

INTERNATIONAL GCSE

Accounting

Specification and Sample Assessment Material

Edexcel International GCSE in Accounting (4AC0)

First examination 2011

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International GCSE

Accounting (4AC0)

Specification

First examination 2011

Introduction

The Edexcel International General Certificate of Secondary Education (International GCSE) in Accounting is designed for use in schools and colleges. It is part of a suite of International GCSE qualifications offered by Edexcel.

The Edexcel International GCSE in Accounting is designed as a two-year course. As students progress through the course they are introduced to new ideas and concepts while continuing to use and reinforce previously learned concepts and skills. Students who successfully follow this course will have a good understanding of accounting and its applications, and will find the transition to the study of GCE AS or Advanced Level in Accounting easy to make.

Key subject aims

The Edexcel International GCSE in Accounting qualification enables students to:

- understand the nature and purpose of accounting in business and non-profit-making organisations, and the principles on which accounting is based
- understand the use of accounting as an aid to business decision making
- understand the use of accounting as a means of assessing the financial position of an organisation
- develop the abilities to quantify, to judge relevance, and to write clear and concise explanations.

About this specification

Key features and benefits of the specification

Key features and benefits are:

- offers a course for students of various ages and from diverse backgrounds in terms of general education and lifelong learning
- comprehensive and detailed description of subject content
- a single tier of entry for the whole ability range
- assessment opportunities in both January and June examination series
- provides a sound foundation for progression to GCE AS and Advanced Level in Accounting, and other related qualifications.

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Specification at a glance

This Edexcel International GCSE in Accounting is assessed through a written examination paper.

Paper 1: Accounting	Paper code: 4AC0/01
<ul style="list-style-type: none">• Externally assessed• Availability: January and June series• First assessment: June 2011	
<p>Overview of content</p> <p>There are 10 areas of subject content.</p> <ol style="list-style-type: none">1 Books of original entry2 The ledger3 Trading account, profit and loss account, balance sheet of a sole trader4 Adjustments5 Incomplete records6 Non-profit-making organisations7 Manufacturing accounts8 Partnerships9 Limited companies10 Analysis and interpretation of accounts	
<p>Overview of assessment</p> <ul style="list-style-type: none">• This qualification is assessed through a two-hour and 30-minute examination paper, set and marked by Edexcel.• Single tier of entry.• The total number of marks available is 100.	

Qualification content

Skills

This Edexcel International GCSE in Accounting requires students to demonstrate the application of:

- numeracy skills in the context of a business's accounts
- literacy skills through description and explanation.

Paper 1: Accounting

Content overview

There are 10 areas of subject content, which are fully detailed on the following pages. **The subject content may be taught in any order.** Students will need to demonstrate specified knowledge and critical understanding of:

- 1 Books of original entry
- 2 The ledger
- 3 Trading account, profit and loss account, balance sheet of a sole trader
- 4 Adjustments
- 5 Incomplete records
- 6 Non-profit-making organisations
- 7 Manufacturing accounts
- 8 Partnerships
- 9 Limited companies
- 10 Analysis and interpretation of accounts.

Assessment overview

- This qualification is assessed through a two-hour and 30-minute examination paper, set and marked by Edexcel.
- Single tier of entry.
- The paper will be a question and answer booklet and all questions are compulsory.
- The paper consists of two sections – Section A and Section B.
- Section A (10 marks) comprises 10 multiple-choice questions, drawn from all sections of the subject content.
- Section B (90 marks) comprises five questions, drawn from all sections of the subject content. These will include a range of question types – table completion, calculation/formulae and short-medium-answer questions.
- Students may use a calculator in the examination.
- The total number of marks available is 100.

