

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			



General Certificate of Education
 June 2003
 Advanced Subsidiary Examination



ACCOUNTING
Unit 3 Financial Accounting:
Determination of Income

ACC3

Wednesday 4 June 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 Examiner's Use			
Number	Mark	Number	Mark
1			
2			
3			
4			
5			
6			
7			
Total (Column 1)	→		
Total (Column 2)	→		
Quality of Written Communication			
TOTAL			
Examiner's Initials			

Answer **all** questions in the spaces provided.

1

Total for this question: 2 marks

Janice owns and runs a plumbing business. She operates her business from an industrial unit on the outskirts of town.

The same sized unit next to hers was sold for £120 000 in May. Janice has shown her premises on her balance sheet as at 31 May 2003 at the cost price of £60 000.

REQUIRED

- (a) Complete the following sentence.

This is an example of the concept. (1 mark)

Recently Janice purchased a desk top calculator for use in the business. It cost £9.99. She expects that it will be in constant use for at least 5 years. She has included the cost of the calculator in her books of account as office expenses.

REQUIRED

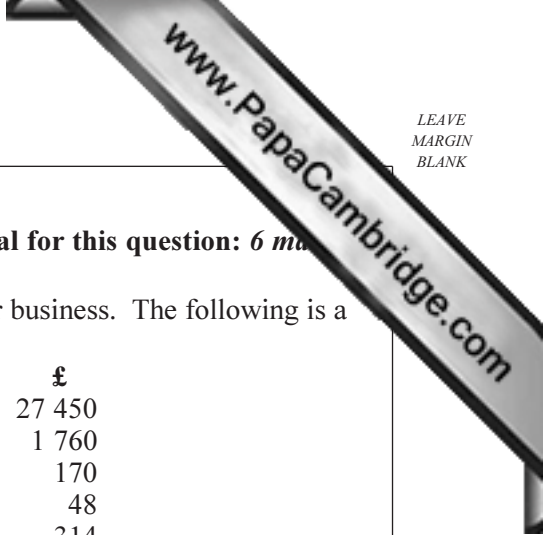
- (b) Complete the following sentence.

This is an example of the concept. (1 mark)

2

TURN OVER FOR THE NEXT QUESTION

Turn over ►



2

Total for this question: 6 marks

Gina O'Malley has recently purchased a new delivery van for use in her business. The following is a summary of the invoice that Gina received from the garage.

	£
Purchase price of van	27 450
Alterations to interior of van	1 760
Road fund tax	170
Tank of fuel	48
Cost of painting logo on side of van	314
Insurance premium for one year	509

REQUIRED

- (a) Calculate the total amount of capital expenditure incurred by Gina.

The total amount of capital expenditure incurred was £.....

Workings

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- (b) Calculate the total amount of revenue expenditure incurred by Gina.

The total amount of revenue expenditure incurred was £.....

Workings

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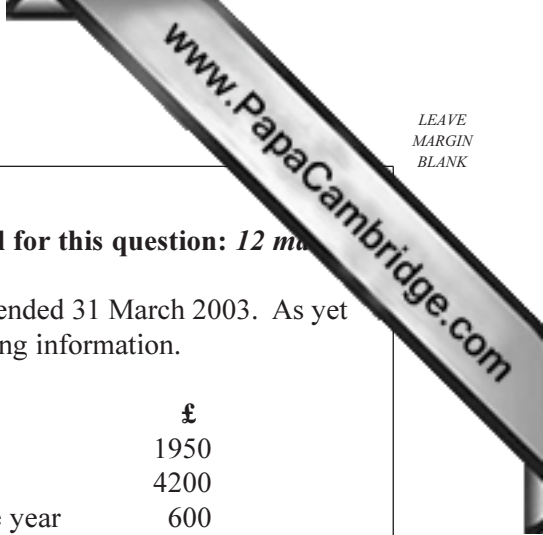
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(6 marks)





3

Total for this question: 12 marks

Jock McIntyre has produced a draft profit and loss account for the year ended 31 March 2003. As yet no entries have been made in the profit and loss account for the following information.

