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/Advanced Level

Unit 1: The Accounting System and Costing

Tuesday 10 January 2012 – Afternoon

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 32 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 0 3 2 5 A 0 1 3 2

Turn over

PEARSON

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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) (i) Prepare the manufacturing account for the year ended 31 December 2011.

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(12)

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(ii) Calculate the cost of producing **one** chair.

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(2)

(b) Prepare the:

(i) statement of comprehensive income (trading and profit and loss account) for the year ended 31 December 2011

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(ii) statement of financial position (balance sheet) at 31 December 2011.

(15)

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An overseas manufacturer has approached Toyndon Products and offered to supply the chairs currently manufactured at 5% below the manufacturing costs of Toyndon Products.

(c) Evaluate, from the perspective of Toyndon Products, the offer of the overseas manufacturer.

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(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) Distinguish between a **compensating error** and an **error of reversal.**

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(4)

Leave blank

(b) Prepare journal entries to correct the errors (i) to (vi) above. Narratives are **not** required.

(18)

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Turn over

Leave blank

(c) Redraft the trial balance after the correction of all errors.

Leave blank

(16)

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(d) Prepare the following ledger accounts for the year ended 30 November 2011:

- Motor vehicle account
- Motor vehicle disposal account.

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(e) Evaluate the usefulness of preparing a trial balance at the end of an accounting period.

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(8)

Q2

(Total 52 marks)

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P 4 0 3 2 5 A 0 1 2 3 2

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

Source material for question 3 is on page 6 of the source booklet.

3. (a) Explain the term **semi-fixed cost**, giving an example of a semi-fixed cost.

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(4)

(b) Distinguish between **allocation** and **apportionment** in overhead recovery.

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(c) Re-apportion the overheads of the service departments to the production departments using the **continuous allotment** method.

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(d) (i) Calculate for the machining and assembly departments the overhead absorption rates.

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(6)

(ii) Calculate the actual under or over absorption of overhead for the year.

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(e) Calculate the overhead to be charged to a quotation requiring 12 hours of machining and 25 hours of assembly.

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(6)

(f) Evaluate the use of separate overhead recovery rates for the machining and assembly departments as an alternative to calculating a single recovery rate for the business as a whole.

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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 page 7 of the source booklet.

4. (a) Prepare for Dhanisha the:

(i) cash book (bank columns only) for the year ended 31 December 2011

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(ii) statement of comprehensive income (trading and profit and loss account) for the year ended 31 December 2011.

(10)

Leave blank

(iii) Statement of financial position (balance sheet) at 31 December 2011.

(10)

P 4 0 3 2 5 A 0 1 9 3 2

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(b) Evaluate Dhanisha's decision not to maintain a formal set of accounting records.

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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 page 8 of the source booklet.

5 (a) Describe **two** characteristics of job costing.

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(4)

(b) Calculate the hourly rate that Rahman must charge customers to achieve annual earnings of £20 000 and recover the overheads of the business.

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(8)

P 4 0 3 2 5 A 0 2 1 3 2

Turn over

Leave blank

Rahman is preparing a quotation for a job. This job will:

- cost £250 in materials
- take 20 hours to complete.

(c) Prepare a quotation for this job.

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(8)

(d) State **four** activities carried out by Rahman in his business which will **not** be charged directly to customers.

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(8)

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(e) Evaluate the system of costing customers' orders using labour and overhead hourly rates.

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Q5

(Total 32 marks)

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

Source material for question 6 is on pages 10 and 11 of the source booklet.

6. (a) Calculate for the year ended 31 December 2011 the:

(i) Percentage gross profit to revenue (sales)

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(3)

(ii) Inventory (stock) turnover

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(3)

(b) (i) Comment upon the trend for the ratios in (a)(i) and (ii) above.

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(2)

(ii) Suggest **two** possible reasons for the significant increase in revenue (sales) over the three years.

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(c) Calculate for the year ended 31 December 2011 the:

(i) Current ratio

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(3)

(ii) Liquid (acid test) ratio

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(3)

(iii) Trade payables (creditors) payment period

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(3)

(iv) Trade receivables (debtors) collection period.

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(3)

(d) State whether the changes in the payment and collection periods over the three years will benefit the business.

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(2)

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(e) Suggest **two** possible courses of action, from the information provided and your calculations, that Costas could take to improve his liquidity position.

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(4)

(f) Evaluate whether Costas doubling his revenue (sales) in three years has been beneficial for his business.

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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 page 12 of the source booklet.

7. (a) Prepare the purchases ledger control account for the month of October 2011, showing the value of the purchases in this account.

