

Series 4 Examination 2011

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## **CERTIFICATE IN BOOK-KEEPING AND ACCOUNTS**

Level 2

Thursday 10 November

Subject code: 2007

Time allowed: **3 hours**

### **INSTRUCTIONS FOR CANDIDATES**

- Answer **any 4** questions. There are no compulsory questions.
- All questions carry equal marks.
- Study the “**REQUIRED**” section of each question carefully. Then extract the data required for your answers from the information supplied.
- Write your answers in blue or black ink/ballpoint. You can only use pencil for graphs, charts, diagrams, etc.
- Begin your answer to each question on a new page.
- All answers must be correctly numbered but need not be in numerical order.
- Workings must be shown.
- You may use a calculator provided the calculator gives no printout, has no word display facilities, is silent and cordless. The provision of batteries and their condition is your responsibility.
- Marks may be lost through lack of neatness and poor presentation

## QUESTION 1

The following information was extracted from the books of Dore Trading Ltd, at 31 March 2011:

	£
Goodwill	25,000
Fixtures and fittings at cost	50,000
Motor vehicles at cost	100,000
Stock at 31 March 2011	76,250
Debtors	130,000
Bank	21,875 Dr
Creditors	50,125
General reserve	25,000

Additional information:

- (1) The motor vehicles and fixtures and fittings were all purchased on 1 April 2008. The depreciation policy is as follows:
  - (i) fixtures and fittings – straight line over 5 years assuming a residual balance of £5,000
  - (ii) motor vehicles – 25% per annum reducing balance
- (2) A provision for doubtful debts of 5% of debtors was created on 31 March 2011
- (3) The company has 125,000 ordinary shares of £1 each, all of which have been issued and fully paid at £1.10 a share
- (4) The directors have proposed a dividend of £0.15 per share for the year ended 31 March 2011
- (5) During the year ended 31 March 2011, Dore Trading Ltd had taken out a bank loan for £50,000. This is to be repaid by equal annual amounts over 10 years, commencing 1 February 2012
- (6) The balancing figure on the Balance Sheet represents the retained profit.

### REQUIRED

- (a) Prepare the Balance Sheet, in **vertical** format, at 31 March 2011. (21 marks)
- (b) State **two** differences between a public limited company and a private limited company. (4 marks)

**(Total 25 marks)**

## QUESTION 2

Don Bates provides for doubtful debts at 3% of outstanding debtors at his year end of 30 April. The following balances of debtors are:

<b>Debtors</b>	<b>£</b>
April 30, 2009	18,700
April 30, 2010	21,400
April 30, 2011	19,600

The following bad debts **had been** written off:

<b>Debtor</b>	<b>Date written off</b>	<b>£</b>
Allan	May 15, 2009	60
Brian	August 16, 2009	109
Carlos	January 7, 2010	42
David	March 21, 2010	101
Edward	June 13, 2010	37
Frank	October 30, 2010	29

The debt of David was partially recovered on 31 March 2011, when £36 was received.

### REQUIRED

- (a) Prepare for **each** of the years ended 30 April 2010 and 30 April 2011 the:
- (i) Bad Debts Account (5 marks)
  - (iii) Provision for Doubtful Debts Account (7 marks)
  - (iv) David's Account. (5 marks)
- (c) Prepare the Bad Debts Recovered Account for year ended 30 April 2011. (2 marks)
- (c) Prepare the Balance Sheet extracts for each of the years at 30 April 2009, 2010 and 2011. (6 marks)

**(Total 25 marks)**

### QUESTION 3

Amy and Bill are in partnership sharing profits and losses in the ratio 2:1.

Their Balance Sheet is as follows:

#### Balance Sheet at 30 June 2011

	£	£
<b>Fixed assets</b>		
Premises		50,000
Equipment		<u>15,250</u>
		65,250
<b>Current assets</b>		
Stock	8,500	
Debtors	7,800	
Bank	<u>550</u>	
	16,850	
<b>Creditors falling due within one year</b>		
Creditors	<u>7,150</u>	
<b>Net current assets</b>		<u>9,700</u>
		<u>74,950</u>
Capital Accounts: Amy	40,000	
Bill	<u>30,000</u>	
		70,000
Current Accounts: Amy	5,400	
Bill	<u>(450)</u>	
		<u>4,950</u>
		<u>74,950</u>

Additional information:

- (1) On 1 July, Charles was admitted into the partnership. Future profits and losses were to be shared by Amy, Bill and Charles in the ratio 2:1:1 respectively.
- (2) Goodwill was valued at £9,000 at 30 June 2011. The partners agreed that goodwill would not be retained in the books of the partnership.
- (3) Charles brought into the partnership vehicles at a valuation of £13,500, stock £1,500 and cash £7,500. The cash was deposited in the business bank account.
- (4) It was agreed that Charles would make an additional payment by cheque into the partnership bank account, to pay for his share of the goodwill.
- (5) It was decided to revalue the premises at £110,000 at 30 June 2011.

