shop contains six machines, each producing a different product.

The following information relates to one of the machines, Machine 107:

- Purchased on 1 January 2011:

Cost	£90 000
Delivery	£2 000
Installation	£8 000

- Depreciation is charged at the rate of 25% per annum reducing balance method
- The machine shop operates for 40 hours per week for 50 weeks per year
- It is estimated that for 75% of the time Machine 107 is producing products for customers. The remainder of the time is idle time
- Machine 107 uses 5kw of power per hour when operating, at a cost of £0.50 per kw
- Floor area occupied by Machine 107 is 200 sq m.

Additional machine shop information:

- Machine shop manager, salary £18 000 per annum
- Machine cleaner, salary £12 000 per annum
- Heat and light £6 000 per annum
- Number of machines 6
- Number of machine operators 9
- Total floor area 1 000 sq m.

Required:

(a) Calculate, for Machine 107, for the year ended 31 December 2012, the:

(i) total overhead cost **(8)**

(ii) overhead cost per hour of operating Machine 107. **(4)**

(b) Explain the term **labour productivity**. **(4)**

Machine 107 requires one machine operator who is paid on a daywork basis and works 40 hours per week for 50 weeks per year. The rate is £6 per hour and output for the year is 2 400 units.

It has been proposed that the machine operator of Machine 107 should be paid by a bonus scheme in future. The two alternatives are:

Alternative Option 1 Payment for each unit completed. The rate would be £3 per unit. Output for the year is estimated to be 4 800 units.

Alternative Option 2 A bonus consisting of an hourly payment of £3.50 per hour for all hours worked, plus £1.50 per unit produced. Output is estimated to be 3 600 units.

Required:

(c) Calculate, the labour cost per unit, for the following three payment options:

(i) Current daywork payment

(4)

(ii) Alternative Option 1

(2)

(iii) Alternative Option 2.

(4)

(d) Identify the most productive of the three payment options for Fahl Manufacturing.

(2)

(e) Evaluate, from the perspective of Fahl Manufacturing, the use of a bonus scheme for remunerating the operator of Machine 107.

(4)

(Total 32 marks)

Answer space for question 5 is on pages 27 to 29 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Taabu is in business buying and selling goods on credit. The following information relates to her customers' accounts for the month of December 2012:

1. Balances at 1 December :
   Trade receivables £23 500
   Provision for doubtful debts £1 450

2. During December 2012:
   Cheques received and banked from trade receivables £32 400
   Discount allowed £820
   Credit sales £38 000

3. During December, Taabu was informed that one debtor, Taal, would not be able to fully pay his debt of £350. A payment of £0.40 in the pound was made on 31 December 2012, the balance of the debt being irrecoverable.

4. A debt owed by Kaab £700, which had been written off in July 2011, was received in December 2012.

5. On 31 December 2012 a schedule of debtors was prepared and the provision for doubtful debts was calculated as £1 375.

Required:

(a) Explain:

(i) the term a **schedule of debtors**
(ii) how the schedule of debtors would be used to calculate the provision for doubtful debts.
(6)

(b) Prepare the Journal entries, including narrative, recording the bad debt recovery from Kaab.
(5)

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

(i) Bad debts account
(3)

(ii) Bad debts recovered account
(4)

(iii) Sales Ledger Control Account showing clearly the balance of debtors at 31 December 2012.
(7)

(iv) Provision for doubtful debts account.
(3)

(d) Evaluate the use of a provision for doubtful debts account by Taabu.
(4)
(Total 32 marks)

Answer space for question 6 is on pages 30 to 33 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. Martina and Naju have been in partnership for many years sharing profits and losses in the ratio 2:1. They decided to close the business on 31 December 2012. The partnership assets and liabilities at 31 December 2012 were:

	£
Premises	60 000
Motor vehicles	14 000
Fixtures and fittings	9 400
Inventory	18 700
Trade receivables	12 400
Trade payables	10 000
Accrued expenses	1 100
Bank loan	10 000
Bank overdraft	400
Capital accounts:	
Martina	50 000
Naju	40 000
Current accounts:	
Martina	4 400 Cr
Naju	1 400 Dr

Additional information at 31 December 2012:

1. Premises were sold to Highton & Co for £65 000.
2. The partners took the motor vehicles at valuation: Martina £4 500, Naju £7 000.
3. Fixtures and fittings and the inventory were sold for £21 000.
4. A bad debt of £400 was written off the trade receivables and 2.5% cash discount was allowed on the remaining debts.
5. Accrued expenses were paid in full and trade payables were paid less 2% cash discount.
6. The Bank loan was repaid.
7. Dissolution expenses were £2 700.
8. A settlement cheque was paid to each of the partners from the bank account.

Required:

(a) State **two** reasons why a partnership may dissolve.

(4)

(b) Explain how the provisions of the 1890 Partnership Act apply to partners':

(i) salaries
(ii) interest on loans.

(4)

(c) Prepare, at 31 December 2012, the partnership:

(i) Dissolution account

(9)

(ii) Capital accounts of Martina and Naju

(4)

(iii) Bank account.

(7)

(d) Evaluate the need for a partnership agreement.

(4)
(Total 32 marks)

Answer space for question 7 is on pages 34 to 36 of the question paper.

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