

Paper Reference(s)

7011/01

London Examinations GCE

Accounting

Ordinary Level

Thursday 6 January 2011 – Morning

**Source booklet for use with Questions
1 to 6.**

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

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

Throughout this question assume VAT is at the rate of 10%.

1. Freda Payne has opened a hardware store on 1 October 2010, paying £5 000 of her personal savings into a business bank account on that date.

During the month of October 2010 Freda recorded the following transactions in her books of original entry.

Purchases Day Book

Date	Details	Goods	VAT	Total
		£	£	£
1 October	Vileda Supplies	500		
	Less trade discount	(50)		
		450	45	495
20 October	Happy Mops	250	25	275
	Totals for month	700	70	770

Purchases Returns Day Book

Date	Details	Goods	VAT	Total
		£	£	£
15 October	Vileda Supplies	40		
	Less trade discount	(4)		
		36	3.60	39.60

Main Journal

Date	Details	Debit	Credit
		£	£
1 October	Shop Fittings	1 000	
	VAT	100	
	Fitter Shops Ltd		1 100
	Purchase of equipment on credit		

Cash Book

DR

CR

		Bank	Cash			Bank	Cash
		£	£			£	£
1 Oct	Capital	5 000		1 Oct	Cash	800	
1 Oct	Bank		800	12 Oct	Vileda Supplies	455.40	
31 Oct	Sales for month (including VAT)	2 200		20 Oct	Cash Purchases (including VAT)		550
				29 Oct	Business Rates	670	
				30 Oct	Drawings		150
				31 Oct	Rent	720	
		<u> </u>	<u> </u>	31 Oct	Balances c/d	<u>4 554.60</u>	<u>100</u>
		<u>7 200</u>	<u>800</u>			<u>7 200</u>	<u>800</u>
Nov 1	Balances b/d	4 554.60	100				

Required:

(a) Prepare the ledger accounts in the books of Freda Payne for the month of October 2010, using the information provided in the books of original entry and in the cash book. Balance these accounts and bring the balances down on 1 November 2010.

(30)

(b) Prepare a trial balance at 31 October 2010.

(14)

Freda Payne has been told that as long as her trial balance totals are equal she can assume that her accounts are correct.

(c) State, with reasons, whether you agree or disagree with this statement.

(6)

(Total 50 marks)

Answer space for question 1 is on pages 2 to 6 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Since preparing the draft trading and profit and loss account of Ahmed Khan for the year ended 31 December 2010, several errors and omissions have been discovered. These are:
1. Drawings of £15,000 taken from the business bank account during the year have been credited to the bank account but debited to the wages account in error.
 2. The balance of £650 on the account of a debtor, A Patel, who had gone into liquidation should have been written off as a bad debt.
 3. It was decided to create a provision for doubtful debts equal to 2% of debtors as at 31 December 2010 but this has not been done. Debtors at the year end totalled £30,000 (including the balance stated in 2 above).
 4. The purchase of a new vehicle in December 2010, for use in the business, at a cost of £10,000 had been posted in error to the purchases account. This item is not included in the current depreciation total for the year. Depreciation is provided on motor vehicles on a 25% straight line basis.
 5. A rates bill for £400 covering the period 1 January 2011 to 30 June 2011 was paid on 31 December 2010. No adjustment has been made for this in the accounts.
 6. An electric bill for £175 was outstanding on 31 December 2010. No adjustment had been made for this in the accounts.

Required:

- (a) Prepare journal entries to correct the errors and omissions listed opposite. Date your entries 31 December 2010 and include suitable narratives.

(25)

The draft trading and loss account for the year ended 31 December 2010 is as follows.

Ahmed Khan
Draft Trading and Profit and Loss Account
Year ended 31 December 2010

	£	£	£
Sales			500 000
Cost of goods sold			
Opening stock		40 000	
Purchases		<u>255 000</u>	
		295 000	
Closing stock		<u>45 000</u>	
Cost of goods sold			<u>250 000</u>
Gross profit			250 000
Expenses			
Salaries and wages		105 000	
Motor vehicle expenses		4 000	
Rent and rates		1 800	
Insurance		7 000	
Heat and light		12 000	
Depreciation – Equipment		3 000	
Depreciation – Motor Vehicles		<u>5 000</u>	
			<u>137 800</u>
Net Profit			<u>112 200</u>

- (b) Prepare the amended trading and profit and loss account for the year ended 31 December 2010.

(11)

- (c) Using the adjustments for accruals and prepayments as an example, evaluate the importance of the prudence concept in the preparation of the final accounts.

(10)**(Total 46 marks)**

Answer space for question 2 is on pages 8 to 10 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. The following trial balance of Sandip Ltd. has been extracted from the books of account on 30 June 2010 **after** the preparation of the trading account for the year ended 30 June 2010.

