Centre No.						Paper Reference	Surname	Initial(s)
Candidate No.						6 0 0 1 / 0 1	Signature	

Paper Reference(s)

6001/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary

Unit 1: The Accounting System and Costing

Wednesday 15 May 2013 – Morning

Time: 3 hours

Examiner's use only

Team Leader's use only

Question Number	Leave Blank
1	
2	
3	
4	
5	
6	
7	
Total	

Materials required for examination	Items included with question papers
Nil	Source booklet

Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.
Check that you have the correct question paper.
Answer FIVE questions, choosing TWO from Section A and THREE from Section B.
Indicate which question you are answering by marking the box (☒).
If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).
All calculations must be shown.
Write your answers in the spaces provided in this question paper.
Do not return the insert with the question paper.

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. **(2)**.
There are 7 questions in this question paper. The total mark for this paper is 200.
There are 36 pages in this question paper. Any blank pages are indicated.
Calculators may be used.
The source material for use with questions 1 to 7 is in the enclosed source booklet.

Advice to Candidates

Write your answers neatly and in good English.

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P 4 2 2 9 1 A 0 1 3 6

Turn over

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Leave blank

SECTION A

Answer TWO questions from this section.

If you answer question 1, put a cross in this box ☒

Source material for question 1 is on pages 2 and 3 of the source booklet.

1. (a) Calculate Avar's:

(i) capital at 1 May 2012

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(3)

(ii) revenue (sales) for the year ended 30 April 2013

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(iii) purchases for the year ended 30 April 2013.

(3)

(b) Prepare the Wages account for the year ended 30 April 2013.

(6)

Leave blank

(c) Prepare the:

(i) Statement of Comprehensive Income for the year ended 30 April 2013

(15)

P 4 2 2 9 1 A 0 5 3 6

Leave blank

(ii) Statement of Financial Position at 30 April 2013.

Leave blank

(12)

Leave blank

(d) Evaluate whether a sole trader such as Avar should maintain a full set of double entry accounts.

(8)

Q1

(Total 52 marks)

Leave blank

If you answer question 2, put a cross in this box ☒

Source material for question 2 is on pages 4 and 5 of the source booklet.

2. (a) Prepare the Manufacturing Account for the year ended 30 April 2013, clearly showing the profit or loss on manufacture.

P 4 2 2 9 1 A 0 9 3 6

Turn over

Leave blank

(14)

Leave blank

(b) Calculate, for the year ended 30 April 2013, the:

(i) Prime cost of producing **one pack** of vegetable burgers

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(3)

(ii) Production cost of producing **one pack** of vegetable burgers

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(3)

(c) State **one** reason why Giant Burgers may wish to transfer production to finished goods at an agreed transfer price.

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Leave blank

(d) Prepare the Statement of Comprehensive Income for the year ended 30 April 2013.

Leave blank

(18)

P 4 2 2 9 1 A 0 1 3 3 6

Turn over

Leave blank

(e) Explain why the depreciation recorded in the Statement of Comprehensive Income is an example of both the **going concern** and the **consistency** accounting concepts.

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(4)

Leave blank

Tulip Supermarkets has offered to double its order to 152 000 packs next year if Giant Burgers increases the trade discount on the total order to 35%.

(f) Evaluate this offer from Tulip Supermarkets.

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(8)

Q2

(Total 52 marks)

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If you answer question 3, put a cross in this box ☒

Source material for question 3 is on pages 6 and 7 of the source booklet.

3. (a) Prepare the Journal entries to correct items (1) to (6) above. Narratives are **not** required.

P 4 2 2 9 1 A 0 1 6 3 6

Leave blank

(14)

(b) Calculate the revised surplus/deficit for the year ended 30 April 2013.

(6)

P 4 2 2 9 1 A 0 1 7 3 6

Leave blank

(c) Prepare the Statement of Financial Position at 30 April 2013.

