

General Certificate of Education
January 2008
Advanced Level Examination



ACCOUNTING
Unit 5 Further Aspects of Financial Accounting

ACC5

Friday 18 January 2008 1.30pm to 2.45pm

For this paper you must have:

- an 8-page answer book.

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 to be marked.

Information

- The maximum mark for this paper is 105.
Five of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.
- Question 3 is the synoptic question which assesses your understanding of the relationship between the different aspects of Accounting.

Answer **all** questions.

Total for this question: 18 marks

1

Amanda sells one model of luxury mobile home. She provides the following information for March 2007. At 1 March 2007 she had four in stock; they had been valued at their cost price of £26 000 each.

Date	Purchases	Sales
7 March	3 at £27 000	
15 March	1 at £28 000	
22 March		5 at £52 000
26 March		1 at £52 500
30 March	2 at £30 000	
31 March		2 at £53 000
	Total purchases for the month = £169 000	Total sales for the month = £418 500

Amanda has prepared a trading account using the AVCO (weighted average cost) method of valuing her stock. She has calculated her gross profit for the month at £202 125.

An accounting student friend has suggested that it might be better if Amanda changed her method of valuing stock to the FIFO method (first in first out).

REQUIRED

- Prepare a trading account for the month ended 31 March 2007 using the FIFO method of valuing stock. (6 marks)
- Advise Amanda whether or not she should change her current method of valuing stock. Give reasons for your advice. (12 marks)

Total for this question: 23 marks

2

Tajinder owns and runs a gift shop. She does not keep a full set of accounting records. However, she is able to provide the following information for the year ended 31 December 2007.

	£
Cash sales	58 547
Cash received from debtors	9 342
Purchases for cash	2 341
Cash paid to creditors	22 704
Discounts allowed during the year	454
Discounts received during the year	112

Additional information

(1)	at 1 January 2007	at 31 December 2007
	£	£
Stock	1859	1939
Debtors	843	1300
Creditors	7490	6106
(2)	One of the debtors outstanding at 1 January 2007 was unable to settle a debt of £149 and this amount was written off in July 2007.	
(3)	Tajinder is considering making a provision for doubtful debts at 3% of debtors outstanding at the end of the year.	
(4)	During the year Tajinder took goods costing £761 from the business for her own use.	

REQUIRED

- (a) Prepare a trading account for the year ended 31 December 2007. (17 marks)
- (b) Advise Tajinder whether or not she should make a provision for doubtful debts. Give reasons for your advice. (6 marks)

Total for this question: 59 marks

3

Dough, Ray and Mee were in partnership sharing profits and losses in the ratio 3:2:1 respectively. Business profits have been falling consistently over the past few years and the partners have decided to dissolve the partnership with effect from 31 December 2007.

The balance sheet of the partnership at 31 December 2007 was as follows.

	£	£
Fixed assets		
Premises at cost		100 000
Machinery at cost		40 000
Vehicles at cost		<u>20 000</u>
		160 000
Current assets		
Stock	7 000	
Trade debtors	11 000	
Bank	<u>5 000</u>	
	23 000	
Current liabilities		
Trade creditors	<u>2 000</u>	<u>21 000</u>
		<u>181 000</u>
Capital accounts		
Dough		120 000
Ray		60 000
Mee		<u>1 000</u>
		<u>181 000</u>

Additional information at 31 December 2007

- (1) The debtors settled their outstanding debts for £10 000.
- (2) Trade creditors were settled. They allowed £500 cash discount.
- (3) Premises were sold to Loneta plc at an agreed purchase consideration of £140 000, consisting of 50 000 ordinary shares of £1 each, £18 000 7% debentures and £14 000 cash. The shares were divided in the profit sharing ratio and the debentures were shared equally between the partners.
- (4) The machinery, which was extremely old, was sold for £1100 cash.
- (5) One vehicle was taken over by Dough at an agreed value of £3000. A second vehicle was taken over by Ray at an agreed value of £2000. The third vehicle was sold for £4000 cash.
- (6) Ray took over the stock at an agreed value of £6000.
- (7) Dissolution expenses amounted to £5400.
- (8) All cash transactions were processed through the business bank account.

REQUIRED

Prepare the following to show the closing entries in the partnership books of account:

- (a) a realisation account to dissolve the partnership; *(14 marks)*
- (b) the partners' capital accounts; *(18 marks)*
- (c) a bank account; *(10 marks)*
- (d) the account of Loneta plc. *(6 marks)*

Ray will open a new business in Spring 2008.

He has prepared a business plan which reveals that the new business will require start up capital of £100 000.

He is unsure whether to:

- (i) use his own private resources;
- (ii) borrow the necessary capital;
- (iii) enter into another partnership.

He has asked your advice on how to raise the capital.

REQUIRED

- (e) Advise Ray on how he can raise the start up capital for his new business venture.
Give reasons for your advice. *(11 marks)*

END OF QUESTIONS

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