Subject content

1. Books of original entry

By the end of the course, all students should be able to:

- 1.1 calculate capital by opening journal entries
- 1.2 use the journal with appropriate narration to:
 - (a) record correction of errors
 - (b) record purchase of assets on credit including Value Added Tax (VAT)
 - (c) record sale of assets on credit
 - (d) record unusual losses or gains, for example theft
 - (e) cancel cash discount taken in error
 - (f) make transfers to final accounts
 - (g) write off bad debts
- 1.3 use the principal documents in a business transaction, for example invoice, credit note, statement
- 1.4 explain how business documents are used as a source of information
- 1.5 record purchases, sales and returns in appropriate books, including VAT
- 1.6 explain the purpose of trade discount
- 1.7 explain how the books of original entry are related to the double-entry system
- 1.8 record entries in the ledger with appropriate narrative from the books of original entry
- 1.9 explain the need for a receipts and payments account
- 1.10 compile the cash account, including entries for VAT
- 1.11 balance the cash account and bring down the balance
- 1.12 compile a petty cash book using the imprest system and incorporating VAT
- 1.13 record transfers of cash from main cashier to petty cashier
- 1.14 explain the function of a three-column cash book
- 1.15 explain the purpose and treatment of cash (settlement) discounts and write up a two- or three-column cash book
- 1.16 explain and record contra entries
- 1.17 explain the need for reconciliation statements
- 1.18 interpret bank statements
- 1.19 select previously unrecorded items to be entered in the cash book
- 1.20 update the cash book balance
- 1.21 reconcile bank balance with cash book balance
- 1.22 explain the advantages and disadvantages of using computers in accounting.

2. The ledger

By the end of the course, all students should be able to:

- 2.1 record transactions by double-entry, using 'T' form and running balances
- 2.2 explain the significance of ledger balances
- 2.3 interpret an entry and an account
- 2.4 balance an account and bring down the balance
- 2.5 differentiate between purchases and sales transactions
- 2.6 differentiate between cash and credit transactions
- 2.7 differentiate between capital and revenue items
- 2.8 explain the different nature of:
 - (a) debit balances
 - (b) credit balances
- 2.9 close accounts
- 2.10 transfer balances to final accounts
- 2.11 make entries to record VAT in the ledger
- 2.12 understand the significance of a balance in the VAT account
- 2.13 calculate VAT from VAT inclusive as well as VAT exclusive figures
- 2.14 explain the need for ledger sub-divisions
- 2.15 explain reasons for compiling a trial balance
- 2.16 prepare a trial balance from balances in ledger accounts as at a given date
- 2.17 agree the trial balance
- 2.18 outline procedures to be adopted if a trial balance does not agree
- 2.19 explain the possible shortcomings of an agreed trial balance
- 2.20 explain the types of error that do not cause disagreement of the trial balance
- 2.21 correct errors that do not cause disagreement of the trial balance, through the journal and ledger
- 2.22 establish, maintain and clear a suspense account from a trial balance
- 2.23 correct errors causing the trial balance to disagree through the journal and the ledger
- 2.24 state sources of information for purchases and sales ledger control accounts
- 2.25 compile purchases and sales ledger control accounts
- 2.26 reconcile control account balances with debtors/creditors.

3. Trading account, profit and loss account, balance sheet of a sole trader

By the end of the course, all students should be able to:

- 3.1 state what is meant by the terms 'net sales' and 'net purchases'
- 3.2 differentiate between the two stock figures shown in the trading account
- 3.3 explain the distinction between cost and net realisable value of stock
- 3.4 compile a trading account, showing appropriate items using vertical layout
- 3.5 define 'gross profit' and 'gross loss'
- 3.6 show cost of sales
- 3.7 draw up a profit and loss account using vertical layout with all the appropriate income and expense entries relating to the given period
- 3.8 draw up a balance sheet in vertical form, marshalling the assets and liabilities in a specific order (permanence and liquidity)
- 3.9 differentiate between fixed and current assets
- 3.10 differentiate between current and long-term liabilities
- 3.11 show 'drawings' in cash or goods and record their transfer to the capital account
- 3.12 show changes in the proprietor's capital as a result of a further injection of capital
- 3.13 show changes in the proprietor's capital as the result of the revaluation of fixed assets
- 3.14 explain the nature of working capital
- 3.15 show working capital in the balance sheet.

