Surname					Othe	r Names			
Centre Nur	nber					Candida	ate Number		
Candidate	Signat	ure	•						

General Certificate of Education January 2003 Advanced Subsidiary Examination

ACCOUNTING ACC3

Unit 3: Financial Accounting:

Determination of Income

Wednesday 15 January 2003 Afternoon Session

No additional materials are required.

You may use a calculator.

Time allowed: 1 hour

Instructions

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer all questions in the spaces provided.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Make and state any necessary assumptions.
- Do all rough work in this book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 80. This includes up to 4 marks for the Quality of Written Communication.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of
 writing, to organise relevant information clearly and coherently, and to use
 specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will
 also be taken into account.



	For Exam	iner's Use	
Number	Mark	Number	Mark
1			
2			
3			
4			
5			
Total (Column	1)	-	
Total (Column	2) —	-	
Quality of Commun	f Written ication		
TOTAL			
Examine	r's Initials		

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Answer all questions in the spaces provided.

1 Total for this question: 5 marks

"Stocks should be valued at the lower of cost or net realisable value."

REQ	UIRED
(a)	Complete the following sentence.
	The above statement is an example of the
(b)	Explain what is meant by the term "net realisable value".
	(4 marks)

TURN OVER FOR THE NEXT QUESTION

www.PapaCambridge.com Total for this question: 13

Lee Brown started in business on 1 January 2001. His financial year end is 31 December.

His fixed assets cost £40 000 on 1 January 2001 and had an expected useful life of 10 years.

None of the fixed assets are expected to have any value at the end of their useful life.

At 31 December 2001 Lee used the straight-line method of providing for depreciation on his fixed assets.

For the year ended 31 December 2002 he changed his method of providing for depreciation to the reducing-balance method. He continues to use an annual rate of 10%.

Lee's draft profit for the year ended 31 December 2002 was £34700 before provisions for depreciation on fixed assets had been charged to the profit and loss account.

REQ	UIRED	
(a)	Calculate Lee's net profit after using the reducing-balance method of profixed assets.	viding depreciation on
		£
	Lee's draft net profit for the year ended 31 December 2002	34 700
	Provision for depreciation on fixed assets	
	Lee's revised net profit for the year ended 31 December 2002	·····
		(4 marks)
(b)	Prepare a balance sheet extract showing Lee's fixed assets as at 31 Decembed depreciation using the reducing-balance method.	per 2002 after charging
		£
	Fixed assets at cost	40 000
	Depreciation	
	Net book value	
		(3 marks)

	Name two accounting concepts used when providing for depreciation of fixed assets. Concept 1
	5 Physical Control of the control of
	Call
)	Name two accounting concepts used when providing for depreciation of fixed assets.
	Concept 1
	(1 mark)
	Concept 2
)	Explain two reasons why fixed assets depreciate.
	Reason 1
	(2 marks)
	Reason 2
	(2 marks)

TURN OVER FOR THE NEXT QUESTION

Total for this question: 21

www.PapaCambridge.com The following is the summarised draft balance sheet as at 31 December 2002 for David Mark Ltd.

	£	£
Fixed assets		700 000
Current assets		
Stock	85 000	
Debtors	60 000	
Bank	<u>17 000</u>	
	162 000	
Less current liabilities		
Trade creditors	<u>37 000</u>	<u>125 000</u>
		825 000
Chave canital and massarra		
Share capital and reserve		
Ordinary shares of 50 pe	ence each	250 000
8% preference shares of	£1 each	100 000
Profit and loss account		400 000
General reserve		<u>75 000</u>
		<u>825 000</u>

The company's retained profit for the year, before appropriations, was £150 000, which has been included in the profit and loss account figure shown in the balance sheet above.

Additional information

The following have **not** yet been taken into consideration.

- (1) Transfer from profit and loss account to the general reserve £45 000.
- (2) A proposed final dividend on preference shares of £4000.
- (3) A proposed final dividend on ordinary shares of 7 pence per share.
- (4) An issue of 200 000 ordinary shares of 50 pence each at 75 pence per share. (Note these shares are not eligible for dividend in the year ended 31 December 2002.)