	£
Payments to local authority for business rates during the year	1950
Payments to landlord for rent of premises during the year	4200
Receipts from Qualwen plc for commission receivable during the year	600

Additional information

	Year ended 31 March 2002	Year ended 31 March 2003
	£	£
Payment to local authority	in advance 70	in arrears 80
Payment to landlord	in arrears 60	in advance 120
Commission received from Qualwen plc	in arrears 50	in arrears 40

REQUIRED

Calculate the amounts to be entered in the profit and loss account for the year ended 31 March 2003. Indicate in the table below the amount and whether it should be subtracted from or added to the profit of the business.

	Amount to be <i>subtracted</i> from draft net profit £	Amount to be <i>added</i> to draft net profit £
Business rates		
Rent of premises		
Commission receivable		

Workings

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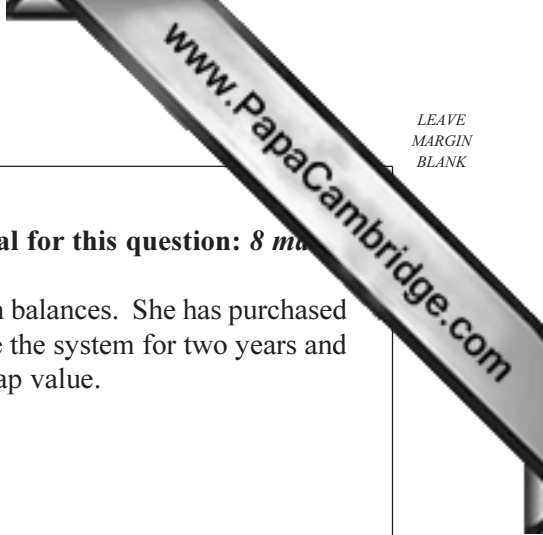
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(12 marks)



Turn over ▶



4

Total for this question: 8 marks

Cindy Fireplace wishes to improve her reported business profits and cash balances. She has purchased a new computer system for her business at a cost of £6000. She will use the system for two years and then replace it. At the end of the two years the system will have no scrap value.

She will depreciate her computer system by using **either** the straight-line method **or** the reducing-balance method using 60% per annum.

She is unsure which method will increase her reported profits **and** her cash balances over the two years.

REQUIRED

- (a) Calculate the charge to the profit and loss account for **each** year for **each** method.

	Straight-line method £	Reducing-balance method £
Year 1		
Year 2		

Workings

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(4 marks)

- (b) Discuss how charging depreciation will affect Cindy’s cash flow.

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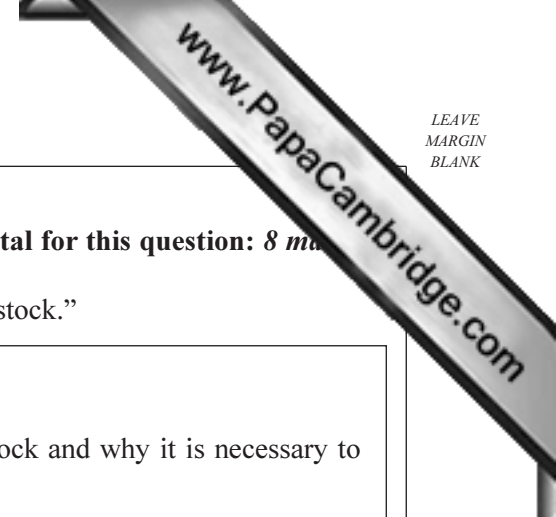
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(4 marks)



5

Total for this question: 8 marks

“Prudence is an accounting concept that is applied to the valuation of stock.”

REQUIRED

Explain how the concept of prudence is applied to the valuation of stock and why it is necessary to apply it.