(15)

Leave blank

The Committee of Arena Sports Club has decided to offer a 10 year membership at the rate of £700 per member in the year ending 30 April 2014. The current annual membership subscription is £100 per member.

It is estimated that the offer will be accepted by 30 members, who have not yet paid their annual subscriptions for the year ending 30 April 2014.

(d) Calculate the net effect that this proposal would have upon the:

(i) subscriptions recorded in the Income and Expenditure Account for the year ending 30 April 2014

(ii) bank balance recorded in the Statement of Financial Position at 30 April 2014.

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(4)

(e) Prepare the 10 year Membership Subscription Account as it will appear for the year ending 30 April 2014.

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(f) Evaluate the Committee of Arena Sports Club's decision to offer a 10 year membership for £700.

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(8)

Q3

(Total 52 marks)

TOTAL FOR SECTION A: 104 MARKS

Leave blank

SECTION B

Answer THREE questions from this section.

If you answer question 4, put a cross in this box ☒

Source material for question 4 is on pages 8 and 9 of the source booklet.

4. (a) Explain how a loan made by a partner, over and above the agreed capital, will be treated in the financial statements.

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(4)

Leave blank

(b) Prepare, for the year ended 31 March 2013, the:

(i) appropriation section of the Statement of Comprehensive Income

(15)

Leave blank

(ii) Capital Account of Chung

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(iii) Current Account of Chung.

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(c) Evaluate the need for a partnership agreement.

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(4)

Q4

(Total 32 marks)

Leave blank

If you answer question 5, put a cross in this box ☒

Source material for question 5 is on pages 10 and 11 of the source booklet.

5. (a) Distinguish between **inventory rotation** and **inventory valuation**.

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(4)

(b) Calculate the value of the closing inventory at 31 March 2013.

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(6)

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(c) Prepare the Statement of Comprehensive Income for the three months ended 31 March 2013.

(10)

Leave blank

Home Oil has been considering changing the method of inventory valuation to Last In First Out (LIFO) perpetual inventory.

(d) (i) Calculate the value of the inventory at 31 March 2013 if the Last in First Out (LIFO) perpetual inventory method had been used.

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(6)

(ii) State the effect on the gross profit if Home Oil had used the Last In First Out (LIFO) method.

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(e) Evaluate the potential effect of the change to Last In First Out (LIFO) perpetual inventory.

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(4)

(Total 32 marks)

Q5

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If you answer question 6, put a cross in this box ☒

Source material for question 6 is on pages 12 and 13 of the source booklet.

6. (a) Prepare for Shopalot, for the year ended 30 April 2013, the:

(i) Statement of Comprehensive Income

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(ii) summarised Bank Account.

(8)

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(b) Prepare the Statement of Financial Position extract, showing the Non-current Assets and Current Assets sections only.

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(4)

(c) Calculate the return on capital employed for Shopalot.

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(4)

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(d) Evaluate the financial position of Shopalot.

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(4)

Q6

(Total 32 marks)

Leave blank

If you answer question 7, put a cross in this box ☒

Source material for question 7 is on pages 14 and 15 of the source booklet.

7. (a) Calculate the:

(i) Current ratio

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(3)

(ii) Liquid (acid test) ratio.

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(3)

(b) Comment upon the adequacy of the ratios in (a) above.

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(2)

Leave blank

(c) Complete the following chart in the answer booklet, showing the effect of each of these actions upon the:

(i) Current Assets
(ii) Current Liabilities

	Current Assets		Current Liabilities	
	plus/minus/no effect	Value (£)	plus/minus/no effect	Value (£)
Action 1				
Action 2				
Action 3				

(12)

Leave blank

(d) Prepare the Statement of Financial Position extract at 31 March 2013 of Adnam, showing the (i) Current Assets and (ii) Current Liabilities if all the Actions 1 to 3 were implemented.

