

General Certificate of Education
June 2003
Advanced Level Examination



ACCOUNTING
Unit 5 Further Aspects of
Financial Accounting

ACC5

Thursday 19 June 2003 Afternoon 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 5 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: 13 marks

Raymond Gilpan is a trader who uses a mark-up on cost of 30% on all goods sold. He was unable to carry out a physical stock-take at his year end on 30 April 2003. He and his staff were able to complete the task one week later on 7 May 2003.

On 7 May 2003 Raymond's computer records showed closing stock valued at £7600. However, the stock-take showed stock valued at a cost of £7420. This figure included a batch of damaged goods that cost £65. Raymond believes he can sell these goods for £80 after having them repaired at a cost of £20.

The following information relates to the period 1 May 2003 to 7 May 2003.

	£
Sales	1378
Purchases	NIL
Goods sent to Domkins on sale or return (selling price)	390
Goods returned to suppliers	110

REQUIRED

- (a) Calculate the value of closing stock to be included in Raymond's final accounts as at 30 April 2003. *(9 marks)*
- (b) Explain **two** reasons why the closing stock as shown by a computer print-out may differ from that shown by a physical stock-take. *(4 marks)*

2

Total for this question: 11 marks

Kath Phillips does not maintain a complete accounting system. She provides the following information.

	As at 1 April 2002	As at 31 March 2003
	£	£
Trade debtors	4765	4680
Trade creditors	3100	3450
Stock	2460	5710

Additional information

The following occurred during the year ended 31 March 2003.

- (i) All purchases and sales were on credit.
- (ii) Cash paid to suppliers was £21 080. Receipts from customers were £67 350.
- (iii) Two customers who owed a total of £130 went into liquidation and the balances on their accounts were written off as bad debts. In the light of this, Kath decided to create a provision for doubtful debts of 5% based on the debtors outstanding at the year end.

REQUIRED

Prepare the trading account for the year ended 31 March 2003.

(11 marks)

TURN OVER FOR THE NEXT QUESTION

3

Total for this question: 12 marks

Annabel, Brad and Christine were in partnership, sharing profits and losses equally. Christine retired from the business on 31 May 2003.

At that date, prior to Christine's retirement, the fixed assets had been revalued from £200 000 to £290 000 and goodwill had been valued at £60 000. The increase in the fixed asset values and the introduction of goodwill were recorded in the partners' capital accounts.

The balances after the above amendments had taken place were:

	£
Annabel	200 000
Brad	110 000
Christine	130 000

It was then agreed by the remaining partners that a goodwill account would not be maintained in the books of account. After Christine's retirement from the business Annabel and Brad have continued in partnership, sharing profits and losses in the ratio 2:1 respectively.

REQUIRED

- (a) Calculate the balances shown in the capital accounts of Annabel and Brad immediately after Christine's retirement. *(4 marks)*

The three partners agreed that on Christine's retirement any amount due to her would be settled on 30 June 2003 using one of the following methods.

- (1) By paying Christine immediately from the business bank account.
- (2) Transferring any amount owing to Christine to a loan account. The loan to be repaid over 4 years, interest chargeable at 5% per annum.
- (3) Taking a new partner whose capital injection would be used to pay Christine.

REQUIRED

- (b) Advise Annabel and Brad, giving reasons, which option they should use to settle the amount owed to Christine. *(8 marks)*

4

Total for this question: 8 marks

Genspec plc is a manufacturing company. Over the last year there has been a decline in demand for its product. The directors feel that this is an appropriate time to diversify into other products. They need to raise a substantial amount to finance their plans.

They are proposing to raise the required finance by:

- either (i) mortgaging their factory over 25 years;
or (ii) selling the factory and leasing it back from the new owner.

REQUIRED

Advise the directors, giving your reasons, which method of raising the required finance they should use.
(8 marks)

TURN OVER FOR THE NEXT QUESTION

5

Total for this question: 56 marks

The treasurer of the Langwathby Sports and Social Club supplies you with the following information.