REQ	UIRED
(a)	Calculate the retained profit for the year ended 31 December 2002 after appropriations.
	Retained profit for the year as per draft final accounts 150 000
	Corrected retained profit for the year (4 marks)

42	
7	LEAV MARC
A Calcal	BLAN
Prepare the summarised balance sheet as at 31 December 2002 as it would appear after take into account the additional information listed on the opposite page. David Mark Ltd Summarised Balance Sheet as at 31 December 2002	de
David Mark Ltd	1
Summarised Balance Sheet as at 31 December 2002	`

QUESTION 3 CONTINUES ON THE NEXT PAGE

(10 marks)

	May	
	8	LEAVE MARGIN
(c)	State the type of business ownership that would have "Ltd" as part of its name. (2 marks)	Shiring BLANK
	(2 marks)	.6
(d)	Assess the importance of the term "Ltd" to an ordinary shareholder in David Mark Ltd.	
	(5 marks)	

Total for this question: 23

4

Dewray plc manufactures bedroom furniture.

All completed furniture is transferred to the trading account at cost plus 20%.

www.PapaCambridge.com The following figures have been extracted from the trial balance of the company as at 31 December 2002 after calculating prime cost.

	Dr	Cr
	£000	£000
Prime cost	1 207	
Factory overheads	915	
Factory machinery at cost	150	
Office equipment at cost	60	
Provision for depreciation – factory machinery		90
 office equipment 		18
Provision for unrealised profit		26
Stocks as at 1 January 2002		
work in progress at cost	34	
finished goods at cost plus 20%	156	
Sales		3 4 6 0

Additional information

(1) All fixed assets are depreciated at 10% per annum on cost.

	£000
(2) Stocks as at 31 December 2002 – raw materials at cost	75
 work in progress at cost 	36
 finished goods at cost plus 20% 	192

UIRED Prepare a summarised manufacturing account for the year ended 31 December 2002. Dewray plc Summarised Manufacturing Account for the year ended 31 December 2002 £000 Prime cost 1 207	TDED.	*Can
Summarised Manufacturing Account for the year ended 31 December 2002 £000 Prime cost 1 207	IRED	
Summarised Manufacturing Account for the year ended 31 December 2002 £000 Prime cost 1 207	repare a summarised manufacturing account for the	year ended 31 December 2002.
Summarised Manufacturing Account for the year ended 31 December 2002 £000 Prime cost 1 207		
Prime cost 1 207	Summarised Manufacturing Account for the	ne year ended 31 December 2002
	rime cost	1 207
		(7 mark.

QUESTION 4 CONTINUES ON THE NEXT PAGE

Prepare a trading account for the year ended 31 December 2002. Dewray plc Trading Account for the year ended 31 December 2002 (6 marks) Calculate the amount of the adjustment to the provision for unrealised profit to be shown in the profit and loss account for the year ended 31 December 2002. The amount of the adjustment to the provision for unrealised profit to be shown in the profit and loss account is:

	WWW. D
	13
(d)	Explain how the amount calculated in (c) should be shown in the profit and loss account.
	(2 marks)
(e)	Complete the following extract from the balance sheet.
	Dewray plc Balance Sheet extract as at 31 December 2002
	Current assets
	Stock – raw materials
	– work in progress
	- finished goods
	(4 marks)

TURN OVER FOR THE NEXT QUESTION

Turn over

Total for this question: 14

www.PapaCambridge.com Jill and her brother Jack have recently inherited £10 000 each. They wish to invest all of the inheritance in Multar plc.

They could invest in one of the following:

ordinary shares;

7% preference shares;

6% debentures.

Jill does not mind taking risks with any money she has whereas her brother is a much more cautious person. He is looking for an investment which will give him a steady income.

REQUIRED				
(a)	State one advantage and one disadvantage of each type of investment.			
	Ordinary shares			
	Advantage			
		(1 mark)		
	Disadvantage			
	7% preference shares	(1 mark)		
	Advantage			
		(1 mark)		
	Disadvantage			
		(1 mark)		

15	AAAAA AAAA AAAAAAAAAAAAAAAAAAAAAAAAAAA
6% debentures	Moridge
Advantage	
Direct contract	(1 mark)
Disadvantage	
	(1 mark)
Advise Jill which type of investment she should choose.	

QUESTION 5 CONTINUES ON THE NEXT PAGE

	www.	
	16 Ray	LEAVE MARGIN
(c)	Advise Jack which type of investment he should choose.	BLANK
		OTT
	(4 marks)	

END OF QUESTIONS