

Paper Reference(s)

**6001/01**

**London Examinations GCE**  
**Accounting (Modular Syllabus)**  
**Advanced Subsidiary/Advanced Level**  
Unit 1 – The Accounting System and  
Costing

Tuesday 17 May 2011 – Morning

**Source booklet for use with**  
**Questions 1 to 7.**

**Do not return the insert with the**  
**question paper.**

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## SECTION A

## SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Pavlena is in business buying and selling goods on credit. The following balances were extracted from her books on 30 April 2011:

	£
Revenue (Sales)	85 524
Non-current (Fixed) assets:	
Intangible assets (Goodwill)	25 000
Property (Leasehold premises)	40 000
Motor vehicle	15 000
Fixtures and fittings	14 000
Provisions for depreciation:	
Property (Leasehold premises)	6 400
Motor vehicle	8 000
Fixtures and fittings	3 600
Ordinary goods purchased (Purchases)	32 890
Inventory (Stock) 1 May 2010	3 810
Motor vehicle running expenses	4 250
General expenses and repairs	6 910
Telephone and broadband expenses	1 450
Wages	23 860
Drawings	8 704
Loan interest paid	1 750
Trade receivables (Debtors)	7 850
Trade payables (Creditors)	6 900
Capital	50 600
8% Bank loan repayable 30 April 2015	30 000
Cash (cash and bank)	5 750
Provision for doubtful debts	200

**Additional information at 30 April 2011:**

- (i) Inventory (Stock) was valued at £4 630
- (ii) Wages of £1 600 were prepaid
- (iii) An invoice for ordinary goods purchased (purchases) £400, bought on credit, had been mislaid and no entries had been made in the books
- (iv) During the year repairs to fixtures and fittings costing £2 000 had been posted, in error, to the fixtures and fittings account
- (v) Depreciation is charged on non-current (fixed) assets on the following basis:
  - The property (leasehold premises) has an expected life of 50 years
  - Motor vehicles at the rate of 20% per annum diminishing balance
  - Fixtures and fittings at the rate of 15% per annum straight line
- (vi) The 8% Bank loan was taken out on 1 May 2010
- (vii) A debt of £600 is considered irrecoverable. A provision of 4% is to be maintained on all remaining debts.

**Required:**

- (a) Prepare for Pavlena the:
- (i) statement of comprehensive income (trading and profit & loss account) for the year ended 30 April 2011 (15)
  - (ii) statement of financial position (balance sheet) as at 30 April 2011. (15)

During the year repairs to fixtures and fittings were posted, in error, to the fixtures and fittings account.

- (b) (i) Name this type of error. (1)
- (ii) Explain why the posting to the fixtures and fittings account was an error. (4)
- (iii) Prepare the journal entries, **including** narrative, to correct the error. (3)
- (c) Distinguish between **straight line** and **diminishing balance** as methods of depreciation. (6)
- (d) Evaluate the decision of Pavlena to use the diminishing balance method to depreciate her motor vehicles. (8)

**(Total 52 marks)**

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**Answer space for question 1 is on pages 2 to 8 of the question paper.**

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Question Number	Answer	Mark
1(b)(i)	Error of principle ✓	(1)

Question Number	Answer	Mark
1(b)(ii)	Valid answers may include: <ul style="list-style-type: none"> <li>• Repairs are classed as day to day expenses OR</li> <li>• Repairs are revenue expenses ✓✓</li> <li>• Fixtures and fittings contain capital expenditure only OR</li> <li>• Fixtures and fittings will last for many years ✓✓</li> </ul>	(4)

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1(b)(iii)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 15%; text-align: center;">Dr</th> <th style="width: 15%; text-align: center;">Cr</th> <th style="width: 10%;"></th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> <th></th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">General expenses and repairs</td> <td style="text-align: center;">2 000</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td style="padding-left: 20px;">Fixtures and fittings</td> <td></td> <td style="text-align: center;">2 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Correction of error/Repairs charged to fixtures and fittings account</td> <td></td> <td></td> <td style="text-align: right;">✓</td> </tr> </tbody> </table>		Dr	Cr			£	£		General expenses and repairs	2 000		✓	Fixtures and fittings		2 000	✓	Correction of error/Repairs charged to fixtures and fittings account			✓	(3)
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1(c)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;"></th> <th style="width: 40%; text-align: center;">Straight line</th> <th style="width: 40%; text-align: center;">Diminishing balance</th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">Calculation</td> <td style="padding-left: 20px;">Based upon cost less residual value ✓✓</td> <td style="padding-left: 20px;">Based upon % of outstanding book value ✓✓</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="padding-left: 20px;">Allows an even amount of depreciation in each year ✓</td> <td style="padding-left: 20px;">Allows more depreciation in the early years ✓</td> </tr> </tbody> </table>		Straight line	Diminishing balance	Calculation	Based upon cost less residual value ✓✓	Based upon % of outstanding book value ✓✓	Depreciation	Allows an even amount of depreciation in each year ✓	Allows more depreciation in the early years ✓	(6)
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Depreciation	Allows an even amount of depreciation in each year ✓	Allows more depreciation in the early years ✓									

Question Number	Answer	Mark
1(d)	Valid answers may include: <p>In favour</p> <ul style="list-style-type: none"> <li>• Motor vehicles lose more in value in the early years of ownership</li> <li>• Statement of financial position (balance sheet) valuation will be more accurate</li> <li>• When depreciation costs are added to repair costs the total cost of owning the asset are fairly even</li> </ul> <p>Against</p> <ul style="list-style-type: none"> <li>• Benefit to the business will be the same over the early and later years</li> <li>• After initial loss, motor vehicle loss in value is constant although depreciation charge will be variable</li> </ul> <p>✓✓ per point x 2 in favour plus ✓✓ per point x 2 against.</p>	(8)

**SOURCE MATERIAL FOR USE WITH QUESTION 2**

2. Haider is in business as a travel consultant. She sells holidays and collects the payment from customers. She receives from the travel company a commission of 10% of the revenue (sales) value of the holidays.