4. Adjustments

By the end of the course, all students should be able to:

- 4.1 understand the significance of the following six accounting concepts: consistency, prudence, accruals, materiality, money measurement, business entity
- 4.2 state why adjustments are necessary in the preparation of final accounts
- 4.3 distinguish between the following methods of depreciation: straight-line; diminishing balance; revaluation
- 4.4 record depreciation by means of a provision for depreciation account
- 4.5 record disposal of assets by means of a disposal account
- 4.6 demonstrate an understanding of the significance of a balance in the disposal account
- 4.7 distinguish between amounts accrued and prepaid
- 4.8 deal with accounts where accruals and prepayments arise
- 4.9 adjust accounts which have a stock to carry forward, for example stationery
- 4.10 record bad debts and bad debts recovered
- 4.11 explain why it is necessary to make a provision in respect of bad (doubtful) debts
- 4.12 differentiate between bad debts and provision for bad (doubtful) debts
- 4.13 prepare a provision for a bad (doubtful) debts account, with profit and loss account and balance sheet entries.

5. Incomplete records

By the end of the course, all students should be able to:

- 5.1 explain that 'incomplete records' requires the application of accounting principles
- 5.2 explain that capital (net worth) is the difference between the total of the assets and the liabilities, and may be shown by a statement of affairs
- 5.3 calculate profit or loss by a comparison of capital at the beginning and end of a trading period
- 5.4 explain how an increase or decrease in capital arises
- 5.5 explain how items such as drawings and the introduction of new capital will affect the net profit figure
- 5.6 compute the purchases and sales for the year, by preparing control accounts
- 5.7 appreciate that returns, discounts and bad debts will affect the computations of sales and purchases
- 5.8 explain that cash purchases and sales must be dealt with separately from credit purchases and sales
- 5.9 prepare a trading account, profit and loss account, and balance sheet.

6. Non-profit-making organisations

By the end of the course, all students should be able to:

- 6.1 explain the nature and purpose of a receipts and payments account
- 6.2 prepare a receipts and payments account, and explain the significance of the balance shown
- 6.3 calculate the value of subscriptions for a period, including the accounting treatment of lifetime subscriptions
- 6.4 prepare a subscriptions account
- 6.5 explain the nature and purpose of an income and expenditure account prepared on the accruals basis
- 6.6 calculate the profits or losses for a given activity, using an appropriate format such as a trading account or statement
- 6.7 prepare an income and expenditure account
- 6.8 understand the term 'accumulated fund'
- 6.9 transfer a surplus or deficit to the accumulated fund
- 6.10 prepare a balance sheet.

7. Manufacturing accounts

By the end of the course, all students should be able to:

- 7.1 differentiate between direct and indirect costs; fixed and variable costs
- 7.2 calculate prime cost
- 7.3 allocate costs between manufacturing and trading activities
- 7.4 prepare a manufacturing account to calculate the cost of production.

8. Partnerships

By the end of the course, all students should be able to:

- 8.1 explain the need to expand a sole proprietor business by the introduction of partner(s)
- 8.2 explain the nature of a partnership
- 8.3 explain the importance of a partnership agreement
- 8.4 write up a capital account for each partner
- 8.5 write up a profit and loss appropriation account
- 8.6 demonstrate an understanding of interest on drawings, interest on capital and partners' salaries
- 8.7 show division of the residual profit or loss between partners
- 8.8 compile and explain the need for partners' current accounts
- 8.9 differentiate between debit and credit balances in current accounts
- 8.10 display capital accounts in the balance sheet
- 8.11 display current accounts in the balance sheet, including those with debit balances.