(8)

Leave blank

(e) Evaluate the financial position of Adnam after implementing Actions 1 to 3.

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(4)

Q7

(Total 32 marks)

TOTAL FOR SECTION B: 96 MARKS

TOTAL FOR PAPER: 200 MARKS

END

Paper Reference(s)

6001/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary

Unit 1 – The Accounting System and Costing

Wednesday 15 May 2013 – Morning

Source booklet for use with Questions 1 to 7.

Do not return the insert with the question paper.

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Avar is in business wholesaling high quality clothing. She does not maintain a full set of accounts but does maintain a bank account together with other memorandum records. The following information is available for the year ended 30 April 2013:

1. Bank account

	£		£
Cash sales banked	13 100	Balance b/d	6 000
Cheques from customers	65 300	Payments to suppliers	46 200
Sale of fixtures and fittings	600	Loan repayment	2 000
		Fixtures and fittings	8 200
		Wages	24 000
		Rent and rates	6 600
Balance c/d	17 300	Sundry expenses	3 300
	96 300		96 300
		Balance b/d	17 300

2. Avar paid the following from cash sales before banking:

	£
Wages	4 800
Cleaning of premises	6 000
New computer	1 800
Drawings	5 000

3. Contained within the wages recorded in the bank account were £2 500 of Avar's drawings.

4. Other balances:

	At 1 May 2012	At 30 April 2013
	£	£
Inventory	17 750	20 350
5% Bank loan	10 000	8 000
Trade receivables	23 400	29 600
Trade payables	19 000	21 800
Wages prepaid	850	-
Wages accrued	-	1 450
Computer equipment (at valuation)	5 000	5 100
Fixtures and fittings (at valuation)	11 000	14 000

5. The 5% bank loan was taken out on 1 November 2011. Repayment is by five equal annual amounts on 1 November of each year. No interest has been paid on the outstanding loan for the year ended 30 April 2013.

6. The Bank Statement received from the bank showed an entry of £620 for bank overdraft charges. No entries for these charges had been made in Avar's bank account.

7. During the year a debtor who had bought goods in September 2012 was unable to pay her debt. Avar received a cheque for £800 in February 2013, being a payment of £0.25 for every £1 of debt. The balance was immediately written off as irrecoverable.

8. A 5% provision for doubtful debts is to be created on trade receivables at 30 April 2013.

Required:

(a) Calculate Avar's:

(i) capital at 1 May 2012

(3)

(ii) revenue (sales) for the year ended 30 April 2013

(5)

(iii) purchases for the year ended 30 April 2013.

(3)

(b) Prepare the Wages account for the year ended 30 April 2013.

(6)

(c) Prepare the:

(i) Statement of Comprehensive Income for the year ended 30 April 2013

(15)

(ii) Statement of Financial Position at 30 April 2013.

(12)

(d) Evaluate whether a sole trader such as Avar should maintain a full set of double entry accounts.

(8)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 8 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Giant Burgers is in business manufacturing and selling packs of vegetable burgers. The following balances were available for the year ended 30 April 2013:

			£
Purchases of raw materials			62 000
Production wages			280 000
Salaries –	Production management		53 000
	Administration staff		84 500
Machinery and equipment repairs			28 650
Packaging			27 000
Marketing			52 900
Rent and rates			22 000
Electricity and gas			15 500
Sundry expenses –	Production		18 750
	Administration		26 000
Non-current assets (at cost):			
	Machinery and equipment		125 000
	Fixtures and fittings		80 000
Provisions for depreciation:			
	Machinery and equipment		75 000
	Fixtures and fittings		14 000
Inventory at 1 May 2012:			
	Raw materials		4 500
	Work in progress		6 000
	Finished goods	12 000 packs of	24 000

Additional information at 30 April 2013:

1. Inventory:
Raw materials		£7 500
Work in progress		£4 000
Finished goods	18 000 packs at transfer value	

2. On 1 January 2013 packaging was purchased for £12 000. Half of this packaging remained on hand at 30 April 2013.

3. Electricity and gas of £500 is accrued. Marketing of £1 800 is prepaid.

4. Rent and rates, electricity and gas are to be apportioned 70% to production and 30% to administration.

5. Depreciation is charged as follows:

   Machinery and equipment 30% per annum reducing balance method
   Fixtures and fittings 15% per annum straight line method.

