

Section A

Answer ALL questions

Question 1

For each question, choose the best answer **A, B, C or D** and write it in the box.

(a) A business purchases a new machine on credit for use in the business. In which book will this transaction be entered?

- A Cash book
- B Journal
- C Purchase book
- D Sales book

(1)

(b) Entries in the purchases day book are made from

- A credit notes
- B delivery notes
- C invoices
- D petty cash vouchers

(1)

(c) In which section of its balance sheet will a credit balance on a firm's bank account be shown?

- A Current assets
- B Current liabilities
- C Fixed assets
- D Long term liabilities

(1)

(d) Which of the following would be regarded as an item of capital expenditure for a motor vehicle business?

- A Purchase of a car for resale
- B Purchases of equipment for use in the business
- C Repair and redecoration of business premises
- D Road tax and insurance payments for delivery van

(1)

(e) Where should trade discount allowed to a customer be shown?

- A Cash book
- B Discount allowed account
- C Sales day book
- D Sales ledger

(1)



(f) In a manufacturing business, where should the cost of delivering the goods to customers be shown?

- A Appropriation account
- B Manufacturing account
- C Profit and loss account
- D Trading account

(1)

(g) In non-profit making organisations, which one of the following is the same as a profit and loss account of a profit making organisation?

- A Income and expenditure account
- B Receipts and payments account
- C Statement of affairs
- D Subscriptions account

(1)

(h) In a partnership, drawings will be debited to which account?

- A Appropriation
- B Bank
- C Capital
- D Current

(1)

(i) Gross profit as a percentage of cost of goods sold is known as the

- A margin
- B mark up
- C rate of stock turnover
- D return on capital employed

(1)

(j) A company calculates its liquidity ratios in order to

- A analyse how profitable the company has been
- B assess the level of trading
- C indicate the ability to pay its debts
- D measure how all the assets contribute to earning profit

(1)

Q1

(Total 10 marks)

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Question 2

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

Harsha Bhanu is the owner of 'Tasty Treats', a wholesale food business which supplies retailers in the local area.

All stock is purchased and sold on credit terms only, and throughout this question you may assume that VAT at 10% applies to all stock transactions. Harsha does not maintain any control accounts.

Harsha offers a cash discount to some of her regular customers.

The accounting records for the period of 1 February – 21 February 2009 have already been prepared as shown on pages 4 – 8.

- (a) Record the following transactions in the books of original entry. Total the day books and make the necessary postings to the sales, purchases and nominal ledgers. Do **not** balance off any of the accounts.

(22)**Transactions for the period 22 February 2009 – 28 February 2009**

Date	Transaction
February 22	Paid administration expenses £478 by cheque.
February 23	Sold goods to Gozi Foods £4 500 list price, less trade discount £900 + VAT (no cash discount available).
February 23	Received a credit note from Oriental Supplies Ltd for £440 plus VAT.
February 24	Paid Oriental Supplies Ltd by cheque £2 730 in full settlement of the account balance on 1 February 2009.
February 24	Received a cheque from Spiceworld Ltd for £2 522 in full settlement of the account balance on 1 February 2009.
February 25	Paid staff wages by cash £650.
February 26	Issued a credit note to Gozi Foods for goods with a list price of £300. This was part of the order invoiced on February 23.
February 27	Received an invoice from New World Foods Ltd for £2 200 (this figure included VAT).
February 28	Harsha withdrew £500 by cheque for her own personal use.

Sales Day Book

Date	Narrative	Net	VAT	Total
Feb 8	Spiceworld Ltd	3 000	300	3 300



Purchases Day Book

Date	Narrative	Net	VAT	Total
Feb 16	Oriental Supplies Ltd	6 500	650	7 150

Returns Inwards Day Book

Date	Narrative	Net	VAT	Total
Feb 9	Spiceworld Ltd	200	20	220

Returns Outwards Day Book

Date	Narrative	Net	VAT	Total

Cash Book

Date	Narrative	Discount	Cash	Bank	Date	Narrative	Discount	Cash	Bank
Feb 1	Bal b/f		432	3 216	Feb 2	Administration expenses		33	
Feb 5	Gozi Foods			4 400	Feb 9	New World Foods Ltd	254		3 560
					Feb 11	Wages		650	
					Feb 16	Drawings			500



Sales Ledger**Gozi Foods**

Date	Narrative	£	Date	Narrative	£
Feb 1	Balance b/f	4 400	Feb 5	Cash Book	4 400

Spiceworld Ltd

Date	Narrative	£	Date	Narrative	£
Feb 1	Balance b/f	2 750	Feb 10	Returns Inwards Book	330
Feb 8	Sales Book	3 300			

Purchases Ledger**New World Foods Limited**

Date	Narrative	£	Date	Narrative	£
Feb 9	Cash Book	3 560	Feb 1	Balance b/f	3 814
Feb 9	Discount received	254			

Oriental Supplies Limited

Date	Narrative	£	Date	Narrative	£
			Feb 1	Balance b/f	3 000
			Feb 15	Purchases Book	7 150