9. Limited companies

By the end of the course, all students should be able to:

- 9.1 prepare an appropriation account
- 9.2 calculate the dividend on ordinary shares and interest on loan capital (debentures)
- 9.3 distinguish between authorised and issued capital
- 9.4 distinguish between shareholders' funds and loan capital
- 9.5 prepare a balance sheet that clearly shows:
 - (a) fixed assets
 - (b) net current assets
 - (c) long-term liabilities
 - (d) capital and reserves.

10. Analysis and interpretation of accounts

By the end of the course, all students should be able to:

- 10.1 analyse and evaluate the profitability, liquidity and efficiency of a business by calculating:
 - (a) gross profit margin
 - (b) net profit margin
 - (c) return on capital employed
 - (d) current ratio
 - (e) acid test ratio
 - (f) debtor and creditor ratios
 - (g) rate of stock turnover
- 10.2 prepare a report showing comparison of results between businesses and the same business over time.

Assessment

Assessment summary

Paper 1 is externally assessed through an examination paper.

Summary of table of assessment

Paper 1: Accounting	Paper code: 4AC0/01
<ul style="list-style-type: none">• This qualification is assessed through a two-hour and 30-minute examination paper, set and marked by Edexcel.• Single tier of entry.• The total number of marks available is 100.	

Assessment Objectives and weighting

	% in International GCSE
AO1: demonstrate a knowledge and understanding of accounting terminology, principles, procedures and techniques	30%
AO2: apply accounting knowledge and understanding to assemble and classify accounting data in a variety of situations	30%
AO3: select, organise, interpret and use information to analyse problems and issues	30%
AO4: evaluate accounting information to make reasoned judgements and present conclusions accurately, logically and appropriately	10%
TOTAL	100%

Entering your students for assessment

Student entry

Details of how to enter students for this qualification can be found in Edexcel's *International Information Manual*, copies of which are sent to all active Edexcel centres. The information can also be found on Edexcel's international website.

Combinations of entry

There are no forbidden combinations.

Access arrangements and special requirements

Edexcel's policy on access arrangements and special considerations for GCE, GCSE, International GCSE, and Entry Level qualifications aims to enhance access to the qualifications for students with disabilities and other difficulties without compromising the assessment of skills, knowledge, understanding or competence.

Please see the Edexcel website (www.edexcel.org.uk/sfc) for:

- the Joint Council for Qualifications (JCQ) policy *Access Arrangements and Special Considerations, Regulations and Guidance Relating to Students who are Eligible for Adjustments in Examinations*
- the forms to submit for requests for access arrangements and special considerations
- dates for submission of the forms.

Requests for access arrangements and special considerations must be addressed to:

Special Requirements
Edexcel
One90 High Holborn
London WC1V 7BH

Assessing your students

The first assessment opportunity for Paper 1 of this qualification will take place in the June 2011 series and in each following January and June series for the lifetime of the specification.

Your student assessment opportunities

Paper	June 2011	January 2012	June 2012	January 2013
Paper 1: Accounting	✓	✓	✓	✓

Awarding and reporting

The grading, awarding and certification of this qualification will follow the processes outlined in the current GCSE/GCE Code of Practice for courses starting in September 2009, which is published by the Qualifications and Curriculum Authority (QCA). The International GCSE qualification will be graded and certificated on an eight-grade scale from A* to G. Individual unit results will be reported.

Students whose level of achievement is below the minimum standard for Grade G will receive an unclassified U. Where unclassified is received it will not be recorded on the certificate.

The first certification opportunity for the Edexcel International GCSE in Accounting will be 2011.

Students whose level of achievement is below the minimum judged by Edexcel to be of sufficient standard to be recorded on a certificate will receive an unclassified U result.

Language of assessment

Assessment of this specification will be available in English only. Assessment materials will be published in English only and all work submitted for examination and moderation must be produced in English.