6. During the year 288 000 packs of vegetable burgers were produced and transferred to finished goods at an agreed transfer value of £2 per pack.

7. Giant Burgers markets vegetable burgers for £3 per pack. Sales were made to three types of customer and were as follows:

Farmers' markets	66 000 packs at £3 per pack
Sales on internet	140 000 packs at £3 per pack less 10% trade discount
Tulip Supermarkets	76 000 packs at £3 per pack less 25% trade discount

Required:

(a) Prepare the Manufacturing Account for the year ended 30 April 2013, clearly showing the profit or loss on manufacture.

(14)

(b) Calculate, for the year ended 30 April 2013, the:

(i) Prime cost of producing **one pack** of vegetable burgers

(3)

(ii) Production cost of producing **one pack** of vegetable burgers.

(3)

(c) State **one** reason why Giant Burgers may wish to transfer production to finished goods at an agreed transfer price.

(2)

(d) Prepare the Statement of Comprehensive Income for the year ended 30 April 2013.

(18)

(e) Explain why the depreciation recorded in the Statement of Comprehensive Income is an example of both the **going concern** and the **consistency** accounting concepts.

(4)

Tulip Supermarkets has offered to double its order to 152 000 packs next year if Giant Burgers increases the trade discount on the total order to 35%.

(f) Evaluate this offer from Tulip Supermarkets.

(8)

(Total 52 marks)

Answer space for question 2 is on pages 9 to 15 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. The following balances remained in the books of Arena Sports Club after completion of the Income and Expenditure Account for the year ended 30 April 2013:

	£
Accumulated fund	25 400
Surplus of income over expenditure	900
Clubhouse (at cost)	30 000
Provision for depreciation of clubhouse	4 200
Equipment (at cost)	4 500
Provision for depreciation of equipment	1 100
Subscriptions in arrears	220
Subscriptions in advance	1 400
Trade payables	8 700
Inventory of refreshments	1 700
Bank	5 100 Dr
Other payables – sundry expenses	600
Suspense account	780 Dr

After completion of the Income and Expenditure Account the following were discovered:

1. A payment of £790 to a creditor, Eastern Drinks, had been correctly recorded in the Bank Account, but had been recorded as £610 in the Eastern Drinks Account.

2. An entry for cash sales of refreshments, £1 850, had been correctly entered in the Revenue (Sales) Account, but recorded as £1 250 in the Bank Account.

3. A credit purchase of equipment from ESB Sports, £1 500, had been omitted from the books. Depreciation of £300 would be chargeable at 30 April 2013 on this equipment.

4. A cheque for £100 for a subscription paid in advance had been dishonoured by the Bank.

5. An invoice from Mali Supplies for sundry expenses, £3 090, was received on 5 May 2013. The sundry expenses related to the year ended 30 April 2013.

6. A stock sheet of refreshments, £630, had been omitted from the inventory count (stock take) on 30 April 2013.

Required:

(a) Prepare the Journal entries to correct items (1) to (6) above. Narratives are **not** required.
(14)

(b) Calculate the revised surplus/deficit for the year ended 30 April 2013.
(6)

(c) Prepare the Statement of Financial Position at 30 April 2013.
(15)

The Committee of Arena Sports Club has decided to offer a 10 year membership at the rate of £700 per member in the year ending 30 April 2014. The current annual membership subscription is £100 per member.

It is estimated that the offer will be accepted by 30 members, who have not yet paid their annual subscriptions for the year ending 30 April 2014.