Haider operates a single Sales Ledger Control Account for her business. The following information is available:

	£
Trade receivables (Debtors) 1 April 2010	19 900
Receipts from customers	425 000
Refunds to customers	8 350
Dishonoured cheques	1 600
Trade receivables (Debtors) 31 March 2011	24 850

**Required:**

- (a) Prepare the Sales Ledger Control Account for the year ended 31 March 2011, showing the total value of the revenue (sales) for the year.

(7)

On 1 April 2010, the following balances were in the books of Haider:

	£
Commission receivable, owing to Haider:	4 800
Rent, 3 months prepaid:	1 250
Wages, prepaid:	400
Marketing expenses, owing:	750

The following is a summary of some of the transactions of the business for the year ended 31 March 2011:

	£
Receipts of commission from the travel company	43 500
Payment of 9 months rent	3 750
Wages paid	17 800
Marketing expenses paid	11 250

At 31 March 2011:

Wages £350 were owing  
 Marketing expenses – there was a closing inventory (stock) of brochures £2 150

**Required:**

- (b) Prepare the following ledger accounts for the year ended 31 March 2011, showing the transfers to the statement of comprehensive income (profit & loss account). Balance the accounts as necessary.
- (i) Commission receivable account
  - (ii) Rent account
  - (iii) Wages account
  - (iv) Marketing expenses account
- (23)**

In addition to the incomes and expenses above, Haider also incurred the following for the year ended 31 March 2011:

Sundry expenses	£3 600
Depreciation on non-current (fixed) assets	£4 600

- (c) Prepare the statement of comprehensive income (profit & loss account) for the year ended 31 March 2011.
- (8)**

At a meeting with her accountant, Haider was informed that her accounts would need to comply with the accounting concepts of accruals and going concern.

- (d) Explain the meaning of:
- (i) accounting concepts
  - (ii) the accounting concept of accruals
  - (iii) the accounting concept of going concern.
- (6)**
- (e) Evaluate the use of accounting concepts when preparing financial statements (final accounts).
- (8)**

**(Total 52 marks)**

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**Answer space for question 2 is on pages 9 to 15 of the question paper.**

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Question Number	Answer	Mark
2(d)	<p>Accounting concepts - In the search for objectivity, the rules which lay down the way in which the financial information of the business is recorded. //</p> <p>Accruals concept - Calculates profit for the year on the basis of the difference between revenues and expenses for the year rather than the difference between cash receipts and expenditures. //</p> <p>Going concern concept- Unless the opposite is known accounting always assumes that the business will continue to operate for an indefinite period. Therefore, it is not necessary to show what assets would fetch. //</p>	(6)

Question Number	Answer	Mark
2(e)	<p>Valid answers may include:</p> <p>In favour</p> <ul style="list-style-type: none"> <li>• Profit figures can be relied upon/asset values are accurate</li> <li>• Comparison between accounts is possible</li> <li>• Users can trust the accounts prepared/make decisions based on the accounts</li> </ul> <p>Against</p> <ul style="list-style-type: none"> <li>• Use of concepts often open to a wide interpretation</li> <li>• Different interpretation in different businesses e.g. materiality</li> <li>• Concepts can contradict each other</li> </ul> <p>// per point x 2 in favour plus // per point x 2 against</p>	(8)

**SOURCE MATERIAL FOR USE WITH QUESTION 3**

3. Bell Computers is considering purchasing a computer retail business. Bell Computers has identified two businesses which could be purchased, Hilltec and Microtech. Bell Computers only has sufficient funds to purchase one of the businesses.

The following is the summarised statement of comprehensive income (trading and profit & loss account) for the two businesses for the year ended 30 April 2011:

	Hilltec £000	Microtech £000
Revenue (Sales) (all on credit)	800	800
Cost of sales	480	400
Wages and salaries	180	280
Other expenses	70	85
Depreciation	20	15

The following additional balances are also available at 30 April 2011:

	Hilltec £000	Microtech £000
Non-current (Fixed) assets	190	130
Inventory (Stock)	150	100
Trade receivables (Debtors)	200	40
Trade payables (Creditors)	350	70
Cash (Cash and bank)	60	-
Bank loan - repayable 2015	-	50
Capital	250	150