Malpractice and plagiarism

For up-to-date advice on malpractice and plagiarism, please refer to the JCQ's *Suspected Malpractice in Examinations: Policies and Procedures* document on the JCQ website www.jcq.org.uk

Student recruitment

Edexcel's access policy concerning recruitment to our qualifications is that:

- they must be available to anyone who is capable of reaching the required standard
- they must be free from barriers that restrict access and progression
- equal opportunities exist for all students.

Progression

This qualification supports progression to:

- study of GCE AS and Advanced Level in Accounting
- vocationally related and occupational qualifications, such as those of the Association of Accounting Technicians (AAT)
- foundation examinations offered by professional bodies such as the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA) and the Chartered Institute of Public Finance and Accountancy (CIPFA).

Grade descriptions

Grade descriptions are provided to give a general indication of the standards of achievement likely to have been shown by candidates awarded particular grades. The descriptions must be interpreted in relation to the specification content; they are not designed to define that content. The grade awarded will depend in practice upon the extent to which the candidate has met the Assessment Objectives overall. Shortcomings in some aspects of the assessment may be balanced by better performance in others.

Grade A

Candidates will be able to:

- demonstrate in-depth knowledge and critical understanding of the full range of the specification content
- apply this knowledge and understanding, using accounting terms, concepts and methods to address a range of accounting problems effectively
- select, organise, interpret and use accounting information to analyse accounting problems effectively
- evaluate accounting information effectively, make reasoned judgements and present conclusions accurately, logically and appropriately.

Grade C

Candidates will be able to:

- demonstrate knowledge and understanding of most aspects of the specification content
- apply this knowledge and understanding, using accounting terms, concepts, and methods appropriately to address accounting problems
- select, organise, interpret and use accounting information to analyse accounting problems with some accuracy
- make reasoned judgements and present conclusions.

Grade F

Candidates will be able to:

- demonstrate knowledge and understanding of some of the specification content
- apply this knowledge and understanding, using some accounting terms, concepts, theories and methods to address simple accounting problems
- show some ability to select, organise and use simple accounting information
- make judgements and present simple conclusions.

Support and training

Edexcel support services

Edexcel has a wide range of support services to help you implement this qualification successfully.

ResultsPlus — ResultsPlus is an application launched by Edexcel to help subject teachers, senior management teams, and students by providing detailed analysis of examination performance. Reports that compare performance between subjects, classes, your centre and similar centres can be generated in ‘one-click’. Skills maps that show performance according to the specification topic being tested are available for some subjects. For further information about which subjects will be analysed through ResultsPlus, and for information on how to access and use the service, please visit www.edexcel.org.uk/resultsplus

Ask the Expert — Ask the Expert is a new service, launched in 2007, that provides direct email access to senior subject specialists who will be able to answer any questions you might have about this or any other specification. All of our specialists are senior examiners, moderators or verifiers and they will answer your email personally. You can read a biography for all of them and learn more about this unique service on our website at www.edexcel.org.uk/asktheexpert

Ask Edexcel — Ask Edexcel is Edexcel’s online question and answer service. You can access it at www.edexcel.org.uk/ask or by going to the main website and selecting the Ask Edexcel menu item on the left.

The service allows you to search through a database of thousands of questions and answers on everything Edexcel offers. If you don’t find an answer to your question, you can choose to submit it straight to us. One of our customer services team will log your query, find an answer and send it to you. They’ll also consider adding it to the database if appropriate. This way the volume of helpful information that can be accessed via the service is growing all the time.

Examzone — The Examzone site is aimed at students sitting external examinations and gives information on revision, advice from examiners and guidance on results, including re-marking, re-sitting and progression opportunities. Further services for students — many of which will also be of interest to parents — will be available in the near future. Links to this site can be found on the main homepage at www.examzone.co.uk.

Training

A programme of professional development and training courses, covering various aspects of the specification and examination, will be arranged by Edexcel. Full details can be obtained from our website: www.edexcel.org.uk.