(1) Assets and liabilities	As at 1 June 2002	As at 31 May 2003
	£	£
Club-house at cost	240 000	240 000
Club equipment at cost	37 000	35 000
Investment in Blinka plc at cost	3 200	3 200
Bar stock	1 600	1 700
Subscriptions received in advance	40	240
Rates paid in advance	70	80
Creditors for bar purchases	356	216
Lettings income owed to the club	–	60
Balance at bank overdrawn	2 800	–
Balance at bank	–	300
Accumulated fund	278 674	?

(2) Summary of the bank account recorded in the club's accounting records

	£		£
Subscriptions	7 680	Balance as at 1 June 2002	2 800
Income from lettings	4 800	Rates	2 400
Dividends from Blinka plc	160	Other expenses	19 400
Bar takings	46 400	Payments to creditors for bar purchases	34 140
		Balance as at 31 May 2003	300
	<u>59 040</u>		<u>59 040</u>

(Note: the club does not maintain a separate cash account.)

(3) The treasurer has prepared the following bar trading account.

Langwathby Sports and Social Club
Bar Trading Account for the year ended 31 May 2003

	£	£
Bar takings		46 400
Less cost of sales		
Stock 1 June 2002	1 600	
Bar purchases	<u>34 000</u>	
	35 600	
Stock 31 May 2003	<u>1 700</u>	<u>33 900</u>
Bar profit		<u>12 500</u>

REQUIRED

- (a) Prepare the club's income and expenditure account for the year ended 31 May 2003. *(14 marks)*
- (b) Prepare the club's balance sheet as at 31 May 2003. *(10 marks)*

Further information

- (4) The treasurer received the club's bank statement. It showed a credit balance of £450 on 31 May 2003.

REQUIRED

- (c) Explain and give examples of **two** reasons why the club's records show a debit balance at bank of £300, whereas the bank statement shows a credit balance of £450 in the account. *(5 marks)*
- (d) Identify the method that the club treasurer should use to verify the accuracy of the bank balance shown in the club's records. *(1 mark)*

Further information

- (5) The investment in Blinka plc is 2000 ordinary shares with a par value of 20p each. At a recent committee meeting two members had argued over the club's ownership of these shares in Blinka plc, which is a highly geared company.

One member had suggested selling the shares and depositing the proceeds in a building society account paying interest at 5% per annum. The shares currently have a market price of £2.50 each.

The other member had suggested keeping the shares since an 8p dividend on 20p shares is a return of 40%.

REQUIRED

- (e) Explain the significance, to the club, of the fact that Blinka plc is highly geared. *(3 marks)*
- (f) Advise the club treasurer, giving your reasons, whether or not the shares should be sold and the proceeds deposited in a building society account. *(8 marks)*

QUESTION 5 CONTINUES ON THE NEXT PAGE

Further information

- (6) At the same committee meeting another member had wished to know why:
- (i) the return on capital employed (ROCE) for the club was very low;
 - (ii) the acid test ratio was only 0.96:1.

REQUIRED

- (g) Calculate the return on capital employed (ROCE). Show the formula used. *(2 marks)*
- (h) Analyse the significance of the **two** ratios in order to provide answers to the member's questions. *(5 marks)*

Further information

- (7) One room in the club-house is let to non-members at a rate of £30 per half day.
This rate covers the following expenses that are incurred only when the room is used.

	£
Fee paid to caretaker to open the room and secure it after a meeting	6
Heating	5
Lighting	<u>2</u>
	13
Additional charge to cover fixed costs	<u>15</u>
Total costs incurred for a half day let	<u><u>28</u></u>

A local group of senior citizens wishes to use the room 4 times per year, but cannot afford to pay the £120 fee. They would only be able to pay £60 for their four meetings.

REQUIRED

- (i) Advise the committee whether they should let the room to the group. Give detailed reasons for your decision. *(8 marks)*

END OF QUESTIONS