

General Certificate of Education
January 2004
Advanced Level Examination



ACCOUNTING **ACC5**
Unit 5: Further Aspects of Financial Accounting

Monday 19 January 2004 Morning Session

In addition to this paper you will require:

an answer book for Accounting.

You may use a calculator.

Time allowed: 1 hour 15 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ACC5.
- Answer **all** questions.
- 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 the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 105. This includes up to 5 marks for the Quality of Written Communication.
- Mark allocations are shown in brackets.
- Question 4 is the synoptic question which assesses your understanding of the relationship between the different aspects of Accounting.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Answer **all** questions.

1

Total for this question: 20 marks

The following is the receipts and payments account of Scrumdown Rugby Club for the year ended 31 October 2003.

Receipts	£	Payments	£
Income from functions	1 543	Balance at bank 1 November 2002	819
Investment interest	81	Bar suppliers	41 760
Subscriptions	11 880	Purchase of equipment	4 300
Bar sales	67 551	General expenses	11 623
Sale of equipment	100	Loan repayment	20 000
		Interest on loan	2 000
		Balance at bank 31 October 2003	653
	<u>81 155</u>		<u>81 155</u>

Additional information

- (1) During the year ended 31 October 2003 bar stocks increased by £90.
- (2) The equipment that was sold during the year had a book value of £450.
- (3) At 1 November 2002 the club owed bar creditors £753. At 31 October 2003 £712 was owed to bar creditors.
- (4) Subscriptions, £80, remained outstanding at 31 October 2003.

REQUIRED

Prepare the club income and expenditure account for the year ended 31 October 2003. (20 marks)

2

Total for this question: 13 marks

Shub Cameras Ltd imports digital cameras from Taiwan.

There were 3 cameras that cost £100 each in stock on 1 November 2003.

The following purchases and sales of digital cameras relate to November 2003.

Dates	Purchases	Sales
3 November	4 @ £100	
Week ending 8 November		3 @ £210
Week ending 15 November		1 @ £210
19 November	6 @ £110	
Week ending 22 November		5 @ £230
26 November	5 @ £112	
Week ending 29 November		7 @ £240
Total purchases and sales for month	£1620	£3670

At present, Shub Cameras Ltd use the first in first out (FIFO) method of valuing the stock of digital cameras.

The directors are considering changing the method of valuing the stock of digital cameras to either the last in first out (LIFO) method or the weighted average cost (AVCO) method.

The weighted average cost (AVCO) method for November would give a stock valuation of £219.25 and a gross profit for the month of £1919.25.

REQUIRED

- (a) Calculate the gross profit for November 2003 using the last in first out (LIFO) method of stock valuation. *(6 marks)*
- (b) Outline **one** advantage and **one** disadvantage of using the weighted average cost (AVCO) method of stock valuation. Advise the directors of Shub Cameras Ltd whether or not they should use this method in future. *(7 marks)*

TURN OVER FOR THE NEXT QUESTION

3

Total for this question: 13 marks

Jackie Hall owns and runs a bookshop. She employs her brother Bryan as the buyer for the shop and he is very good at his job.

Jackie is considering offering Bryan a partnership starting on 1 April 2004. As the business is very successful she will not require him to contribute any capital.

REQUIRED

Discuss whether or not Jackie should enter into a partnership.

(13 marks)

4

Total for this question: 54 marks

Gwock Ltd manufactures high quality tables using timber obtained from managed forests. It supplies large retail outlets in the United Kingdom.

The following balances were extracted from the business books of account on 31 December 2003.

	£
Purchases of raw materials	123 060
Sales	510 000
Manufacturing wages	97 800
Depreciation charges for the year:	
factory premises	4 000
office premises	1 500
factory machinery	7 500
office equipment	2 450
Stocks at 1 January 2003:	
raw materials	8 150
finished goods	13 330
Factory rates	7 800
Factory insurance	7 750
Factory power	13 340
Factory light and heat	9 610
Office expenses	69 750
Showroom expenses	38 560
Sales staff salaries	36 900
Manufacturing royalties	40 000
Suspense account	860 Dr

Additional information

- (1) Stocks at 31 December 2003:
- | | |
|----------------|---------|
| raw materials | £9 010 |
| finished goods | £13 950 |
- (2) There were no stocks of work in progress at 1 January 2003 or at 31 December 2003.
- (3) The following errors have been discovered after the balances were extracted.
- (i) Goods sold on credit, £430, to Charleston Ltd have been debited in error to the personal account of Charles Tonne & Co.
 - (ii) The office expense account had been undercast by £100.
 - (iii) Credit sales made to T. Gobi, £760, had been entered correctly in the sales account but had not been entered in T. Gobi's personal account.

REQUIRED

- (a) Prepare journal entries to correct the three errors described in additional information (3) above. Narratives **are** required. (10 marks)
- (b) Prepare the manufacturing account for the year ended 31 December 2003. (18 marks)

Additional information

- (4) After the suspense account had been cleared, the gross profit for the year ended 31 December 2003 was £200 620 and the net profit was £51 190.

The gross profit/sales ratio and net profit/sales ratio for the previous three years were:

Year ended 31 December	2000	2001	2002
Gross profit/sales	31.7%	33.6%	36.1%
Net profit/sales	9.7%	9.6%	9.1%

REQUIRED

- (c) Calculate the gross profit/sales ratio for the year ended 31 December 2003. Consider **one** reason for the changes that have taken place over the four years. *(5 marks)*
- (d) Calculate the net profit/sales ratio for the year ended 31 December 2003. Consider **one** reason for the changes that have taken place over the four years. *(5 marks)*

Additional information

- (5) Selbat, a table manufacturer in Brazil, has recently offered Gwock Ltd a contract to supply the same high quality tables for a price of £200 each. These tables would be manufactured in Brazil, using local hard wood timber from the Amazon rain forest. This price would be guaranteed for two years and includes delivery charges to Gwock's premises.

During the year ended 31 December 2003 Gwock Ltd manufactured and sold 1000 tables.

Gwock Ltd would act as a wholesaler supplying its existing customers who have indicated that they would be happy whatever the decision the directors chose.

The directors are unsure how best to treat this recent development.

REQUIRED

- (e) Draft a memorandum addressed to the directors. Advise them, on purely financial grounds, whether or not they should sign the contract with Selbat. Supporting figures should be used. *(11 marks)*

Additional information

- (6) The directors have received a request from a local radio station asking one of them to contribute to a 'phone-in' regarding the consequences that may result if the proposed Brazilian contract is signed.

The directors are unsure of the types of issue that could be raised by contributors to the programme. They ask for your help.

REQUIRED

- (f) Explain **two** non-financial issues that may be raised during the radio programme. *(5 marks)*