#### REQUIRED

- (a) Prepare the journal entries recording the admission of the new partner. Narratives are **not** required. (10 marks)
- (b) Prepare the Balance Sheet of the new partnership at 1 July 2011. (11 marks)
- (d) Explain the rule of Garner v Murray. (2 marks)
- (e) Name the type of asset used to describe 'goodwill'. (2 marks)

**(Total 25 marks)**

#### QUESTION 4

The following information is available from the books of Goodwin Ltd:

	At 31 August 2010		At 31 August 2011
	£		£
Stock	14,830		17,055
Sales ledger balances:	7,605 Dr		? Dr
	205 Cr		295 Cr

#### For the year ended 31 August 2011

	£
Sales	255,340
Purchases	180,060
Sales returns	705
Purchases returns	680
Discounts allowed	655
Discounts received	490
Payments to suppliers	179,300
Receipts from customers	249,800
Bad debts written off	175
Interest charged on customers' overdue accounts	30
Purchases ledger balance set off against sales ledger balance	305
Refunds to customers	575

All sales and purchases are on credit.

#### REQUIRED

- (a) Prepare for the year ended 31 August 2011 the:
- (i) Sales Ledger Control Account (14 marks)
  - (ii) Trading Account. (5 marks)
- (b) Identify **three** areas, other than debtors, where control accounts are used. (3 marks)
- (c) State **three** reasons why Goodwin Ltd would choose to use control accounts. (3 marks)

**(Total 25 marks)**

**QUESTION 5**

After stocktaking for the year ended 31 January 2011 had taken place, the closing stock of Jacques Ltd was valued at cost £66,550.

The following adjustments are required:

- (i) Some items were out of date and it was decided to sell them at half the cost price. The original selling price was £9,600.
- (ii) Twelve items at a cost of £79 each had been incorrectly included in the stock take, at £97 each.
- (iii) A total of £12,900 on one stock sheet had been carried forward as £2,900 to the next stock sheet.
- (iv) An item, which had cost £630, was scrapped.
- (v) Goods paid for and awaiting collection by a customer had been included in the stock at a valuation of £1,850.
- (vi) The last stock sheet, totalling £14,900, had not been included in the stock valuation.
- (vii) Goods sent on sale or return to Daisy Bell, recorded as a sale at £6,600, had not been returned or sold at 31 January 2011.

Jacques Ltd applies a mark up of 50% on cost.

**REQUIRED**

- (a) Copy the following layout into your answer book and **calculate** the revised stock value at 31 January 2011.

	<b>Add</b>	<b>Deduct</b>	<b>£</b>
Original cost of stock			66,550
Item (i)			
(ii)			
(iii)			
(iv)			
(v)			
(vi)			
(vii)	-----	-----	-----
Net adjustment			-----
Revised stock value			-----

(16 marks)

### QUESTION 5 CONTINUED

The accountant of King's Ltd extracted the following figures from the first years Trading and Profit & Loss Account for the year ended 31 December 2010 and the Balance Sheet at 31 December 2010:

	£	£
Sales		550,000
Cost of sales		<u>200,000</u>
Gross profit		350,000
Operational expenses	225,000	
Loan interest	<u>4,500</u>	
<b>Net profit</b>		<u>229,500</u> <u>120,500</u>
Debtors		125,000
Closing stock		65,000
Cash		1,200
Creditors		88,000
Bank overdraft		7,500

### REQUIRED

(b) Calculate the following ratios to **one** decimal place, showing your workings and answer.

- (i) Net profit (before interest) to sales
- (ii) Current/Working capital
- (iii) Liquidity/Acid test
- (iv) Stock turnover (based on closing stock).

(8 marks)

(c) State the purpose of calculating the current/working capital ratio.

(1 mark)

**(Total 25 marks)**