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(10)

(b) Calculate the total value of the purchases for the month of October 2011.

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(2)

Leave blank

(c) Prepare the statement of comprehensive income (trading account) for the month of October 2011, showing the value of the closing inventory (stock) before the goods were stolen.

(12)

Leave blank

(d) Calculate the value of the inventory (stock) stolen on 31 October 2011.

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(4)

(e) Evaluate the use of control accounts in ensuring that the books are accurate.

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(4)

Q7

(Total 32 marks)

TOTAL FOR SECTION B: 96 MARKS
TOTAL FOR PAPER: 200 MARKS

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Paper Reference(s)

6001/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary/Advanced Level

Unit 1 – The Accounting System and Costing

Tuesday 10 January 2012 – Afternoon

Source booklet for use with Questions 1 to 7.

Do not return the insert with the question paper.

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PEARSON

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Toyndon Products is in business manufacturing chairs in its factory. It also purchases finished goods for resale. The following trial balance was extracted from the books on 31 December 2011.

	Dr	Cr
	£	£
Capital		70 000
Drawings	27 200	
Light, heat & power	7 500	
6% Bank loan (Repayable 31.12.2015)		100 000
Wages:		
Factory	86 000	
Administration	22 500	
Salaries:		
Factory management	45 000	
Administration	58 000	
Marketing	78 000	
Inventory (stock) 1 January 2011:		
Raw materials	17 000	
Finished goods	28 000	
Purchases of:		
Raw materials	95 000	
Finished goods	80 000	
Direct factory costs	8 500	
Rent & rates	15 000	
General expenses:		
Factory	16 500	
Administration	15 600	
Revenue (sales)		600 000
Non-current (fixed) assets:		
Plant and equipment	150 000	
Office equipment	60 000	
Provision for depreciation on non-current (fixed) assets:		
Plant and equipment		50 000
Office equipment		10 000
Trade receivables (debtors)	48 000	
Trade payables (creditors)		36 500
Provision for doubtful debts		1 800
Bank	10 500	
	868 300	868 300

Additional information at 31 December 2011:

(i) Inventory (stock): Raw materials £13 000; Finished goods £33 000.
There was no Inventory (stock) of work in progress at 1 January 2011 or 31 December 2011.

(ii) Factory wages owing were £2 000.

(iii) Light, heat & power and rent & rates were apportioned between the factory and administration in the ratio 4:1.

(iv) The 6% Bank loan had been taken out on 1 January 2010. No interest had been paid on the loan for the year 2011.

(v) Depreciation is to be charged as follows:

Plant and equipment – 25% per annum using the reducing balance method

Office equipment – 15% per annum using the straight line method.

(vi) The provision for doubtful debts is to be maintained at 5% of outstanding trade receivables (debtors).

(vii) During the year 20 000 chairs were manufactured by Toyndon Products and these units were transferred to finished goods at factory cost.

Required:

(a) (i) Prepare the manufacturing account for the year ended 31 December 2011.
(12)

(ii) Calculate the cost of producing **one** chair.
(2)

(b) Prepare the:

(i) statement of comprehensive income (trading and profit and loss account) for the year ended 31 December 2011
(15)

(ii) statement of financial position (balance sheet) at 31 December 2011.
(15)

An overseas manufacturer has approached Toyndon Products and offered to supply the chairs currently manufactured at 5% below the manufacturing costs of Toyndon Products.

(c) Evaluate, from the perspective of Toyndon Products, the offer of the overseas manufacturer.
(8)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 5 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. The following trial balance was prepared by an inexperienced book-keeper for Begum on 30 November 2011. The trial balance is incorrectly drafted, and subsequently further errors were discovered requiring correction by journal.

Trial balance at 30 November 2011

	£ Dr	£ Cr
Capital		25 000
Drawings		4 500
Revenue (sales)		101 600
Purchases	46 500	
Purchase returns	3 250	
Sales returns		6 800
Discount allowed	6 500	
Discount received	4 000	
Wages		27 500
General expenses		9 400
Cash deposited at bank	14 000	
Trade receivables (debtors)		9 800
Trade payables (creditors)	13 870	
Motor vehicles	40 000	
Motor vehicles – provision for depreciation		14 500
Suspense	70 980	
	199 100	199 100

Subsequently the following errors were discovered:

(i) In November Begum had brought a motor vehicle £5 000 and paid £5 000 of personal funds into the business bank account. No entries had been had been made in the books to record this transaction.

(ii) Discount received of £650 had been posted to the debit of the discount allowed account. The entry in the cash book was correct.