Nominal Ledger
Administration Expenses

Date	Narrative	£	Date	Narrative	£
Feb 1	Balance b/f	9 800			
Feb 2	Cash Book	33			

Discount Allowed

Date	Narrative	£	Date	Narrative	£
Feb 1	Balance b/f	2 800			

Discount Received

Date	Narrative	£	Date	Narrative	£
			Feb 1	Balance b/f	3 000

Drawings

Date	Narrative	£	Date	Narrative	£
Feb 1	Balance b/f	9 000			
Feb 16	Cash Book	500			

Purchases

Date	Narrative	£	Date	Narrative	£
Feb 1	Balance b/f	76 000			



Returns Inwards

Date	Narrative	£	Date	Narrative	£
Feb 1	Balance b/f	560			

Returns Outwards

Date	Narrative	£	Date	Narrative	£
			Feb 1	Balance b/f	242

Sales

Date	Narrative	£	Date	Narrative	£
			Feb 1	Balance b/f	107 890

VAT

Date	Narrative	£	Date	Narrative	£
			Feb 1	Balance b/f	2 981

Wages

Date	Narrative	£	Date	Narrative	£
Feb 1	Balance b/f	9 807			
Feb 11	Cash Book	650			



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(b) Balance the VAT account showing clearly the balance carried down at 28 February 2009 and the balance brought down on 1 March 2009.

(1)

(c) Explain fully what the closing balance on the VAT account represents.

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(2)

Q2

(Total 25 marks)



Question 3

After preparing the draft trading and profit and loss account for Aidan Davis for the year ended 31 March 2009, several errors and omissions have been discovered. These are:

1. Drawings of £15 000 taken from the business's bank account during the year have been credited to the bank account but debited to the wages account in error.
2. The balance of £1 350 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 March 2009. Debtors at the year end totalled £30 000 (including the balance stated in 2 above).
4. The purchase of a new vehicle on 1 April 2008, for use in the business, at a cost of £10 000 had been posted in error to the purchases account. This item has not been 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 £600 covering the period 1 January 2009 to 30 June 2009 was paid on 31 December 2008. No adjustment has been made for this in the accounts.
6. An electric bill for £250 was outstanding on 31 March 2009. No adjustment has been made for this in the accounts.



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The draft trading and profit and loss account for the year ended 31 March 2009 is as follows:

Aidan Davis

Draft trading and profit and loss account

Year ended 31 March 2009

	£	£	£
Sales			430 000
Cost of goods sold			
Opening stock		35 000	
Purchases		<u>255 000</u>	
		290 000	
Closing stock		<u>40 000</u>	
Cost of goods sold			<u>250 000</u>
Gross profit			180 000
Expenses			
Salaries and wages		105 000	
Motor vehicle expenses		4 500	
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>138 300</u>
Net Profit			41 700



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

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(5)

Q3

(Total 25 marks)

TOTAL FOR SECTION A: 60 MARKS



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(b) Explain the reason why Ravi believes there may have been errors in his sales ledger.

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(2)

(c) Explain, with reasons, where the closing balance of the sales ledger control account would appear in the final accounts of Ravi Singh.

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(2)

Q4

(Total 10 marks)



Question 5

The following trial balance has been extracted from the books of Wayland Limited after the production of the profit and loss account for the year ended 31 December 2008.

Account	Debit (£000)	Credit (£000)
Ordinary shares of £1 each		750
6% preference shares of £1 each		250
5% Debentures (2012)		250
Land and buildings (cost)	1 500	
Fixtures and fittings (cost)	50	
Fixtures and fittings (accumulated depreciation)		10
Motor vehicles (cost)	85	
Motor vehicles (accumulated depreciation)		15
Closing stock	165	
Interim ordinary dividend – paid	20	
Share premium		100
General reserve		50
Net profit for the year		250
Profit and loss account balance – 1 January 2008		195
Bank	107	
Debtors and creditors	103	135
Value added tax		25
	2 030	2 030

The following additional information is available on 31 December 2008 and is to be taken into account.

- £25 000 is to be transferred to the general reserve.
- The preference dividend is to be provided for.
- A final ordinary dividend of 8% should be provided for.



Question 6

Amit owns a garden maintenance business called ‘Blades Garden Services’. His cousin Jayesh owns a similar business called ‘Express Landscaping’.

The results of the two businesses for the year ended 31 March 2009 are summarised below.

	Blades Garden Services £	Express Landscaping £
Turnover	75 000	139 000
Net profit	30 000	34 750
Capital as at 1 April 2008	150 000	173 750
Current Assets	8 500	12 000
Current Liabilities	4 250	24 000

- (a) Stating clearly the formula used, calculate the net profit margin for each of the two businesses.

Formula.....

Net profit margin for Blades Garden Services.

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Net profit margin for Express Landscaping.

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(2)



(b) Stating clearly the formula used, calculate the return on capital employed for each of the two businesses.

Formula.....
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Return on capital employed for Blades Garden Services.

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Return on capital employed for Express Landscaping.

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(2)

(c) Stating clearly the formula used, calculate the current ratio for each of the two businesses.

Formula.....
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Current ratio for Blades Garden Services.

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Current ratio for Express Landscaping.

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(2)



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