**Required:**

- (a) Distinguish between the terms **profit** and **profitability**. (4)
- (b) Calculate the following ratios for Hilltec **and** Microtech:
- (i) Gross profit to revenue (sales) percentage (6)
- (ii) Profit for the year (net profit) to revenue (sales) percentage (6)
- (iii) Return on capital employed (6)
- (iv) Current ratio (6)
- (v) Collection period for trade receivables (debtors) (6)
- (c) State **four** non financial factors that Bell Computers may need to consider when purchasing one of the businesses. (4)
- (d) Advise Bell Computers whether it should purchase Hilltec, Microtech or neither of the businesses. Give **three** reasons for your decision. (6)
- (e) Evaluate the use of ratios in determining the suitability of a business for purchase. (8)

(Total 52 marks)

**Answer space for question 3 is on pages 16 to 21 of the question paper.**

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Question Number	Answer	Mark
3(a)	<p>Profit is the difference between revenue and expenses for a period <i>///</i></p> <p>Profitability compares the profit for the period with resources used to generate that profit e.g. capital employed to obtain a percentage return on capital employed/e.g. percentage mark-up on sales <i>///</i></p>	(4)

Question Number	Answer	Mark																								
3(b) (i - v)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 20%; text-align: center;">Hilltec £000</th> <th style="width: 20%; text-align: center;">Microtech £000</th> <th style="width: 20%;"></th> </tr> </thead> <tbody> <tr> <td>(i) Gross profit to revenue (sales) percentage</td> <td style="text-align: center;"><math>\frac{320 \times 100}{800} = 40\%</math> <i>///</i></td> <td style="text-align: center;"><math>\frac{400 \times 100}{800} = 50\%</math> <i>///</i></td> <td style="text-align: right;">(6)</td> </tr> <tr> <td>(ii) Profit for the year (Net profit) to revenue (sales) percentage</td> <td style="text-align: center;"><math>\frac{50 \times 100}{800} = 6.25\%</math> <i>///</i></td> <td style="text-align: center;"><math>\frac{20 \times 100}{800} = 2.5\%</math> <i>///</i></td> <td style="text-align: right;">(6)</td> </tr> <tr> <td>(iii) Return on capital employed</td> <td style="text-align: center;"><math>\frac{50 \times 100}{250} = 20\%</math> <i>///</i></td> <td style="text-align: center;"><math>\frac{20 \times 100}{150 + 50} = 10\%</math> <i>///</i></td> <td style="text-align: right;">(6)</td> </tr> <tr> <td>(iv) Current ratio</td> <td style="text-align: center;"><math>\frac{150 + 200 + 60}{350} = 1.17:1</math> <i>///</i></td> <td style="text-align: center;"><math>\frac{100 + 40}{70} = 2:1</math> <i>///</i></td> <td style="text-align: right;">(30)</td> </tr> <tr> <td>(v) Collection period for trade receivables (debtors)</td> <td style="text-align: center;"><math>\frac{200 \times 365}{800} = 91.25</math> days <i>///</i></td> <td style="text-align: center;"><math>\frac{40 \times 365}{800} = 18.25</math> days <i>///</i></td> <td style="text-align: right;">(6)</td> </tr> </tbody> </table>		Hilltec £000	Microtech £000		(i) Gross profit to revenue (sales) percentage	$\frac{320 \times 100}{800} = 40\%$ <i>///</i>	$\frac{400 \times 100}{800} = 50\%$ <i>///</i>	(6)	(ii) Profit for the year (Net profit) to revenue (sales) percentage	$\frac{50 \times 100}{800} = 6.25\%$ <i>///</i>	$\frac{20 \times 100}{800} = 2.5\%$ <i>///</i>	(6)	(iii) Return on capital employed	$\frac{50 \times 100}{250} = 20\%$ <i>///</i>	$\frac{20 \times 100}{150 + 50} = 10\%$ <i>///</i>	(6)	(iv) Current ratio	$\frac{150 + 200 + 60}{350} = 1.17:1$ <i>///</i>	$\frac{100 + 40}{70} = 2:1$ <i>///</i>	(30)	(v) Collection period for trade receivables (debtors)	$\frac{200 \times 365}{800} = 91.25$ days <i>///</i>	$\frac{40 \times 365}{800} = 18.25$ days <i>///</i>	(6)	
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Question Number	Answer	Mark
3(c)	<p>Valid non-financial factors may include:</p> <ul style="list-style-type: none"> <li>• Future market potential</li> <li>• Location of business</li> <li>• Quality of products sold</li> <li>• Reputation</li> <li>• Skill of workforce / Quality of service</li> <li>• History of industrial relations</li> <li>• Good relationship with suppliers</li> <li>• Brand image</li> </ul> <p>✓ x 4 factors</p>	(4)

Question Number	Answer	Mark
3(d)	<p>In favour of Hilltec:</p> <ul style="list-style-type: none"> <li>• Net profit to revenue is better due to lower wage costs</li> <li>• Return on capital employed is at a good level</li> <li>• The business has no loans</li> <li>• The business has a higher level of non-current assets</li> </ul> <p>In favour of Microtech:</p> <ul style="list-style-type: none"> <li>• Gross profit to sales is higher possibly due to more efficient buying</li> <li>• Net profit to revenue/ Return on capital employed could be much improved if wage costs could be reduced.</li> <li>• Current ratio at benchmark level at 2:1</li> <li>• Efficient collection of debts at 18.25 days</li> </ul> <p>Candidates may recommend either business. Allow OF arguments.                  ✓✓ per valid reason x 3 reasons</p>	(6)

