THIS IS A NEW SPECIFICATION

ADVANCED GCE
ACCOUNTING
Accounting Applications

F012/RB

RESOURCE BOOKLET

SPECIMEN 2009

To be given to candidates at the start of the examination

Duration: 2 hours

INSTRUCTIONS TO CANDIDATES

- The information required to answer questions 1–4 is contained within this Resource Booklet.
- Do not hand this Resource Booklet in at the end of the examination. It is not needed by the Examiner.

INFORMATION FOR CANDIDATES

- This document consists of **8** pages. Any blank pages are indicated.

Answer **both** questions.

1 Almond and Barley are partners in a music shop. The partnership agreement states that Almond as manager, receives a salary of £10,000 per annum. Interest is charged at 10% on the balance of drawings at the end of the year, and interest on capital is paid to each partner at the rate of 8% per annum. The remainder of the profit being shared equally. The net profit before appropriation for the year ended 31 December 2006 was £36,940. The following information is also available:

		£		
Drawings	Almond	20,000		
	Barley	15,000		
Capital Accounts	Almond	18,000		1 January 2006
	Barley	12,500		1 January 2006
Current Accounts	Almond	600	Cr	1 January 2006
	Barley	300	Dr	1 January 2006

On 1 January 2007, Almond and Barley agreed to admit Cherry as a partner. The following was agreed between the three partners:

(i) Cherry would bring £12,000 in cash and a vehicle valued at £5,000 into the partnership as capital.

(ii) Partners will share profits two fifths Almond, two fifths Barley and one fifth Cherry.

(iii) On 31 December 2006, goodwill was valued at £20,000. Goodwill will not remain in the books of the new partnership.

(iv) On 31 December 2006, fixed assets are to be re-valued at £100,000, from their original cost of £85,000.

REQUIRED

(a) The Appropriation Account for Almond and Barley for the year ended 31 December 2006. **[7]**

(b) **(i)** The Current Accounts for Almond and Barley as at 31 December 2006. **[8]**

(ii) The Capital Accounts for Almond, Barley and Cherry as at 1 January 2007. **[10]**

(c) Explain why partnerships generally write off goodwill through the capital account rather than record it on the balance sheet. **[4]**

Total Marks [29]

2 Peter Green commenced business several years ago selling jewellery. He prepared the following receipts and payments details for the year ended 31 December 2006:

	£		£
Balance b/d	3,000	Trade creditors	29,000
Receipts from debtors	83,000	Motor expenses	4,200
Capital	3,000	Rent	4,000
Loan: M Mint	8,000	Rates	2,000
		General expenses	12,000
		Wages	15,000
		Drawings	18,000

Additional information:

(i) The receipts and payments details have been prepared from the business bank account through which all receipts and payments have passed.

(ii) The loan from M Mint was received on 1 September 2006 and interest is payable at 12% per annum. The loan is for a four year period.

(iii) Discounts received from suppliers for the year ended 31 December 2006 were £1,500.

In addition to the items mentioned above, the assets and liabilities of Peter Green were as follows:

	31 December 2005	31 December 2006
	£	£
Delivery van at net book value	8,000	6,800
Stock at cost	6,000	5,500
Trade debtors	3,500	8,200
Motor expenses owing	500	900
Rent prepaid	1,000	1,500
Trade creditors	4,300	5,700

REQUIRED

(a)* The Trading and Profit and Loss Account for Peter Green for the year ended 31 December 2006 and the Balance Sheet as at that date. **[29]**

(b) Peter is considering the possibility of forming a partnership with his local business rival Danny Violet. State three advantages and three disadvantages of forming such a partnership. **[6]**

Total Marks [35]

3 The following summary information relates to two businesses Stone and Rye. Both businesses traded in the same market sector for the year ended 31 December 2006.

<u>Trading and Profit and Loss Accounts for the year ended 31 December 2006</u>

	Stone	Rye
	£	£
Sales	600,000	600,000
Cost of sales	300,000	240,000
Gross Profit	300,000	360,000
Expenses	150,000	120,000
Net Profit	150,000	240,000

<u>Balance Sheets as at 31 December 2006</u>

	Stone		Rye	
	£	£	£	£
Fixed Assets		370,000		500,000
Current Assets				
Stock	30,000		50,000	
Debtors	40,000		150,000	
Cash at bank	110,000		–	
	180,000		200,000	
Current Liabilities				
Creditors	50,000		140,000	
Bank overdraft	–		60,000	
		130,000		–
		500,000		500,000
Financed by:				
Opening capital		375,000		335,000
Net profit		150,000		240,000
		525,000		575,000
Drawings		25,000		75,000
Closing capital		500,000		500,000

Additional information

Stock as at 1 January 2006	Stone	£20,000
	Rye	£46,000

REQUIRED

(a) Calculate the following ratios for Stone and Rye:

(i) gross profit as a percentage of sales; **[2]**

(ii) net profit as a percentage of sales; **[2]**

(iii) return on capital employed (based on closing capital); **[2]**

(iv) current ratio; **[2]**

(v) liquid (acid test) ratio; **[2]**

(vi) stock turnover. **[4]**

(b) Using the ratios calculated in **(a)** evaluate:

- the liquidity of both businesses;
- the profitability of both businesses. **[8]**

(c) Advise the managements of **both** Stone and Rye on the actions they should now take to improve liquidity and profitability. **[8]**

Total Marks [30]

4 Amber Ltd is preparing its Cash Budget for the three months ending 31 March 2007. The following forecasts are available.

	Sales	Purchases	Wages	General Expenses
	£	£	£	£
December 2006	480,000	300,000	48,000	90,000
January 2007	500,000	320,000	48,000	90,000
February 2007	520,000	380,000	52,000	90,000
March 2007	490,000	310,000	56,000	90,000

The following information is also available.

(i) All purchases are on a credit basis and are paid for one month after purchases are made.

(ii) 40% of sales are on a cash basis. The remainder are paid one month after sales are made.

(iii) General expenses include depreciation of £2,000 per month. General expenses are paid one month in arrears.

(iv) 75% of wages are paid in the month they are earned, and 25% are paid during the following month.

(v) The company intends to purchase new equipment at a cost of £30,000 in December 2006, with 10% payable on 15 January 2007 and the balance on 15 March 2007. Old equipment originally costing £10,000 is to be disposed of for £1,000, to be received during February 2007.

(vi) The budgeted bank balance on 1 January 2007 is £48,000.

REQUIRED

(a) The Cash Budget for Amber Ltd for the three months ending 31 March 2007. **[15]**

(b)* Discuss **three** benefits to a company of budgeting. **[11]**

Total marks [26]

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