(iii) Drawings made by Begum of £3 000 have been entered in the wages account.

(iv) Payment of £1 750 from a credit customer, Nahir, had been correctly entered in the bank, but no entry had been made in the account of Nahir.

(v) A payment by cheque for general expenses £1 850 had been correctly recorded in the bank account. The entry had been recorded in the general expenses account as £1 580.

(vi) In November, Begum sold a motor vehicle by cheque for £4 900. The vehicle had cost £12 000 in September 2009. At the date of the disposal the accumulated depreciation was £5 250. No entries had been recorded in the books.

Required:

(a) Distinguish between a **compensating error** and an **error of reversal**.

(4)

(b) Prepare journal entries to correct the errors (i) to (vi) above. Narratives are **not** required.

(18)

(c) Redraft the trial balance after the correction of all errors.

(16)

(d) Prepare the following ledger accounts for the year ended 30 November 2011:

- Motor vehicle account
- Motor vehicle disposal account.

(6)

(e) Evaluate the usefulness of preparing a trial balance at the end of an accounting period.

(8)

(Total 52 marks)

Answer space for question 2 is on pages 6 to 11 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Tang Manufacturing has two production departments: Machining and Assembly: and two service departments: Administration and Maintenance. Budgeted overheads have been allocated and apportioned to the four departments as follows:

	£
Machining	40 000
Assembly	50 000
Administration	15 000
Maintenance	10 000

The budgeted use of the two service departments has been estimated as follows:

	Machining	Assembly	Administration	Maintenance
Administration	40%	40%	-	20%
Maintenance	60%	25%	15%	-

Additional information:

	Machining	Assembly
Budgeted machine hours	6 000	-
Budgeted direct labour hours	-	8 000
Actual machine hours	6 600	-
Actual direct labour hours	-	7 250
Actual overhead cost	£42 500	£68 250

Required:

(a) Explain the term **semi-fixed cost**, giving an example of a semi-fixed cost.
(4)

(b) Distinguish between **allocation** and **apportionment** in overhead recovery.
(4)

(c) Re-apportion the overheads of the service departments to the production departments using the **continuous allotment** method.
(14)

(d) (i) Calculate for the machining and assembly departments the overhead absorption rates.
(6)

(ii) Calculate the actual under or over absorption of overhead for the year.
(10)

(e) Calculate the overhead to be charged to a quotation requiring 12 hours of machining and 25 hours of assembly.
(6)

(f) Evaluate the use of separate overhead recovery rates for the machining and assembly departments as an alternative to calculating a single recovery rate for the business as a whole.
(8)

(Total 52 marks)

Answer space for question 3 is on pages 13 to 16 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Dhanisha is in business buying and selling goods on credit. She has not maintained proper accounting records throughout her first year of business, which ended on 31 December 2011.

Dhanisha has provided the following summarised information for the year ended 31 December 2011 from her memory and from notes that she has made:

(i) Dhanisha commenced business on 1 January 2011 with an inventory (stock) £ 7 500 and £3 500 in the bank.

(ii) Purchases £48 000 of goods for resale were made on credit, and £5 000 of the goods were unsold on 31 December 2011. Dhanisha had paid cheques to trade payables (creditors) of £34 250.

(iii) Revenue (sales) of £96 000 on credit, £6 000 of which were returned to Dhanisha. Trade receivables (debtors) paid cheques £71 000.

(iv) Dhanisha rented premises for £7 000 per annum payable 6 months in advance. Six-monthly (half-yearly) payments were made on 2 January 2011, 30 June 2011 and 25 December 2011.

(v) Other expenses paid by cheque were: telephone and broadband £6 800, general expenses £2 750. On 31 December 2011, £750 was owing for general expenses.

(vi) Non-current (fixed) assets were purchased on 1 January 2011 for £ 20 000 and on 30 June 2011 for £8 000. During the year Dhanisha paid trade payables (creditors) £24 000 by cheque for these non-current (fixed) assets. Depreciation is to be charged at the rate of 15% per annum proportionate to the period of ownership in the year.

(vii) Personal drawings of £12 500 were made by cheque.

Required:

(a) Prepare for Dhanisha the:

(i) cash book (bank columns only) for the year ended 31 December 2011
(8)

(ii) statement of comprehensive income (trading and profit and loss account) for the year ended 31 December 2011.
(10)

(iii) Statement of financial position (balance sheet) at 31 December 2011.
(10)

(b) Evaluate Dhanisha's decision not to maintain a formal set of accounting records.
(4)

(Total 32 marks)

Answer space for question 4 is on pages 17 to 20 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Rahman is in business as an electrician.