Question Number	Answer	Mark
3(e)	<p>Valid points may include:</p> <p>Points in favour</p> <ul style="list-style-type: none"><li>• Provide a 'yardstick' of comparison</li><li>• Can be compared with other similar businesses or previous periods</li><li>• Provide investors/purchasers etc with an independent assurance</li></ul> <p>Points against</p> <ul style="list-style-type: none"><li>• Do not consider non financial factors such as potential/ work force</li><li>• Look at individual/specific measurements only e.g. liquidity</li><li>• Difficult to interpret/may be subjective</li><li>• May not be accurate/representative</li></ul> <p>✓✓ per point x 2 in favour plus ✓✓ per point x 2 against.</p>	(8)

## SECTION B

## SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Marios and Tamsin agreed to dissolve their partnership on 31 March 2011. On that date, their statement of financial position (balance sheet) was as follows:

## Statement of financial position (balance sheet) at 31 March 2011

	£	£
<b>Non-current (Fixed) assets</b>		
Property (Premises)		75 000
Motor vehicles at net book value		<u>18 000</u>
		93 000
<b>Current assets</b>		
Inventory (Stock)	8 500	
Trade receivables (Debtors)	11 500	
Cash (Bank)	<u>1 000</u>	
		<u>21 000</u>
		114 000
<b>Creditors: amounts falling due within one year</b>		
Trade payables (Creditors)		<u>(23 000)</u>
		91 000
<b>Non-current liabilities (Long-term liabilities)</b>		
Loan from Marios		<u>(30 000)</u>
		<u>61 000</u>
<b>Capital:</b>		
Marios	32 000	
Tamsin	<u>25 000</u>	
		57 000
<b>Current accounts:</b>		
Marios	3 000	
Tamsin	<u>1 000</u>	
		<u>4 000</u>
		<u>61 000</u>

## Additional information at 31 March 2011

- (i) One of the motor vehicles was taken over by Marios for £7 500
- (ii) Trade receivables (debtors) paid £11 000 in full settlement
- (iii) Trade payables (creditors) were paid in full less £1 200 discount received
- (iv) The cost of dissolution was £1 250
- (v) All remaining assets were sold to Woodman & Co for £140 000
- (vi) Current account balances were transferred to the capital accounts
- (vii) Profits and losses are shared by Marios and Tamsin in the ratio 3:2 respectively.



**Required:**

- (a) Prepare the following to record the dissolution:
- (i) Dissolution account (9)
  - (ii) Partners' capital accounts (5)
  - (iii) Cash (Bank) account. (6)
- (b) State **two** reasons why a partnership may be dissolved. (2)
- Marios stated that, by selling many of the assets to Woodman & Co, the partnership would be able to realise the goodwill in the business.
- (c) (i) Explain the term goodwill. (2)
- (ii) Suggest **two** possible reasons why Woodman & Co may wish to pay for goodwill when purchasing the business of Marios and Tamsin. (4)
- (d) Evaluate trading as a partnership as an alternative to trading as a sole trader. (4)

**(Total 32 marks)**

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**Answer space for question 4 is on pages 22 to 25 of the question paper.**

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Question Number	Answer	Mark																																																
4(a)(i)	<p style="text-align: center;"><b>Dissolution Account</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">£</td> <td></td> <td style="text-align: center;">£</td> </tr> <tr> <td>Property (premises)</td> <td style="text-align: right;">75 000</td> <td>Trade payables (creditors)</td> <td style="text-align: right;">23 000 ✓</td> </tr> <tr> <td>Motor vehicles</td> <td style="text-align: right;">18 000</td> <td>Trade receivables(debtors)</td> <td style="text-align: right;">11 000 ✓</td> </tr> <tr> <td>Inventory (stock)</td> <td style="text-align: right;">8 500</td> <td>Marios - Motor vehicle</td> <td style="text-align: right;">7 500 ✓</td> </tr> <tr> <td>Trade receivables (debtors)</td> <td style="text-align: right;">11 500 ✓</td> <td>Woodman &amp; Co</td> <td style="text-align: right;">140 000 ✓</td> </tr> <tr> <td>Trade payables (creditors)</td> <td style="text-align: right;">21 800 ✓</td> <td></td> <td></td> </tr> <tr> <td>Dissolution costs</td> <td style="text-align: right;">1 250 ✓</td> <td></td> <td></td> </tr> <tr> <td colspan="4">Profit on dissolution:</td> </tr> <tr> <td></td> <td style="text-align: right;">Marios 27 270 ✓OF</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">Tamsin 18 180 ✓OF</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>45 450</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>181 500</u></td> <td></td> <td style="text-align: right;"><u>181 500</u></td> </tr> </table>		£		£	Property (premises)	75 000	Trade payables (creditors)	23 000 ✓	Motor vehicles	18 000	Trade receivables(debtors)	11 000 ✓	Inventory (stock)	8 500	Marios - Motor vehicle	7 500 ✓	Trade receivables (debtors)	11 500 ✓	Woodman & Co	140 000 ✓	Trade payables (creditors)	21 800 ✓			Dissolution costs	1 250 ✓			Profit on dissolution:					Marios 27 270 ✓OF				Tamsin 18 180 ✓OF				<u>45 450</u>				<u>181 500</u>		<u>181 500</u>	(9)
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Question Number	Answer	Mark
4(b)	<p>Possible reasons:</p> <ul style="list-style-type: none"> <li>• Retirement</li> <li>• Death</li> <li>• Disagreement</li> <li>• Admission of a new partner</li> <li>• Sale of business</li> <li>• If a partner wants to leave</li> </ul> <p>✓ per reason x 2 reasons</p>	(2)