Textbooks and other resources

Please note that while resources are checked at the time of publication, materials may be withdrawn from circulation and website locations may change at any time.

Textbooks

Barrow P – *Bookkeeping for Dummies* (John Wiley, 2007) ISBN 0470058153

Cox D – *Business Accounts (Volume 3)* (Osborne Books, 2004) ISBN 9781872962634

Hedges R – *Bookkeeping Made Easy* (Lawpack Publishing, 2006) ISBN 9781905261420

Jones R – *Business Accounting* (Causeway Press, 2004) ISBN 1902796411

Wood F – *Business Accounting (Volume 1)* (FT Prentice Hall, 2005) ISBN 9780273681496

Wood F and Robinson S – *Book-keeping and Accounts 6th edition* (FT Prentice Hall, 2004) ISBN 9780273685487

Useful websites

www.aat.org.uk	Association of Accounting Technicians (AAT). Contains information on membership, approved assessment centres and course outlines.
www.accaglobal.com	Association of Chartered Certified Accountants (ACCA) which, in addition to information about the Association, has comprehensive student and teacher support for its examinations. Support includes articles covering most bookkeeping and accounting topics.
www.accounting2u.com	Site on which the CD ROM for the International GCSE Accounting is based.
www.bbc.co.uk/schools/gcsebitesize/business/finance	General revision site with options on accounting.
www.bized.co.uk	General business site with options on accounting.
www.cimaglobal.com	Chartered Institute of Management Accountants (CIMA). Contains information on membership, CIMA qualifications and professional development.
www.cipfa.org.uk	Chartered Institute of Public Finance and Accountancy (CIPFA). Contains information about membership and qualifications, related to accountancy in the public sector.
www.cleveraccountant.com	Website offering practical and accessible accounting downloads.
www.osbornebooks.co.uk	Educational publisher of learning resources for accounting and business studies.
www.triplelearning.co.uk	Provider of online materials for teachers and students. Materials cover International Baccalaureate (IB), A Level and GCSE.
www.tutor2u.net	Online resource for business, economics, politics and related subjects.

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Accounting (4AC0)

Sample Assessment Material

First examination 2011

SECTION A**Answer ALL questions**

**Choose an answer A, B, C or D, and put a cross in the box (☒).
If you change your mind about an answer, put a line through the box (☒)
and then mark your new answer with a cross (☒).**

1. A wages account will be found in the

- A private ledger
- B nominal ledger
- C cash book
- D petty cash book

Q1

(Total 1 mark)

2. Which of the following pairs of accounts usually have credit balances b/d?

- A capital and expenses
- B assets and expenses
- C income and assets
- D liabilities and income

Q2

(Total 1 mark)

3. Where should trade discount be shown?

- A the cash book
- B personal accounts in the ledger
- C a discounts account
- D an invoice

Q3

(Total 1 mark)

4. What is the purpose of preparing a trial balance?

- A to check the arithmetical accuracy of the book-keeping
- B to find the net profit or net loss
- C to check that all transactions have been included in the accounts books
- D to prove that there are no book-keeping errors

Q4

(Total 1 mark)

5. What does a debit balance b/d on the insurance account indicate?

- A A liability and a prepayment
- B A liability and an accrual
- C An asset and an accrual
- D An asset and a prepayment

Q5

(Total 1 mark)

6. A machine costing £5 000 is depreciated at 20% per annum by the straight line method. It is sold after three years for £2 500. Which one of the following statements is true?