(d) Calculate the net effect that this proposal would have upon the:

(i) subscriptions recorded in the Income and Expenditure Account for the year ending 30 April 2014

(ii) bank balance recorded in the Statement of Financial Position at 30 April 2014.

(4)

(e) Prepare the 10 year Membership Subscription Account as it will appear for the year ending 30 April 2014.

(5)

(f) Evaluate the Committee of Arena Sports Club's decision to offer a 10 year membership for £700.

(8)

(Total 52 marks)

Answer space for question 3 is on pages 16 to 20 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Ashraf, Bashar and Chung are in partnership. The partnership agreement states:

- Interest is charged on drawings at the rate of 4% per annum
- Interest is paid on capital at the rate of 6% per annum
- Chung is entitled to a salary of £16 000 per annum
- The residue of profits or losses is shared in the ratio 4:2:3.

The following information is available for the year ended 31 March 2013:

1. Balances 1 April 2012:

	Capital accounts	Current accounts
	£	£
Ashraf	25 000	1 420 Cr
Bashar	15 000	860 Cr
Chung	50 000	200 Dr

2. Drawings (excluding salary paid) for the year:

	£
Ashraf	9 000
Bashar	3 500
Chung	4 000

3. Halfway through the year, on 30 September 2012, Chung decided to reduce his involvement in the partnership. The partners agreed that:

   - Chung would reduce his capital to £30 000, withdrawing £8 000 by cheque. The other £12 000 would remain in the partnership as a loan receiving 5% interest per annum
   - Chung would no longer receive a salary
   - The new ratio for sharing profits and losses would be 2:2:1
   - All partners would continue to be charged interest on drawings at the rate of 4% per annum and receive interest on capital at 6% per annum.

4. The profit for the year was £30 140, after charging interest on the loan from Chung. The profit was generated evenly throughout the year.

Required:

(a) Explain how a loan made by a partner, over and above the agreed capital, will be treated in the financial statements.

(4)

(b) Prepare, for the year ended 31 March 2013, the:

(i) appropriation section of the Statement of Comprehensive Income

(15)

(ii) Capital Account of Chung

(3)

(iii) Current Account of Chung.

(6)

(c) Evaluate the need for a partnership agreement.

(4)

(Total 32 marks)

Answer space for question 4 is on pages 21 to 24 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Home Oil buys and sells heating oil. The following purchases and sales of oil took place in the three months ended 31 March 2013:

1 January	Balance b/d	8 000 litres @ £0.80 per litre
January	Purchases	15 000 litres @ £1.00 per litre
	Sales	12 000 litres
February	Purchases	15 000 litres @ £1.25 per litre
	Sales	16 000 litres
March	Purchases	12 000 litres @ £1.50 per litre
	Sales	8 000 litres

Additional information for the three months ended 31 March 2013:

1. Home Oil marked up the cost of the heating oil to cover distribution costs and administration costs. Home Oil sold to customers at the following rates:

January	£1.50 per litre
February	£1.75 per litre
March	£2.00 per litre

2. Home Oil uses the First In First Out (FIFO) perpetual inventory method of inventory valuation

3. Distribution costs were £4 750. Administration costs were £8 300.

Required:

(a) Distinguish between **inventory rotation** and **inventory valuation**.

(4)

(b) Calculate the value of the closing inventory at 31 March 2013.

(6)

(c) Prepare the Statement of Comprehensive Income for the three months ended 31 March 2013.

(10)

Home Oil has been considering changing the method of inventory valuation to Last In First Out (LIFO) perpetual inventory.

(d) (i) Calculate the value of the inventory at 31 March 2013 if the Last in First Out (LIFO) perpetual inventory method had been used.

(6)

(ii) State the effect on the gross profit if Home Oil had used the Last In First Out (LIFO) method.

(2)

(e) Evaluate the potential effect of the change to Last In First Out (LIFO) perpetual inventory.