Question Number	Answer	Mark
4(c)(i)	<p>Goodwill is the value/price paid for a business over and above the net value of the assets ✓✓</p>	(2)

Question Number	Answer	Mark
4(c)(ii)	<p>Possible reasons:</p> <ul style="list-style-type: none"> <li>• Location</li> <li>• Reputation</li> <li>• Specialist product or service</li> </ul> <p>✓✓ per reason x 2 reasons</p>	(4)

Question Number	Answer	Mark
4(d)	<p>Valid points may include:</p> <p>Points in favour:</p> <ul style="list-style-type: none"> <li>• More capital available</li> <li>• Greater skill base</li> <li>• Decisions made jointly and possibly more considered</li> <li>• Holiday/sickness cover</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>• Profits shared</li> <li>• Cannot make decisions alone</li> <li>• Conflicts may arise</li> </ul> <p>✓✓ per valid point x 2. MAXIMUM one point in favour and one against</p>	(4)

**SOURCE MATERIAL FOR USE WITH QUESTION 5**

5. Shavani started business on 1 April 2011 buying mobile phones and renting them to customers. The following information is available for the month of April 2011:
- (i) Mobile phones are purchased by Shavani and rented to customers on a monthly contract. Customers choose one of two tariffs: Low Usage or High Usage.
  - (ii) During April, inventory (stock) movements were as follows:
    - 1 April, purchased inventory (stock) of 1 000 mobile phones, at £20 each
    - 20 April, purchased inventory (stock) of 1 500 mobile phones, at £22 each
    - During April, issued 2 000 mobile phones to customers.
  - (iii) Shavani operates the First In First Out (F.I.F.O) periodic valuation method of inventory (stock) valuation.
  - (iv) On 30 April, Shavani found that 200 of the mobile phones in the closing inventory (closing stock) were damaged and would cost £6 per phone to repair.
  - (v) Of the mobile phones issued: 800 customers chose the Low Usage tariff and the remaining customers chose the High Usage tariff. Tariff charges to each customer were:

	Low Usage	High Usage
Monthly fixed charge	£8	£20
Cost per minute	£0.40	£0.10

- (vi) In April, each Low Usage customer used on average 20 minutes and each High Usage customer used on average 130 minutes.
- (vii) Shavani also had the following additional expenses in April:

	£
Wages and salaries	4 320
Mobile phone network access charges	5 000
Depreciation on equipment	1 400

On 30 April wages and salaries of £730 were accrued.

**Required:**

- (a) Distinguish between **stock valuation** and **stock rotation**. (4)
- (b) Calculate the value of the closing inventory (closing stock) at 30 April 2011. (8)
- (c) (i) Calculate the Revenue (Sales) for the month of April 2011. (4)
- (ii) Prepare the statement of comprehensive income (trading and profit & loss account) for the month of April 2011. (6)

Hinal is considering renting a mobile phone from Shavani. Hinal estimates that he will use his mobile phone for 75 minutes per month.

- (d) (i) Calculate the cost to Hinal for one month of the
- Low Usage tariff
  - High Usage tariff.
- (4)
- (ii) Advise Hinal whether he should enter into a Low Usage tariff or High Usage tariff agreement. (2)
- (e) Evaluate the use of First In First Out (F.I.F.O) as a method of valuing inventory (stock). (4)

**(Total 32 marks)**

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**Answer space for question 5 is on pages 26 to 30 of the question paper.**



Question Number	Answer	Mark												
5(d)(i)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 35%; text-align: center;">Low tariff</th> <th style="width: 35%; text-align: center;">High tariff</th> </tr> </thead> <tbody> <tr> <td>Monthly charge</td> <td style="text-align: right;">£8    ✓</td> <td style="text-align: right;">£20    ✓</td> </tr> <tr> <td>Call charges</td> <td style="text-align: right;"><u>£30</u>    ✓</td> <td style="text-align: right;"><u>£7.50</u>    ✓</td> </tr> <tr> <td></td> <td style="text-align: right;">£38</td> <td style="text-align: right;">£27.50</td> </tr> </tbody> </table>		Low tariff	High tariff	Monthly charge	£8    ✓	£20    ✓	Call charges	<u>£30</u> ✓	<u>£7.50</u> ✓		£38	£27.50	
	Low tariff	High tariff												
Monthly charge	£8    ✓	£20    ✓												
Call charges	<u>£30</u> ✓	<u>£7.50</u> ✓												
	£38	£27.50												
(ii)	For the usage that Hinal will make of the mobile phone he is advised to enter into a High tariff contract. ✓✓ Accept OF recommendation.	(6)												

Question Number	Answer	Mark
5(e)	<p>Valid points may include:</p> <p>Points in favour</p> <ul style="list-style-type: none"> <li>• Accepted by the tax authorities/accounting standards</li> <li>• Is logical in that the oldest stock values are sold/issued first</li> <li>• Gives a higher closing stock value and higher profits when prices are rising.</li> </ul> <p>Points against</p> <ul style="list-style-type: none"> <li>• Stock is sold/issued at values that may be below current market prices</li> <li>• Higher profits will mean higher taxes.</li> </ul> <p>✓✓ per valid point x 2. MAXIMUM one point in favour and one against.</p>	(4)