- A The firm has made a £500 loss
- B The firm has made a £500 profit
- C The firm has made a £2 500 loss
- D The firm has made a £2 500 profit

Q6

(Total 1 mark)

7. An income and expenditure account has a credit total which exceeds the debit total. This means that the organisation has

- A spent more cash than it has received
- B made a surplus
- C received more cash than it has spent
- D made a deficit

Q7

(Total 1 mark)

8. Subscriptions received this year but relating to next year are shown in this year's accounts as

- A a current asset in the balance sheet
- B an item of income in the income and expenditure account
- C a current liability in the balance sheet
- D an item of expenditure in the income and expenditure account

Q8

(Total 1 mark)

9. Ignoring work in progress, which of the following statements correctly defines factory cost of production?

- A Raw materials purchased plus indirect costs
- B Prime cost plus factory overhead
- C Prime cost minus factory overhead
- D Prime cost plus direct costs

Q9

(Total 1 mark)

10. A proposed final ordinary dividend will be shown on a company's balance sheet as a

- A current asset
- B current liability
- C revenue reserve
- D general reserve

Q10

(Total 1 mark)

TOTAL FOR SECTION A: 10 MARKS

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SECTION B

Answer ALL questions.

- 11.** In the year ended 31 December 2007, the bookkeeper of Sanchez Palmer, wholesaler, made the following errors.
- (i) An invoice for £460 in respect of goods sold to B Balearic, a supplier, was lost and no entries made in the books.
 - (ii) The book-keeper intended to record a bad debt recovered, £500. He debited £500 to the cash account and credited £50 to the bad debts recovered account.
 - (iii) On 1 July 2007, an insurance premium of £1 200 for the following 12 months was paid; no adjustment was made for the amount paid in advance at 31 December 2007.
 - (iv) The total of the returns inward book was over-cast by £200.
 - (v) The total of the discount allowed column in the cash book, £150, was posted to the credit side of the discount received account.
 - (vi) A cheque for £195 received from T Tramuntana on 24 April 2007, in full settlement of her account, was entered correctly. No cash discount was involved. The cheque was dishonoured on 12 May 2007, but no entry for this was made in the books.

- (a) You are asked to show the effect of each error on:
- the agreement of the trial balance
 - the net profit for the year ended 31 December 2007.

Complete the table below for each of the items (ii) to (vi). The answers to (i) and (ii) have been done to show the layout.

Item	Trial balance	Net profit
(i)	No effect	Lower than it should be by £460
(ii)	Debit side bigger by £450	Lower than it should be by £450
(iii)		
(iv)		
(v)		
(vi)		

(8)

- (b) If a suspense account had been opened to make the trial balance agree, what would have been the suspense account balance and on which side?

.....

.....

.....

.....

(2)

(Total 10 marks)

Q11

Throughout Question 12, assume that the rate of VAT is 10%.

12. Steven Brock is a wholesaler of electrical goods. He buys and sells mainly on credit terms. Currently none of his suppliers offer cash discount.

On the 1 April 2008 his purchases ledger contained the following credit balances.

T Farmer	£1 500
D Poynter	£4 500
H Judd	£6 000
D Jones	£3 000

The following are extracts from his books for April 2008.

Purchases Journal

Date	Narration	Goods	VAT	Total
		£	£	£
April 1	T Farmer	1 250	125	1 375
April 5	H Judd	2 000	200	2 200
April 13	D Poynter	500	50	550
April 21	T Farmer	2 750	275	3 025
April 28	D Jones	750	75	825
	Totals for Month	7 250	725	7 975

Returns Outwards Journal

Date	Narration	Goods	VAT	Total
		£	£	£
April 3	T Farmer	200	20	220
April 8	D Poynter	50	5	55
April 18	D Jones	140	14	154
April 29	H Judd	70	7	77
	Totals for Month	460	46	506

Cash Book (Credit Side)
Bank Column

Date	Narration	Bank
		£
April 1	Balance b/d	3 500
April 3	Purchases (including VAT)	240
April 5	T Farmer	1 500
April 8	D Jones	3 000
April 15	Purchases (including VAT)	600
April 21	H Judd	6 000
April 30	Wages	1 500
April 30	Stationery (including VAT)	120

The Journal

Date	Narration	Debit	Credit
		£	£
April 21	T Farmer (Purchases Ledger)	500	
	T Farmer (Sales Ledger)		500
	Being transfer of balance in sales ledger offset against balance in purchases ledger		

- (a) Prepare the account of T Farmer in Steven Brock’s purchases ledger. Balance the account on 30 April 2008 and bring the balance down.