Account	Debit £	Credit £
Gross Profit		185 652
Wages and Salaries	77 000	
Heating and Lighting	10 804	
Postage and Telephone	2 798	
Advertising	1 782	
Sundry Expenses	9 450	
Land and Buildings (Cost)	250 000	
Motor Vehicles (Cost)	20 000	
Provision for Depreciation (Motor Vehicles)		5 000
Fixtures and Fittings (Cost)	50 000	
Provision for Depreciation (Fixtures and Fittings)		25 000
Profit on Disposal of Motor Vehicle		500
Closing Stock	17 480	
Debtors	4 260	
Bad Debts	250	
Provision for Doubtful Debts		185
Creditors		17 492
Cash at Bank	19 302	
Debentures (10%) – 2020		15 000
Debenture Interest	750	
Cash in Hand	1 124	
Ordinary Share Capital (Issued and fully paid)		100 000
Interim dividend paid	5 000	
General Reserve		50 000
Profit and Loss Account Balance (1 July 2009)		71 171
	470 000	470 000

The following additional information is available on 30 June 2010 and is to be taken into account.

- The figure shown for wages and salaries covers the eleven months to 31 May 2010. Salaries for June 2010 are due and unpaid. There have been no salary increases or changes in staff over the past twelve months.
- Provision is to be made for the outstanding debenture interest.
- Motor Vehicles are to be depreciated by 25% using the reducing balance method.
- Fixtures and Fittings are to be depreciated by 20% using the straight line method.
- The provision for doubtful debts is to be maintained at 5% of closing debtors.
- The directors have recommended a transfer to the general reserve of £10,000 and payment of 5% final dividend on ordinary shares.

Required:

- (a) Prepare the profit and loss account for the year ended 30 June 2010. (18)
- (b) Prepare the appropriation account for the year ended 30 June 2010. (7)
- (c) Prepare the balance sheet (with relevant sub headings) at 30 June 2010.

Your balance sheet must show clearly:

- working capital
 - shareholders' funds
- (25)

(Total 50 marks)

Answer space for question 3 is on pages 11 to 15 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. William Tell set up in business as a sole trader on 1 January 2009, selling fruit and vegetables from a market stall. Here are some figures from his final accounts for the years ended 31 December 2009 and 2010.

	2009	2010
	£	£
Sales	25 000	29 000
Cost of goods sold	10 000	17 400
Running expenses	1 000	1 200
Current ratio	2:1	1:1
Acid test	1.2:1	0.8:1
Capital employed	5 000	19 000

Required:

- (a) Calculate for both 2009 and 2010 the following:

- (i) gross profit.
- (ii) net profit.
- (iii) gross profit margin.
- (iv) net profit margin.
- (v) return on capital employed.

(10)

William believes that the financial performance of his business has improved between 2009 and 2010.

- (b) Evaluate William's claim (giving reasons backed up with figures) that the financial performance of the business in 2010 was superior to that of 2009. In your answer you are expected to make equal reference to **profitability** and **liquidity**.

(10)**(Total 20 marks)**

Answer space for question 4 is on pages 16 to 18 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Harsha, Omid and Jasmine formed a partnership on 1 January 2009. The partners made no agreement about profit sharing. During the first year of operation the following activities took place:

(i) On 1 January 2009 each partner contributed the following amounts of capital:

	£
Harsha	30 000
Omid	40 000
Jasmine	100 000

(ii) On 1 July 2009 Omid made an additional contribution of capital of £10,000 by cheque.

(iii) During the year ended 31 December 2009 each partner withdrew the following amounts for personal expenses:

	£
Harsha	6 000
Omid	10 000
Jasmine	80 000

(iv) On 1 July 2009 Harsha paid some business expenses totalling £1 000 from her private funds.

(v) On 30 September 2009 Jasmine withdrew stock totalling £2 500 for her private use.

After all the above activities had taken place and been correctly recorded the net profit of the partnership totalled £96,000.

Required:

(a) For the year ended 31 December 2009:

- (i) The profit and loss appropriation account (2)
- (ii) The partners' capital accounts (4)
- (iii) The partners' current accounts (8)

Note: You are not required to balance off any of the accounts

At the beginning of their second year in partnership, the partners decided to prepare a profit sharing agreement which would take account of the following points:

- Harsha carries more responsibility for day to day running of the business than the other two partners.
- Omid's drawings tend to be higher than the other two partners.
- Jasmine's capital contribution is greater than the other two partners.

(b) Outline the changes that could be included in the new agreement to take account of these points. (3)

(c) Describe the accounting double entries required to record these changes. (3)

(Total 20 marks)

Answer space for question 5 is on pages 19 to 22 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. The Keswick Sports Club has been in existence for a number of years. The treasurer is uncertain as to which figure to record as subscriptions income in the Club's income and expenditure account and has provided the following information:
- Annual membership fee: Senior members £30; Junior members £15.
 - At the beginning of 2010, 10 senior members had not paid their subscriptions for 2009.
 - During 2010, 150 subscriptions had been received from senior members, and 60 from junior members. These figures included the subscriptions due from 2009 and 4 subscriptions from senior members for 2011.
 - Subscriptions from 12 senior members were outstanding at the end of 2010.
 - There has been no change in the subscription rate for several years.
- (a) Prepare the subscriptions account for the year ended 31 December 2010 clearly showing the amount to be transferred to the Club's income and expenditure account. Balance the account on 31 December 2010 and bring the balances down. (9)
- (b) Explain the treatment of subscriptions in advance and subscriptions in arrears in the balance sheet of the Keswick Sports Club. (5)

(Total 14 marks)

Answer space for question 6 is on page 23 of the question paper.

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