

Surname					Other Names				
Centre Number					Candidate Number				
Candidate Signature									

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General Certificate of Education
June 2006
Advanced Subsidiary Examination



ACCOUNTING
Unit 3 Financial Accounting:
Determination of Income

ACC3

Wednesday 7 June 2006 1.30 pm to 2.30 pm

<p>You will need no other materials. You may use a calculator.</p>

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.

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		3	
2			
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: 12 marks

1

Pat Way manufactures bricks for the building trade. The following information relates to the year ended 31 March 2006.

	£
Purchases of direct materials	1 800 000
Direct wages	1 500 000
Purchase of new machinery on 17 December 2005	340 000

During July and August 2005, Pat used his own workmen and direct materials to build a new store-room for his business.

The wages amounted to £21 000 and the materials used cost £14 000.

REQUIRED

- (a) Define capital expenditure and revenue expenditure.

Capital expenditure is

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(1 mark)

Revenue expenditure is

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(1 mark)

- (b) Calculate Pat's capital expenditure during the year ended 31 March 2006.

The amount of capital expenditure was £

Workings

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(3 marks)

“I don’t see the point of separating capital expenditure and revenue expenditure,” Pat was heard to remark recently.

REQUIRED

(c) Explain why it is important to distinguish between capital expenditure and revenue expenditure.

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(7 marks)

Total for this question: 17 marks

2

The chief accountant of Srewolf Ltd has been ill. During her absence, one of her assistants has produced the following balance sheet, which failed to balance by £280 000.

Srewolf Ltd
Summarised Balance Sheet at 30 April 2006

	£	£
Fixed assets		1 270 000
Current assets	355 000	
Creditors: amounts falling due in less than one year		
Trade creditors	31 000	324 000
		1 594 000
Capital and reserves		
Ordinary shares of £1 each		750 000
General reserve		100 000
Profit and loss account at 1 May 2005		77 000
Net profit for this year before appropriations		387 000
Suspense account (difference in balance sheet totals)		280 000
		1 594 000

On her return, the chief accountant discovered the following.

- (1) An issue of 200 000 ordinary shares was made in October 2005 at £1.40 per share. Although the monies received had been correctly entered in the cash book, no other entries had been made in the company's books of account.
- (2) The following items have been proposed by the company directors but have yet to be taken into account:
 - (i) a final dividend of 4p per share on all shares held at the year-end;
 - (ii) a transfer to general reserve of £50 000;
 - (iii) a provision for corporation tax of £110 000.

REQUIRED

- (a) Prepare a profit and loss appropriation account for the year ended 30 April 2006.

Srewolf Ltd
Profit and Loss Appropriation Account for the year ended 30 April 2006

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(8 marks)

Question 2 continues on the next page

(b) Prepare a corrected summarised balance sheet at 30 April 2006.

Srewolf Ltd
Summarised Balance Sheet at 30 April 2006

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(9 marks)

Turn over for the next question

Total for this question: 47 marks

3

The following information has been extracted from the ledgers of Ken Tucky at 31 March 2006.

Purchases £280 797	Bad debts £1 368
Sales £587 461	General expenses £33 713
Returns inwards £837	Premises at cost £145 000
Stock 1 April 2005 £39 771	Equipment at cost £11 400
Wages £128 528	Motor vehicles at cost £42 000
Motor expenses £47 870	Provisions for depreciation at 1 April 2005:
Rates £7 810	Premises £46 400
Insurances £7 780	Equipment £6 840
	Motor vehicles £26 880

Additional information at 31 March 2006

- (1) Stock was valued at £40 135.
- (2) A motor van purchased during the year for £18 500 has been included in the motor expenses account.
- (3) Wages remaining unpaid amounted to £1383.
- (4) Insurances paid in advance amounted to £286.
- (5) Ken took goods to the value of £2170 from the business for his own personal use.
- (6) Depreciation is to be charged at the following rates:
 - Premises at 2% per annum using the straight-line method;
 - Equipment at 10% per annum using the straight-line method;
 - Motor vehicles at 40% per annum using the reducing-balance method.

It is Ken's policy to charge a full year's depreciation on all assets held at the end of the financial year.

(b) Explain your treatment of Additional Information (4) and (5). Make reference to appropriate concepts that you have used.

Additional information (4)

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(6 marks)

Additional information (5)

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(6 marks)

Ken has recently seen an increase in the number of customers' debts that need to be written off as bad.

REQUIRED

(c) Advise Ken why he should create a provision for doubtful debts.

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(5 marks)

47

END OF QUESTIONS

There are no questions printed on this page