

General Certificate of Education  
June 2006  
Advanced Level Examination



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

**ACC5**

Friday 16 June 2006 9.00 am to 10.15 am

**For this paper you must have:**

- 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.  
5 of these marks are for the Quality of Written Communication.
- 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.
- 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.

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Answer **all** questions.

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**Total for this question: 25 marks**

**1**

Tom and Geraldine have been in partnership for a number of years as building contractors. They share profits and losses equally. The balances on their current accounts at 30 April 2006, **after** the preparation of their draft final accounts, were Tom £3720 (cr) and Geraldine £1450 (dr).

In early May 2006, the following information became available.

- (1) During the financial year ended 30 April 2006, the partnership had built an office for business use. The building materials used cost £12 450 and had been included in the purchases account; the labour costs of £18 240 had been included in the wages account.
- (2) No entry had been made in the accounts to record the use of materials from business stock for work done in Geraldine's home. The materials cost £2780.
- (3) Included in Tom's drawings was a payment of £600 cash to his son for work carried out on behalf of the partnership.
- (4) A piece of equipment, purchased on 1 May 2003 at a cost of £20 000, was sold on 30 April 2006 for £8000. The only entries relating to the sale of the equipment were:
  - Debit – cash £8000
  - Credit – sales £8000

The equipment had been depreciated at 25% per annum using the straight-line method up to 30 April 2006.

**REQUIRED**

- (a) Prepare a statement showing:
  - (i) the effect of **each** of items (1) to (4) on the draft net profit; *(8 marks)*
  - (ii) the change in net profit for the year ended 30 April 2006. *(2 marks)*
- (b) Prepare current accounts of Tom and Geraldine at 30 April 2006 to record the adjustments that may be necessary because of the four items. *(9 marks)*
- (c) Evaluate the usefulness of maintaining separate capital and current accounts. *(6 marks)*

**Total for this question: 20 marks**

2

The treasurer of Shugtown Social Club has never kept proper books of account. He is only able to provide the following information for the financial year ended 31 March 2006.

<b>Assets and liabilities</b>	<b>at 31 March 2005</b>	<b>at 31 March 2006</b>
	<b>£</b>	<b>£</b>
Bar stocks at cost	3400	3950
Bar creditors	1570	880
Subscriptions in arrears	240	120
Equipment at valuation	5400	9360
Stock of stationery at cost	110	85
Cash at bank	1800	340
5% loan	–	5000

**Additional information**

- (1) Equipment costing £5000 was purchased on 1 April 2005. It was financed fully by a loan taken out on that date. At the year end 31 March 2006, no payment of capital or interest had been made.
- (2) Included in the bar stocks at 31 March 2006 were items costing £120 that were out of date; they were sold in April 2006 for £30.

**REQUIRED**

- (a) Prepare a balance sheet at 31 March 2006. Show clearly the surplus or deficit for the year ended 31 March 2006. An income and expenditure account is **not** required. *(12 marks)*
- (b) Advise the treasurer of the Shugtown Social Club whether or not he should change his method of financial record-keeping. *(8 marks)*

**Turn over for the next question**

**Total for this question: 55 marks**

3

Michael Wong is the proprietor of a retail gift shop. He has one outlet and a small warehouse where he keeps his stock.

Michael does not keep full accounting records, but he is able to provide the following information for the year ended 31 March 2006.

**Summarised Bank Account for the year ended 31 March 2006**

	£		£
1 April 2005 Balance b/fwd	784	Payments to creditors	178 943
Cash banked	253 641	Warehouse rent	7 800
Received from debtors	2 356	Advertising and wrapping materials	12 340
		Rates and insurances	11 870
		Purchase of vehicle	30 000
		Motor expenses	12 659
31 March 2006 Balance c/fwd	4 393	General expenses	7 562
	<u>261 174</u>		<u>261 174</u>
		1 April 2006 Balance b/fwd	4 393

**Additional information**

	at 1 April 2005	at 31 March 2006
	£	£
(1) <b>Assets and liabilities</b>		
Premises	103 600	100 800
Fixtures and fittings	12 000	10 000
Vehicles	20 000	28 500
Stock	4 562	4 328
Trade creditors	12 403	11 987
Trade debtors	458	476
Warehouse rent unpaid	700	–
Insurances paid in advance	760	840
Cash at bank	784	–
Bank overdraft	–	4 393
Cash in hand	260	320

- (2) During March 2006, one of the vehicles, with a value of £12 000, was involved in an accident. The vehicle and all of the goods being carried in the vehicle had to be written off. The goods had cost £1560.

The insurance company agreed to pay £7200 for the loss of the vehicle; the payment was made at the end of April 2006.

Unfortunately, Michael was not insured for the loss of the goods.

- (3) On 1 September 2005, a new vehicle was purchased for £30 000.
- (4) Before paying the shop takings into the bank account, Michael used some of the cash received to pay the following.

	<b>£</b>	
Cash for personal use		1500 per calendar month
Staff wages		2650 per calendar month

- (5) During December 2005, Michael took goods costing £368 from stock to give as Christmas presents to his friends and relatives.

## REQUIRED

- (a) Prepare the following accounts for the year ended 31 March 2006:
- (i) a cash account; *(7 marks)*
  - (ii) a total debtors account (control account); *(5 marks)*
  - (iii) a total creditors account (control account); *(5 marks)*
  - (iv) a vehicles account. *(6 marks)*
- (b) Prepare a trading and profit and loss account for the year ended 31 March 2006. *(23 marks)*

**Question 3 continues on the next page**

Over the past few years, there has been a growth in the number of retail outlets selling similar goods to those sold by Michael. As a result, Michael's profitability has been declining. This is shown in the following table.

<b>Year ended 31 March</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Gross margin	45%	44%	44%
Net margin	19%	15%	14%

Michael, who is 62 years of age, is considering whether or not the time has come for him to sell his business and retire. An estate agent has recently valued the business and believes that it could be sold as a going concern for £150 000.

### **REQUIRED**

- (c) Advise Michael whether or not he should sell his business and retire.  
Use ratios where appropriate to support your argument.

*(9 marks)*

**END OF QUESTIONS**

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