T Farmer Account

Date	Narration	£	Date	Narration	£

(6)

- (b) Prepare the total creditors account for the month of April 2008. Balance the account on 30 April 2008 and bring the balance down.

Purchase Ledger Control Account

Date	Narration	£	Date	Narration	£

(6)

(c) Explain **two** ways in which Steven might find the total creditors account useful in the running of the business.

(i)

.....

.....

.....

(2)

(ii)

.....

.....

.....

(2)

At the end of April, Steven is advised that one of his debtors, A Carter, is unable to pay his outstanding amount of £500. Steven decides to write this off as a bad debt.

(d) Set out the journal entry for this transaction.

The Journal

Date	Narration	Debit	Credit
		£	£

(3)

Steven has experienced problems in the past year in collecting payments from credit customers. He has been advised by his accountant to introduce a provision for doubtful debts at the end of the accounting period.

- (e) State the double entry required to create the provision for doubtful debts at the end of the accounting period.

.....
.....

(1)

- (f) Using the provision for doubtful debts as an example, evaluate the importance of the prudence concept to the preparation of the trading and profit and loss account and the balance sheet.

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(5)

(Total 25 marks)

Q12

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13. The following trial balance was extracted from the books of Kevin Phillips, a retailer, on 31 October 2007. The suspense account was opened when the trial balance failed to agree. The causes of the difference were discovered later and are set out in (i) below the trial balance.

	Debit	Credit
	£	£
Cash at bank	14 000	
Cash in hand	56	
Trade creditors and trade debtors	12 900	8 670
Capital		54 677
Wages of sales assistants	14 500	
Vehicle expenses	5 671	
Vehicles at cost	15 000	
Stock at 1 November 2006	3 500	
Cash discounts	420	540
Drawings	23 000	
Equipment at cost	3 000	
Heating and lighting	900	
Insurance	890	
Purchases and sales	313 000	540 000
General expenses	7 250	
Premises	200 000	
Provision for depreciation (1 November 2006) on equipment		600
Provision for depreciation (1 November 2006) on vehicles		9 000
Business rates	4 400	
Suspense		5 000
	<u>618 487</u>	<u>618 487</u>

You are required to prepare:

- trading and profit and loss accounts for the year ended 31 October 2007
- the balance sheet at 31 October 2007.

The following should be taken into account.

- (i) The trial balance had failed to agree for these reasons:
- £4 580 cash sales was correctly entered in the cash book but omitted from the sales account
 - discount allowed had been correctly posted to the discount account from the cash book but no entry for discount allowed had been made in the personal accounts.
- (ii) Stock was valued at £3 000 at selling price on 31 October 2007. Kevin Phillips had previously used cost as the most suitable valuation and intends to continue with this approach. Use a margin of 50% to amend the stock valuation.

15. The following information is available about a retail business owned by Monty Pinso.

	For the year ended 31 March	
	2007	2008
Sales	£360 000	£420 000
Return on capital employed	15%	14%
Current ratio	2.5:1	1.5:1
Gross profit mark up	55%	50%
Rate of stock turnover	9 times	10 times
Net profit to turnover	10%	8%

Monty believes the financial results have improved in 2008 compared with 2007.

(a) Give the formula for the:

(i) current ratio,

.....

 (1)

(ii) rate of stock turnover,

.....

 (1)

(iii) debtors ratio.

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 (1)

(b) Calculate the:

(i) net profit for the year ended 31 March 2008;

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(3)

(ii) gross profit margin for the year ended 31 March 2008.

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(4)

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