Question Number	Answer	Mark
6(a)(i)	<p>Appropriation is the way that overheads are shared/divided between various departments or cost centres. ✓✓ This could involve allocation and/or apportionment. ✓✓</p> <p>The costs may be shared on the most reasonable basis available ✓✓ e.g. floor area for rent. ✓✓</p> <p>Any two points x ✓✓</p>	(4)
(ii)	Business advertising is undertaken to increase sales and therefore it would be best to apportion this cost on the basis of the revenue (sales). ✓✓	(2)



**SOURCE MATERIAL FOR USE WITH QUESTION 6**

6. Easy Gardening is a business selling and repairing lawn mowers. It has two departments; a shop selling new lawn mowers and accessories and a workshop repairing used lawn mowers. The following information relates to the year ended 31 March 2011:

	£
Revenue (Sales):	
shop sales of new lawn mowers and accessories	120 000
workshop repairs to used lawn mowers	60 000
Ordinary goods purchased (purchases):	
purchases of new lawn mowers and accessories	84 000
parts for repairs to used lawn mowers	7 100
Inventory (Stock) at 1 April 2010:	
new shop lawn mowers and accessories for sale	38 000
workshop parts for repairs to used lawn mowers	2 100
Motor vehicle running costs	16 000
Wages	42 000
Rent and rates	9 000
General expenses (including depreciation)	12 500
Business advertising	10 800
Trade receivables (Debtors):	
shop sales of new lawn mowers	11 000
workshop repairs to used lawn mowers	7 500

**Additional information at 31 March 2011:**

- (i) Inventory (stock) of new lawn mowers £47 500. There was no inventory (stock) of parts for repairs to used lawn mowers
- (ii) During the year lawn mower accessories, valued at £5 600, were taken from the shop for use in the workshop
- (iii) It is estimated that 60% of motor vehicle running costs relate to the workshop repairs to used lawn mowers
- (iv) Five staff are employed, two in the shop and three in the workshop
- (v) The floor area occupied is: shop 200 sqm: workshop 400 sqm
- (vi) It is estimated that general expenses (including depreciation) £7 000 relates to the shop
- (vii) A provision for doubtful debts is to be created for trade receivables (debtors) of 4% of shop sales and 10% of workshop repairs.

**Required:**

- (a) (i) Explain the term **appropriation** of overheads. (4)
- (ii) Advise Easy Gardening how to appropriate the business advertising expense between the shop and the workshop. (2)
- (b) Prepare the departmental statement of comprehensive income (departmental trading and profit & loss account) for the year ended 31 March 2011. (22)

The owners of Easy Gardening are considering closing the repair workshop and using this as additional space for the shop. The owners believe that this will increase profits.

- (c) Evaluate this belief of the owners. (4)

**(Total 32 marks)**

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**Answer space for question 6 is on pages 31 to 34 of the question paper.**

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Question Number	Answer	Mark												
5(d)(i)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 35%; text-align: center;">Low tariff</th> <th style="width: 35%; text-align: center;">High tariff</th> </tr> </thead> <tbody> <tr> <td>Monthly charge</td> <td style="text-align: right;">£8    ✓</td> <td style="text-align: right;">£20    ✓</td> </tr> <tr> <td>Call charges</td> <td style="text-align: right;"><u>£30</u>    ✓</td> <td style="text-align: right;"><u>£7.50</u>    ✓</td> </tr> <tr> <td></td> <td style="text-align: right;">£38</td> <td style="text-align: right;">£27.50</td> </tr> </tbody> </table>		Low tariff	High tariff	Monthly charge	£8    ✓	£20    ✓	Call charges	<u>£30</u> ✓	<u>£7.50</u> ✓		£38	£27.50	
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Question Number	Answer	Mark
5(e)	<p>Valid points may include:</p> <p>Points in favour</p> <ul style="list-style-type: none"> <li>• Accepted by the tax authorities/accounting standards</li> <li>• Is logical in that the oldest stock values are sold/issued first</li> <li>• Gives a higher closing stock value and higher profits when prices are rising.</li> </ul> <p>Points against</p> <ul style="list-style-type: none"> <li>• Stock is sold/issued at values that may be below current market prices</li> <li>• Higher profits will mean higher taxes.</li> </ul> <p>✓✓ per valid point x 2. MAXIMUM one point in favour and one against.</p>	(4)

Question Number	Answer	Mark
6(a)(i)	<p>Appropriation is the way that overheads are shared/divided between various departments or cost centres. ✓✓ This could involve allocation and/or apportionment. ✓✓</p> <p>The costs may be shared on the most reasonable basis available ✓✓ e.g. floor area for rent. ✓✓</p> <p>Any two points x ✓✓</p>	(4)
(ii)	Business advertising is undertaken to increase sales and therefore it would be best to apportion this cost on the basis of the revenue (sales). ✓✓	(2)