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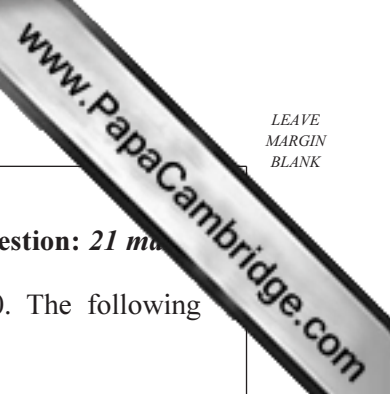
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(8 marks)



Turn over ▶



6

Total for this question: 21 marks

The draft profit for the year ended 31 May 2003 of Srian plc is £12 000 000. The following information for the year has not been taken into account.

	£
Ordinary dividends – paid	800 000
proposed	1 300 000
Directors’ fees	1 500 000
Provision for corporation tax	2 600 000
Debenture interest	1 200 000
Transfer to general reserve	1 000 000

REQUIRED

(a) Prepare the profit and loss appropriation account for the year ended 31 May 2003.

Srian plc
Profit and loss appropriation account for the year ended 31 May 2003

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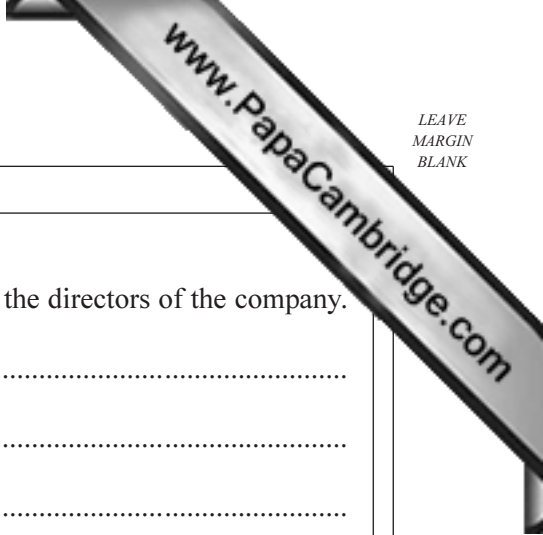
(9 marks)

The following has been extracted from the balance sheet of Srian plc as at 31 May 2003.

	£
Ordinary shares of £1 each fully paid	25 000 000
6% Debentures	20 000 000

The directors have seen an opportunity to expand the company’s operation. They need to raise £30 000 000.

The directors are considering raising the whole amount by **either** an issue of 20 000 000 ordinary shares at £1.50 each **or** an issue of £30 000 000 6% debentures.



REQUIRED

(b) Evaluate the **two** methods of raising finance being considered by the directors of the company.

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(12 marks)

7

Total for this question: 19 marks

Noriv plc is a manufacturing business. The following figures have been extracted from the company's ledgers as at 31 May 2003.

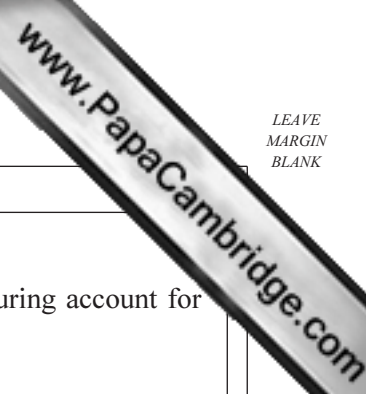
	£
Stocks as at 1 June 2002 – raw materials	21 450
work in progress	14 780
finished goods	58 620
Sales	657 000
Purchases of raw materials	234 090
Direct labour costs	260 000
Indirect labour costs	82 800
Factory overheads (excluding labour costs)	138 000
Manufacturing royalties	6 560
Returns inwards	1 000
Returns outwards	980
Carriage inwards	750
Carriage outwards	1 340

Additional information

- (1) At 31 May 2003 stocks were valued as follows:

	£
Raw materials	22 170
Work in progress	13 750
Finished goods	60 650

- (2) At 31 May 2003 factory wages accrued and unpaid amounted to £8000. One quarter of this was for indirect labour and the remainder was for direct labour.
- (3) Provision for depreciation of factory machinery for the year was £25 000.



REQUIRED

- (a) Selecting from the information given, prepare an extract from the manufacturing account for the year ended 31 May 2003 to show prime cost.

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(16 marks)

- (b) Explain what is meant by “work in progress”.

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(3 marks)

END OF QUESTIONS