(4)

(Total 32 marks)

Answer space for question 5 is on pages 25 to 28 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Shopalot purchased a building which it converted into a shopping centre with ten separate shops of equal floor area. The building also has walkways and seating areas between the shops.

On 30 April 2013 Shopalot completed its first year of trading. The following information is available:

1. | | |
   |---|---|
   | Purchase price of the building | £500 000 |
   | Conversion of the building | £200 000 |
   | Purchase of computer network | £150 000 |

2. On 1 May 2012, Shopalot invested £400 000 cash and obtained a 10 year 8% Bank loan of £550 000. Interest is charged on the loan on 30 April each year.

3. Nine of the ten shops were rented out throughout the year. The tenth shop was unoccupied throughout the year.

4. Shopalot received the following income:

   - Rental of £4 000 per quarter (three months) per shop
   - A service charge of £1 500 per quarter (three months) per occupied shop for security and cleaning
   - 2% of the revenue (sales) of each shop

5. The total revenue (sales) of the nine occupied shops for the year was £1 350 000.

6. Depreciation was charged as follows:

   - Building – 2% per annum straight line method
   - Conversion of building – equal instalments over a 10 year period
   - Computer network – 30% reducing balance method

7. Other expenses paid:

	£
Security	30 000
Cleaning	21 000
Administration	24 500
Electricity	9 700
Government rates	17 500

8. On 30 April 2013 the following were owing to Shopalot:

   - Rent by two shops for the last quarter (three months) of the year
   - Service charge by two shops for the last quarter (three months) of the year

9. On 30 April 2013 the following was owed by Shopalot:

   - Government rates £9 000.

Required:

(a) Prepare for Shopalot, for the year ended 30 April 2013, the:

(i) Statement of Comprehensive Income

(12)

(ii) summarised Bank Account.

(8)

(b) Prepare the Statement of Financial Position extract, showing the Non-current Assets and Current Assets sections only.

(4)

(c) Calculate the return on capital employed for Shopalot.

(4)

(d) Evaluate the financial position of Shopalot.

(4)

(Total 32 marks)

Answer space for question 6 is on pages 29 to 32 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. Adnam buys and sells goods on credit. The following balances were available at 31 March 2013:

	£
Capital	35 000
Inventory	37 000
Trade payables	35 000
Trade receivables	13 000
Non-current assets	25 000
Bank overdraft	5 000

Adnam used a mark-up of 50% for the year ended 31 March 2013.

Required:

(a) Calculate the:

(i) Current ratio

(3)

(ii) Liquid (acid test) ratio.

(3)

(b) Comment upon the adequacy of the ratios in (a) above.

(2)

Creditors are threatening to withhold supplies of inventory unless Adnam reduces his debt to them. He proposes the following actions:

Action 1 Hold a sale of inventory by reducing his mark-up to 25%. He estimates that revenue (sales) will be £20 000, half of which will be on credit and half paid by cheque.

Action 2 Offer trade receivables at 31 March 2013 a cash discount of 10%. He estimates that trade receivables of £5 000 will accept the offer.

Action 3 Pay trade payables valued at £12 000, less 5% cash discount.

Required:

(c) Complete the following chart in the answer booklet, showing the effect of each of these actions upon the:

(i) Current Assets
(ii) Current Liabilities

	Current Assets		Current Liabilities	
	plus/minus/no effect	Value (£)	plus/minus/no effect	Value (£)
Action 1				
Action 2				
Action 3				

(12)

(d) Prepare the Statement of Financial Position extract at 31 March 2013 of Adnam, showing the (i) Current Assets and (ii) Current Liabilities if all the Actions 1 to 3 were implemented.
(8)

(e) Evaluate the financial position of Adnam after implementing all the Actions 1 to 3.
(4)

(Total 32 marks)

Answer space for question 7 is on pages 33 to 36 of the question paper.

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