Question Number	Answer	Mark																																																												
6(b)	<p style="text-align: center;"><b>Departmental income statement (trading and profit &amp; loss account) for the year ended 31 March 2011</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: center; width: 20%;">Shop sales £</th> <th style="text-align: center; width: 20%;">Workshop repairs £</th> </tr> </thead> <tbody> <tr> <td>Revenue (sales)</td> <td style="text-align: right;">120 000</td> <td style="text-align: right;">60 000</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory (stock)</td> <td style="text-align: right;">38 000 /</td> <td style="text-align: right;">2 100 /</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">84 000 /</td> <td style="text-align: right;">7 100 /</td> </tr> <tr> <td>Internal transfers</td> <td style="text-align: right;"><u>(5 600) /</u></td> <td style="text-align: right;"><u>5 600 /</u></td> </tr> <tr> <td></td> <td style="text-align: right;">116 400</td> <td style="text-align: right;">14 800</td> </tr> <tr> <td>Closing inventory (stock)</td> <td style="text-align: right;"><u>47 500 /</u></td> <td style="text-align: right;"><u>0 /</u></td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">68 900</td> <td style="text-align: right;">14 800</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">51 100</td> <td style="text-align: right;">45 200</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Motor running expenses</td> <td style="text-align: right;">6 400 /</td> <td style="text-align: right;">9 600 /</td> </tr> <tr> <td>Wages</td> <td style="text-align: right;">16 800 /</td> <td style="text-align: right;">25 200 /</td> </tr> <tr> <td>Rent and rates</td> <td style="text-align: right;">3 000 /</td> <td style="text-align: right;">6 000 /</td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">7 000 /</td> <td style="text-align: right;">5 500 /</td> </tr> <tr> <td>Business advertising</td> <td style="text-align: right;">7 200 /</td> <td style="text-align: right;">3 600 /</td> </tr> <tr> <td>Provision for doubtful debts</td> <td style="text-align: right;"><u>440 /</u></td> <td style="text-align: right;"><u>750 /</u></td> </tr> <tr> <td></td> <td style="text-align: right;">40 840</td> <td style="text-align: right;">50 650</td> </tr> <tr> <td>Profit /loss for the year (net profit)</td> <td style="text-align: right;"><u>10 260 /OF</u></td> <td style="text-align: right;"><u>(5 450) /OF</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>51 100</u></td> <td style="text-align: right;"><u>45 200</u></td> </tr> </tbody> </table>		Shop sales £	Workshop repairs £	Revenue (sales)	120 000	60 000	Less			Opening inventory (stock)	38 000 /	2 100 /	Purchases	84 000 /	7 100 /	Internal transfers	<u>(5 600) /</u>	<u>5 600 /</u>		116 400	14 800	Closing inventory (stock)	<u>47 500 /</u>	<u>0 /</u>	Cost of sales	68 900	14 800	Gross profit	51 100	45 200	Less			Motor running expenses	6 400 /	9 600 /	Wages	16 800 /	25 200 /	Rent and rates	3 000 /	6 000 /	General expenses	7 000 /	5 500 /	Business advertising	7 200 /	3 600 /	Provision for doubtful debts	<u>440 /</u>	<u>750 /</u>		40 840	50 650	Profit /loss for the year (net profit)	<u>10 260 /OF</u>	<u>(5 450) /OF</u>		<u>51 100</u>	<u>45 200</u>	(22)
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Question Number	Answer	Mark
6(c)	<p>Valid points may include (accept OF comments):</p> <p>Points in favour:</p> <ul style="list-style-type: none"> <li>• Shop sales are more profitable than workshop repairs</li> <li>• Costs such as wages may be able to be reduced</li> <li>• The repair shop makes losses.</li> </ul> <p>Points against:</p> <ul style="list-style-type: none"> <li>• Workshop overheads are greater than shop overheads</li> <li>• Workshop overheads will have to be borne by the shop sales</li> <li>• Sales may be affected because the business will not offer repair facilities</li> <li>• Loss of image/business reputation affected as a result of redundancies</li> <li>• Cost of redundancies.</li> </ul> <p>// per valid point x 2. MAXIMUM one point in favour and one against</p>	(4)

**SOURCE MATERIAL FOR USE WITH QUESTION 7**

7. Zahin is in business buying and selling electrical goods on credit. A draft statement of comprehensive income (trading and profit & loss account) was prepared on 31 March 2011, which showed a gross profit of £37 780.

Following the preparation of the draft statement, the following errors were found in the books:

- (i) Goods on sale or return £2 760 had been included in the revenue (sales). On 31 March 2011 the customer had not notified Zahin of the intention to purchase the goods. The goods had cost Zahin £1 900
- (ii) Goods with a cost price of £500 had been included in the stock-take at 31 March 2011 at the sales list price of £750
- (iii) The Purchases Day Book total of £5 000 for February had not been posted to the Purchases Account.

**Required:**

- (a) Explain the term **suspense account**, stating which of the items (i) to (iii) above would require an entry into the suspense account. (5)
  
- (b) Calculate the corrected gross profit for the year ended 31 March 2011. (7)

Further investigation revealed the following additional errors:

- (iv) The total of the discount received column in the Cash Book, £425, had been posted to the debit of the Discount Received Account
- (v) A purchase return, £950, to a creditor A. Milner, had been posted in error to the account of M. Mills
- (vi) Sundry expenses of £840 had been correctly entered in the Cash Book, but had been recorded in the Sundry Expenses Account as £480
- (vii) No depreciation had been charged in the year on fixtures and fittings costing £8 000 in 2008, which were subject to disposal on 31 December 2010. Zahin depreciates fixtures and fittings at the rate of 15% on cost using the straight line method. Depreciation is charged in proportion to the period of ownership in the year of disposal.

