Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
4	
TOTAL	

General Certificate of Education
Advanced Subsidiary Examination
June 2010

Accounting ACCN2

Unit 2 Financial and Management Accounting

Tuesday 8 June 2010 1.30 pm to 3.00 pm

You will need no other materials.
You may use a calculator.

Time allowed
- 1 hour 30 minutes

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- 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 to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
  Four of these marks will be awarded for:
  – using good English
  – organising information clearly
  – using specialist vocabulary where appropriate.

Do not write outside the box

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

1 **Total for this question: 10 marks**

Michael owns a local newsagent / corner shop. He is a sole trader. He is considering converting his business to a private limited company with himself as the only shareholder.

REQUIRED

1 Explain **two** advantages and **two** disadvantages, to Michael, of converting his business to a private limited company.

Advantages

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Disadvantages

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(8 marks)
(for quality of written communication: plus 2 marks)

10

Turn over for the next question

Do not write outside the box

2 **Total for this question: 2**

Oanh owns a retail business. She has calculated the gross profit for the year ended 31 March 2010 as £85 650.

She has a computerised system of inventory (stock) control, which automatically updates the inventory (stock) records whenever a sale is made. The closing inventory (stock) value from the computer system of £13 850 was used in the calculation of gross profit.

On 31 March 2010, a physical stocktake was carried out and the inventory (stock) was valued at £12 650.

The following balances have been extracted from the books of account at 31 March 2010.

	£
Motor vehicles – at cost	60 000
– provision for depreciation	25 000
Fixtures – at cost	25 560
– provision for depreciation	8 750
Trade receivables (debtors)	20 900
Provision for doubtful debts	556
Operating expenses	28 650
Rent received	4 400

Adjustments have yet to be made for the following.

(1) Rent receivable due at 31 March 2010 is £400.

(2) Operating expenses paid in advance at 31 March 2010 amounted to £365.

(3) During the year, bad debts recovered amounted to £360.

(4) At 31 March 2010, bad debts to be written off amounted to £880.

(5) Motor vehicles are depreciated at a rate of 50% using the reducing balance method.

(6) Fixtures are depreciated at a rate of 15% using the straight-line method.

(7) The provision for doubtful debts is maintained at 5% of trade receivables (debtors).

Workings

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Do not write outside the box

REQUIRED

2 (a) Prepare an income statement (profit and loss account) for the year ended 31 March 2010.

(18 marks)
(for quality of presentation: plus 1 mark)

Turn over ▶

2 (b) Explain **two** reasons why the computerised inventory (stock) records may be d
from the physical stocktake.

Reason 1

Reason 2

(6 marks)

25

3 **Total for this question:**

Geraldine owns an electrical retail shop. She is concerned that her closing inventory (stock) is much higher than her opening inventory (stock) and that the business is becoming inefficient. Last year, her rate of inventory (stock) turnover was 10 times.

She provides the following extract from her income statement (trading and profit and loss account) for the current year.

	£	£
Sales		148 550
Opening inventory (stock)	12 850	
Purchases	84 550	
Closing inventory (stock)	18 650	
Cost of sales		78 750
Gross profit		69 800

REQUIRED

3 (a) Calculate the rate of inventory (stock) turnover for the current year. State the formula used.

Formula

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Calculation

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(5 marks)

Question 3 continues on the next page

Turn over ▶

3 (b) Comment on the change in the rate of inventory (stock) turnover and explain to Geraldine whether her business is becoming less efficient.

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(3 marks)

8

4 **Total for this question: 3**

The Directors of Verinder Ltd have to repay a long-term loan of £350 000 in February 2011. They propose to make a rights issue on 1 January 2011 on the basis of 1 new share for every 3 shares in issue at a premium of 15p per share.

The share capital of Verinder Ltd at 31 December 2010 was:

	£
Authorised share capital	
Ordinary shares of 50p each	1 000 000
Issued share capital	
Ordinary shares of 50p each	600 000

REQUIRED

4 (a) Calculate the cash to be received from the rights issue assuming that it is fully subscribed.

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(4 marks)

The Directors also propose to pay a dividend in March 2011 of 5p per share based on the shares in issue in March 2011.

REQUIRED

4 (b) Calculate the dividend to be paid.

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(4 marks)

Question 4 continues on the next page

The Directors are concerned about the liquidity of the business. They provide the following forecast information for each of the 6 months ending 31 March 2011.

Forecasts for		**2010**			**2011**	
	October	November	December	January	February	March
	£	**£**	**£**	**£**	**£**	**£**
Sales	80 000	90 000	100 000	60 000	65 000	70 000
Purchase of inventory (stock)	45 000	50 000	30 000	32 500	35 000	40 000
Operating expenses (excluding depreciation)	20 000	22 500	25 000	15 000	16 250	17 500
Depreciation	2 800	2 800	2 800	2 800	2 800	2 800

(1) Sales are made on the basis of 30% for cash and the remainder on credit. Of the credit customers, 80% are expected to pay one month after the sale and the remainder two months after the sale.

(2) Purchases of inventory (stock) are expected to be paid one month after the purchase.

(3) Operating expenses are expected to be paid in the month they are incurred.

(4) The bank balance at 1 January 2011 is expected to be £32 500.

REQUIRED

4 (c) Prepare a cash budget for **each** of the three months ending 31 March 2011. Assume that the rights issue is fully subscribed and that the proposed dividend is paid.

Workings

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Cash budget for Verinder Ltd for the three months ending 31 March 2011

	January	February	March

(20 marks)
(for quality of presentation: plus 1 mark)

Do not write outside the box

4 (d) Assess the liquidity position of Verinder Ltd as shown by the cash budget.

(8 marks)

37

END OF QUESTIONS