

ADVANCED SUBSIDIARY GCE UNIT

ACCOUNTING

Accounting Principles

WEDNESDAY 6 JUNE 2007

F001

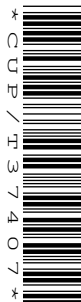
Afternoon
Time: 1 hour 30 minutes

Each candidate must be given:

- (1) one copy of this question paper, F001;
- (2) one 8 page Answer Book.

Item (2) is sent with the stationery parcel

Candidates may use calculators in this examination.



INSTRUCTIONS TO CANDIDATES

- Complete the front page of the Answer Book as directed.
- Answer **all** questions.
- You must show the calculations leading to your answers.

INFORMATION FOR CANDIDATES

- The maximum mark for this paper is 100.

- **QUALITY OF WRITTEN COMMUNICATION (QWC)**

- * In these two questions/sub-questions, you will be assessed on the quality of your written communication. In one of these questions, the focus will be on your ability to present numerical information legibly and in an appropriate accounting format. In the other, you will be assessed on the legibility and style of writing, the clarity and coherence of your arguments and the accuracy of your spelling, punctuation and grammar.

This document consists of **6** printed pages and **2** blank pages.

- 1* On 30 April 2007 the following balances were taken from the books of Akshar Jaber, a sole trader.

	Dr £	Cr £
Purchases	557 000	
Sales		952 000
Sales returns and Purchase returns	8 200	9 600
Carriage inwards	2 250	
Carriage outwards	3 250	
Discounts allowed	4 800	
Discounts received		2 750
Stock	36 700	
Debtors and Creditors	80 150	47 200
Capital		805 300
Premises	900 000	
Motor vehicles	160 000	
Provision for depreciation of motor vehicles		40 000
Office equipment	76 000	
Provision for depreciation of office equipment		30 500
6% Loan		100 000
Loan interest	5 500	
Cash	2 300	
Bank	12 900	
Bad debts	500	
Salaries	62 000	
Insurance	10 500	
Motor expenses	18 200	
General expenses	32 100	
Rent received		10 000
Drawings	25 000	
	<u>1 997 350</u>	<u>1 997 350</u>

The following information is also available.

- (i) The closing stock as at 30 April 2007 was valued at £43 650.
- (ii) A debt of £650 was considered irrecoverable. The full amount is to be treated as a bad debt in the accounts for the year ended 30 April 2007.
- (iii) A provision for doubtful debts is to be created at 2% on the remainder of the debtors.
- (iv) Rent receivable is £12 000 per annum, to date only 10 months rent has been received.
- (v) One month's loan interest is still due.
- (vi) The loan commenced on 1 May 2002 and is repayable in full during 2010.
- (vii) At 30 April 2007 salaries owing amounted to £1 200, while insurance was prepaid by £1 860.
- (viii) Akshar Jaber received an invoice for £600 on 15 April 2007 for repairs to a motor vehicle. To date the invoice has not been paid.
- (ix) Akshar Jaber had taken goods from the business costing £7 000 for his own use. This has not been recorded in the accounts.

(x) Depreciation is to be provided as follows:

Motor vehicles 25% by the reducing balance method. There were no additions or disposals during the year.

Equipment 10% by the straight line method. There were no additions or disposals during the year.

Premises are not depreciated.

REQUIRED

The Trading and Profit and Loss Account for the year ended 30 April 2007, **and** the Balance Sheet as at 30 April 2007.

Total marks [46]

- 2 Matti Spicer prepared the following aged debtors schedule for his business on 31 March 2007.

Debtor	Amount due £	1 month £	2 months £	3 months £	4–6 months £	Over 6 months £
S. Rosemary	300	200	100			
U. Tyme	2 500	1 900	500	100		
H. Ginger	6 350	1 350	5 000			
V. Turmeric	90				90	
C. Basil	1 450	1 450				
D. Bay	3 200	1 200	1 000	1 000		
T. Saffron	60					60
O. Mint	2 200		1 000	600	400	200
	<u>16 150</u>	<u>6 100</u>	<u>7 600</u>	<u>1 700</u>	<u>490</u>	<u>260</u>

The provision for doubtful debts as at 1 April 2006 was £920.

Matti Spicer's policy for dealing with outstanding debtors is to:

- (i) write off as bad debts all amounts outstanding for more than 6 months;
- (ii) write off as bad debts all amounts under £100 outstanding for 4 to 6 months;
- (iii) make specific provisions for all other debts outstanding for 4 to 6 months;
- (iv) make a general provision of 2½% on all other debts outstanding.

REQUIRED

- (a) (i) The Bad Debts Account for the year ended 31 March 2007, showing the transfer to the final accounts. [5]
- (ii) The Provision for Doubtful Debts Account for the year ended 31 March 2007, showing the balance carried down. [5]
- (b) The Balance Sheet extract for Debtors as at 31 March 2007. [2]
- (c) Identify **two** ways in which Matti Spicer could reduce bad debts. [2]
- (d) Explain **two** reasons why it is important to monitor and control debtors. [4]
- (e) Discuss the application of the prudence concept when creating a provision for doubtful debts and the effect this may have on the final accounts. [6]

Total marks [24]

- 3 An extract from Choco Machines' Balance Sheet as at 28 February 2006 showed the following:

	£
Machinery at cost	460 000
Depreciation to date	<u>150 000</u>
	<u>310 000</u>

During the year ended 28 February 2007, the following transactions took place.

On 1 March 2006 Choco Machines **purchased** machinery at a cost of £80 000.

On 1 September 2006 Choco Machines **sold** machinery for £24 000. This machinery was originally purchased on 1 March 2004 at a cost price of £60 000.

All transactions are by cheque.

Depreciation is calculated on a straight line basis. For purposes of calculating depreciation, the business assumes that machinery will have a four year life. It will then be disposed of at an estimated residual value of 10% of its original cost. The rate is charged for each proportion of the year machinery is owned. All other items of machinery have been purchased within the previous three years.

REQUIRED

- (a) The following ledger accounts for the year ended 28 February 2007. Include, where appropriate, the balance carried down to the next financial year.
- (i) Machinery [4]
 - (ii) Provision for Depreciation of Machinery [6]
 - (iii) Machinery Disposals [4]
- (b) The Balance Sheet extract as at 28 February 2007 for Machinery. [2]
- (c)* Discuss the problems involved in accounting for depreciation. [8]
- (d) Advise Choco Machines on why the correct treatment of capital and revenue expenditure is important. [6]

Total marks [30]

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