**Required:**

- (c) Prepare journal entries to correct the errors in (iv) to (vii) above. Narratives are **not** required. (8)
- (d) Show the effect of correcting **each** of the errors in (iv) to (vii) above on the net profit for the year ended 31 March 2011. Draw up a table and show **each** item separately, recording whether the correction would increase or decrease the net profit for the year, together with the value of the increase or decrease.

Where the correction would have no effect on the profit for the year you should state No Effect. (8)

- (e) Evaluate the use of a trial balance as assurance that the Ledger is accurate. (4)

**(Total 32 marks)**

**Answer space for question 7 is on pages 35 to 39 of the question paper.**

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Question Number	Answer	Mark
7(a)	(iii) ✓  A suspense account is opened as a temporary measure when the trial balance fails to agree ✓✓. It has a balance equal to the net balance of all errors in the ledger ✓✓.	(5)

Question Number	Answer	Mark																		
7(b)	<p style="text-align: center;">Statement of corrected gross profit at 30 March 2011</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">£</td> <td></td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">37 780</td> <td></td> </tr> <tr> <td>(i) Sale or return</td> <td style="text-align: right;">(860) ✓✓</td> <td></td> </tr> <tr> <td>(ii) Goods at list price</td> <td style="text-align: right;">(250) ✓✓</td> <td></td> </tr> <tr> <td>(i) PDB - February</td> <td style="text-align: right;"><u>(5 000) ✓✓</u></td> <td></td> </tr> <tr> <td>Corrected gross profit</td> <td style="text-align: right;"><u>31 670</u> ✓</td> <td></td> </tr> </table>		£		Gross profit	37 780		(i) Sale or return	(860) ✓✓		(ii) Goods at list price	(250) ✓✓		(i) PDB - February	<u>(5 000) ✓✓</u>		Corrected gross profit	<u>31 670</u> ✓		(7)
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Question Number	Answer	Mark																																								
7(c)	<p style="text-align: center;">Journal of Zahin</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">Dr</td> <td style="text-align: center;">Cr</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">£</td> <td style="text-align: center;">£</td> <td></td> </tr> <tr> <td>Suspense</td> <td style="text-align: right;">850</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Discount received</td> <td></td> <td style="text-align: right;">850</td> <td style="text-align: right;">✓</td> </tr> <tr> <td> A Milner</td> <td style="text-align: right;"> 950</td> <td></td> <td style="text-align: right;"> ✓</td> </tr> <tr> <td>M. Mills</td> <td></td> <td style="text-align: right;">950</td> <td style="text-align: right;">✓</td> </tr> <tr> <td> Sundry expenses</td> <td style="text-align: right;"> 360</td> <td></td> <td style="text-align: right;"> ✓</td> </tr> <tr> <td>Suspense</td> <td></td> <td style="text-align: right;">360</td> <td style="text-align: right;">✓</td> </tr> <tr> <td> Income statement (profit &amp; loss)</td> <td style="text-align: right;"> 900</td> <td></td> <td style="text-align: right;"> ✓</td> </tr> <tr> <td>Provision for depreciation (disposal)</td> <td></td> <td style="text-align: right;">900</td> <td style="text-align: right;">✓</td> </tr> </table>		Dr	Cr			£	£		Suspense	850		✓	Discount received		850	✓	 A Milner	 950		 ✓	M. Mills		950	✓	 Sundry expenses	 360		 ✓	Suspense		360	✓	 Income statement (profit & loss)	 900		 ✓	Provision for depreciation (disposal)		900	✓	(8)
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7(d)	<p style="text-align: center;">Statement of corrected profit for the year (net profit) at 30 March 2011</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">Increase</td> <td style="text-align: center;">Decrease</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">£</td> <td style="text-align: center;">£</td> <td></td> </tr> <tr> <td>(iv) Discount received</td> <td style="text-align: right;">850 ✓✓</td> <td></td> <td></td> </tr> <tr> <td>(v) Error of commission</td> <td style="text-align: center;">No Effect ✓✓</td> <td></td> <td></td> </tr> <tr> <td>(vi) Sundry expenses</td> <td></td> <td style="text-align: right;">(360) ✓✓</td> <td></td> </tr> <tr> <td>(vii) Depreciation</td> <td></td> <td style="text-align: right;">(900) ✓✓</td> <td></td> </tr> </table>		Increase	Decrease			£	£		(iv) Discount received	850 ✓✓			(v) Error of commission	No Effect ✓✓			(vi) Sundry expenses		(360) ✓✓		(vii) Depreciation		(900) ✓✓		(8)
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7(e)	<p>Valid points may include:</p> <p>Points in favour:</p> <ul style="list-style-type: none"><li>• The trial balance is a checking device</li><li>• Is 'prima facie' evidence that the books are correct when the trial balance balances</li></ul> <p>Points against:</p> <ul style="list-style-type: none"><li>• Certain errors, e.g. commission, are not revealed</li><li>• Shows only arithmetical errors</li><li>• Does not show location of errors</li></ul> <p>// per valid point x 2. MAXIMUM one point in favour and one against</p>	(4)