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| Surname | | | | | Other Names | | | | |
| Centre Number | | | | | Candidate Number | | | | |
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General Certificate of Education
 June 2006
 Advanced Subsidiary Examination



ACCOUNTING **ACC2**
Unit 2 Financial Accounting:
Introduction to Published Accounts of Limited Companies

Wednesday 7 June 2006 1.30 pm to 2.30 pm

You will need no other materials.
 You may use a calculator.

Time allowed: 1 hour

Instructions

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Make and state any necessary assumptions.
- Do all rough work in this book. Cross through any work you do not want marked.
- Page 3 is perforated. Detach it and use it when answering Question 1.

Information

- The maximum mark for this paper is 80.
 4 of these marks are for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- You are reminded of the need for good English and clear presentation in your answers. Some questions involve only numerical work; all other questions should be answered in continuous prose. Quality of Written Communication will be assessed in all prose answers.

| For Examiner's Use | | | |
|----------------------------------|------|--------|------|
| Number | Mark | Number | Mark |
| 1 | | 5 | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| Total (Column 1) | | → | |
| Total (Column 2) | | → | |
| Quality of Written Communication | | | |
| TOTAL | | | |
| Examiner's Initials | | | |

Answer **all** questions in the spaces provided.

Total for this question: 29 marks

1

Tear page 3 out of this question paper. Given on page 3 is a list of balances taken from the books of Pann Ltd at 31 December 2005.

REQUIRED

- (a) Prepare a trial balance at 31 December 2005 from the list given on page 3 and calculate the value of the issued share capital.

**Pann Ltd
Trial Balance at 31 December 2005**

| | Debit | Credit |
|-------------------------|-------|--------|
| | £ | £ |
| Audit fees | | |
| Sales | | |
| Carriage outwards | | |
| Returns inwards | | |
| Motor vehicle | | |
| Trade debtors | | |
| Rent received | | |
| Purchases | | |
| Directors' fees | | |
| Stock at 1 January 2005 | | |
| Trade creditors | | |
| Carriage inwards | | |
| Bank overdraft | | |
| VAT – amount owed | | |
| Returns outwards | | |
| Issued share capital | | |
| | | |

(16 marks)

Remove this page and use when answering Question 1.

The following list of balances was taken from the books of Pann Ltd at 31 December 2005.

| | £ |
|-------------------------|---------|
| Audit fees | 6 750 |
| Sales | 125 000 |
| Carriage outwards | 3 000 |
| Returns inwards | 2 000 |
| Motor vehicle | 38 250 |
| Trade debtors | 25 000 |
| Rent received | 5 000 |
| Purchases | 65 000 |
| Directors' fees | 24 250 |
| Stock at 1 January 2005 | 22 000 |
| Trade creditors | 8 000 |
| Carriage inwards | 2 500 |
| Bank overdraft | 4 500 |
| VAT – amount owed | 2 250 |
| Returns outwards | 4 000 |

There are no questions printed on this page

Additional information

At 31 December 2005, the closing stock was valued at £12 500.

REQUIRED

- (b) Prepare the trading and profit and loss account for Pann Ltd for the year ended 31 December 2005.

Pann Ltd

Trading and Profit and Loss Account for the year ended 31 December 2005

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(13 marks)

Total for this question: 8 marks

2

REQUIRED

Explain **each** of the following terms.

(a) Tangible fixed assets

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(2 marks)

(b) Intangible fixed assets

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(2 marks)

(c) Capital reserves

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(2 marks)

(d) Revenue reserves

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(2 marks)

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Turn over for the next question

Total for this question: 19 marks

3

A trainee accountant produced a draft profit and loss account which showed a net profit for the year ended 31 March 2006 of £17 690. Her supervisor subsequently discovered the following errors.

- (1) The purchases day book had been undercast by £520.
- (2) The cost of repairs to a delivery van of £450 had been entered in the motor vehicles account.
- (3) A payment of £500 for audit fees had been completely omitted from the accounts.
- (4) A cheque for £2300 received from B Harrison, a debtor, had been entered in the account of B Harris.
- (5) Discount received of £1300 had been charged as an expense in the profit and loss account.
- (6) The closing stock had been recorded in the trading account as £3000. The correct figure was £300.

REQUIRED

- (a) Calculate the correct net profit. Show clearly whether **each** adjustment is added, subtracted or has no effect on the profit calculation.

Correction (1) has been completed as an example.

Corrected Net Profit for the year ended 31 March 2006

| | | £ | |
|--------------------------------|-----------------|-------------------|--|
| Net profit as given | | 17 690 | |
| (1) <i>Purchases undercast</i> | <i>subtract</i> | <u>520</u> | |
| | | 17 170 | |
| (2) | | | |
| (3) | | | |
| (4) | | | |
| (5) | | | |
| (6) | | | |
| Corrected net profit | | <u> </u> | |

(7 marks)

(b) Explain the difference between an error of commission and an error of principle.

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(4 marks)

(c) Explain the purpose of a suspense account.

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(3 marks)

Question 3 continues on the next page

(d) Evaluate the extent to which the use of computer accounting software can eliminate errors in accounting.

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(5 marks)

Total for this question: 10 marks

4

REQUIRED

- (a) Explain **two** reasons why the employees of a limited company would find the published accounts useful.

Reason 1

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Reason 2

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(4 marks)

- (b) Explain the following terms and state why they are relevant to the ordinary shareholders of a company.

Earnings per share

Explanation

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Relevance

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Dividend per share

Explanation

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Relevance

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(6 marks)

Total for this question: 10 marks

5

The following balances remained in the accounts of TS plc after the trading and profit and loss account for the year ended 31 March 2006 was prepared.

This was the company’s first year of trading.

| | £000 |
|--|-------------|
| Net profit after interest but before tax | 65 |
| Share premium | 50 |
| Issued share capital: | |
| Ordinary shares of 50p each, fully paid | 50 |
| 10% Preference shares of £1 each, fully paid | 20 |
| 12% Debentures (2015) | 40 |
| Trade creditors | 9 |

The directors propose the following:

- (1) provision for corporation tax of £21 000;
- (2) the payment of the preference dividend for the year;
- (3) an ordinary dividend of 10p per share.

REQUIRED

(a) Prepare the profit and loss appropriation account for the year ended 31 March 2006.

TS plc
Profit and Loss Appropriation Account for the year ended 31 March 2006

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(5 marks)

- (b) Prepare a balance sheet extract at 31 March 2006 to show the share capital and reserves section.

TS plc
Balance Sheet Extract at 31 March 2006

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(5 marks)

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| 10 |
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END OF QUESTIONS

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