The following information is available for his business:

- He works 40 hours per week for 50 weeks per year.
- Rahman has the objective to earn £20 000 per annum by charging customers for his labour.
- The overheads of the business are estimated to be £10 000 per annum.
- Rahman estimates that he spends 75% of his time doing work that can be charged to customers.
- The total cost of each job (labour, materials and overheads) is marked up by 20%.

Required:

(a) Describe **two** characteristics of job costing.

(4)

(b) Calculate the hourly rate that Rahman must charge customers to achieve annual earnings of £20 000 and recover the overheads of the business.

(8)

Rahman is preparing a quotation for a job. This job will:

- cost £250 in materials
- take 20 hours to complete.

(c) Prepare a quotation for this job.

(8)

(d) State **four** activities carried out by Rahman in his business which will **not** be charged directly to customers.

(8)

(e) Evaluate the system of costing customers' orders using labour and overhead hourly rates.

(4)

(Total 32 marks)

Answer space for question 5 is on pages 21 to 23 of the question paper.

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SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Costas operates a business buying and selling goods on credit. On 1 January 2009 he put a plan into operation to double his revenue (sales) over a three-year period. The following information is available:

	Year ended 31 December 2011
	£
Revenue (sales)	800 000
Cost of sales	560 000
Opening inventory (stock)	30 000
Purchases	570 000
Closing inventory (stock)	40 000
Trade receivables (debtors)	50 000
Trade payables (creditors)	100 000
Bank overdraft	20 000
Capital and non-current (long term) liabilities	100 000

The following information is also available for the years ended 31 December 2009 and 31 December 2010:

	Year ended 31 December 2009	**Year ended 31 December 2010**
Revenue (sales)	£400 000	£600 000
Percentage gross profit to sales	40%	35%
Inventory (stock) turnover	9 times	12 times
Current ratio	2:1	1.3:1
Liquid (acid test) ratio	0.75:1	0.50:1
Trade payables (creditors) payment period	36 days	48 days
Trade receivables (debtors) collection period	35 days	29 days
Capital and non-current (long term) liabilities	£100 000	£100 000

Required:

(a) Calculate for the year ended 31 December 2011 the:

(i) Percentage gross profit to revenue (sales)

(3)

(ii) Inventory (stock) turnover

(3)

(b) (i) Comment upon the trend for the ratios in (a)(i) and (ii) above.

(2)

(ii) Suggest **two** possible reasons for the significant increase in revenue (sales) over the three years.

(2)

(c) Calculate for the year ended 31 December 2011 the:

(i) Current ratio

(3)

(ii) Liquid (acid test) ratio

(3)

(iii) Trade payables (creditors) payment period

(3)

(iv) Trade receivables (debtors) collection period.

(3)

(d) State whether the changes in the payment and collection periods over the three years will benefit the business.

(2)

(e) Suggest **two** possible courses of action, from the information provided and your calculations, that Costas could take to improve his liquidity position.

(4)

(f) Evaluate whether Costas doubling his revenue (sales) in three years has been beneficial for his business.

(4)

(Total 32 marks)

Answer space for question 6 is on pages 24 to 26 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. Sifat owns a retail shop. On 31 October 2011 the shop was broken into and goods were stolen. Sifat needs to calculate the value of the goods stolen.

The following information is available for the month of October 2011:

(i) Revenue (sales) were £92 000 and sales returns £2 000.

(ii) Purchases:

	£
Purchase returns	1 980
Discount received	3 250
Payments to trade payables (creditors)	50 500
Cash purchases	16 600
Trade payables (creditors) balance 1 October 2011	12 500
Trade payables (creditors) balance 31 October 2011, after the theft	9 570

(iii)

	£
Inventory (stock) 1 October 2011	17 200
Remaining inventory (stock) 31 October 2011	7 850

(iv) Sifat applies a 25% mark up to sell his goods

Required:

(a) Prepare the purchases ledger control account for the month of October 2011, showing the value of the purchases in this account.

(10)

(b) Calculate the total value of the purchases for the month of October 2011.

(2)

(c) Prepare the statement of comprehensive income (trading account) for the month of October 2011, showing the value of the closing inventory (stock) before the goods were stolen.

(12)

(d) Calculate the value of the inventory (stock) stolen on 31 October 2011.

(4)

(e) Evaluate the use of control accounts in ensuring that the books are accurate.

(4)

(Total 32 marks)

Answer space for question 7 is on pages 27 to 29 of the question paper.