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Mark Scheme (Results)

Summer 2012

GCE Accounting (6001)
Paper 01

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)(i)	Aysha, Bashu and Christine Statement of comprehensive income for the year ended 31 March 2012 £ £ Revenue 265 100 Opening inventory 40 000 Purchases 191 000 231 000 Closing inventory 31 000 √√ Cost of sales 200 000 Gross profit 65 100 √OF Salaries and wages (29 500 – 7 000) 22 500 √√ (√29 500) Sundry expense (8 500 – 750) 7 750 √ Rent & rates (9 000 + 3 000) 12 000 √ Loan interest (3 000 + 1 000) 4 000 √√ (√ 3 000) Depreciation – Delivery van 2 200 √ Fixtures 800 √ Bad debts 3 500 √ Increase in PDD 350 √√ (53 100) Profit for the year 12 000 Interest on drawings: Aysha 200 Bashu 200 √ All items Christine 100 12 500 Salary: Christine (7 000) √ 5 500 Share of profit: Aysha 2 200 Bashu 2 200 √OF if ratio Christine 1 100 correct 5 500	**(17)**

Question Number	Answer	Mark
1(a)(ii)	Statement of financial position at 31 March 2012 Cost / Aggregate Depreciation / Carry Over £ £ £ Non-current assets Land and buildings 70 000 √ Delivery vehicles 20 000 – 11 200 8 800 √OF Fixtures and fittings 8 000 – 7 200 = 800 √OF 79 600 Current assets Inventory 31 000 √OF Trade receivables 28 500 – 3 500 25 000 √ Less PDD 1 250 23 750 √ Other receivables 750 √ Cash 4 200 √ 59 700 139 300 Equity and Liabilities: £ £ Capital: Aysha 18 000 Bashu 8 000 Christine 4 000 30 000 √ Current accounts: Aysha Bashu Christine Balance b/d 3 500Cr 4 300Cr 700Dr Salary 7 000 Share of profit 2 200 2 200 1 100 5 700 6 500 7 400 Int on drawings 200 200 100 Drawings 4 000 4 000 2 000 Salary paid 7 000 4 200 4 200 9 100 Balance c/d 1 500Cr 2 300Cr 1 700Dr 2 100 √OF 32 100 Current liabilities	**(13)**

	Trade payables 23 200 √ Other payables (3 000 +1 000) 4 000 √ 27 200 Non-current liabilities Bank loan 80 000 √ 139 300	

Question Number	Answer	Mark
1(b)	Inventory will be valued at **cost or net realisable value** whichever is the lower. √√ In the case of this business the washing machines and televisions will be valued at cost, but the microwaves will be valued at the market value (net realisable value) which is lower than the cost.√√	**(4)**

Question Number	Answer	Mark
1(c)(i)	Capital account of Christine £ £ Goodwill √ 6 000√ Balance b/d 10 000 Balance c/d 4 000 √ _____ 10 000 10 000 Balance b/d 4 000 √OF	**(4)**

Question Number	Answer	Mark
1(c)(ii)	Current account of Christine £ £ Balance b/d 700 Salary 7 000 √ Interest on drawings 100 √OF Share of profit 1 100 √OF Wages and salaries 7 000 √ Drawings 2 000 √ Balance c/d 1 700 9 800 9 800 Balance b/d 1 700 √OF (Can be a Cr balance)	**(6)**

Question Number	Answer	Mark
1(d)	Valid answers may include: Benefits to recording • Accurate value of the business to the partners • Does not undervalue the business • Required when purchasing/sellinga business Against recording • Goodwill is difficult to value/Money measurement • Goodwill can change in value due to sudden events • Accounting standards only recommend purchased goodwill be recorded • Prudent not to do so **No marks for just 'is an intangible asset' OR definition of goodwill** √√ x two benefits and √√ x two points against.	**(8)**

Question Number	Answer	Mark
2(a)	**Profit for the year related to revenue or capital employed.**√√ Liquidity relates to the ability of the business to **meet its short term debts.** It is usually measured as a ratio of current assets to current liabilities. √√	**(4)**

Question Number	Answer	Mark
2(b)	(i) gross profit as a percentage of revenue Gross profit x 100 = £60 000 x 100 (1) = 20% (1) Revenue £300 000 (ii) profit for the year as a percentage of revenue Profit for the year x 100 = £15 000 x 100 (1) = 5% (1) Revenue £300 000 (iii) inventory turnover Cost of sales £240 000 (1)= 3.2 times (1) Average inventory £75 000 (1) (iv) return on capital employed Profit for the year x 100 = £15 000 (1OF)= 4% (1) Capital employed £275 000 + £100 000 (1) (v) current ratio Current assets = £90 000 + £30 000 + £150 000(1) = 6:1(1) Current liabilities £35 000 +£10 000 (1) (vi) liquid (acid test) ratio Current assets – inventory = £30 000 + £150 000 (1)= 4:1(1) Current liabilities £35 000 + £10 000 (1) (vii) trade payables payment period Trade payables x 365 = £35 000 x 365 (1) = 56.8 days(1)	

	Credit purchases £225 000 (1) (viii) trade receivables collection period. Trade receivables x 365 = £30 000 x 365 (1) = 43.8 days (1) Credit sales £250 000 (1)	

Question Number	Answer	Mark
2(c)	Suggested changes may include: (i) inventory turnover • The inventory turnover **trend is falling** √√ • Revenue sales are falling • Economic slowdown or competition making it more difficult to sell • Reduction in quality of product deterring revenue sales (ii) return on capital employed • Return on capital employed **trend is falling** √√ • more is being expended on expenses lowering the net profit • purchases are more expensive lowering the gross profit to revenue • products are being sold with less profit margin to increase or maintain sales (iii) current ratio • Current ratio trend is rising √√ • Inventory level has risen • The bank loan has increased the cash available √√ per valid point , **MAX √√√√ per section**	**(12)**

Question Number	Answer	Mark
2(d)	Views of potential investors • Investors will look at profitability • The trend of **profitability is falling** Views of creditors • Creditors will consider liquidity • It **takes on average two months to be paid** when one month would be normal • The business has a **high current ratio and idle funds** • The business has **ample cash to pay creditors** if required √√ per valid point x 3 (Maximum two valid points for potential investors or creditors)	**(6)**

Question Number	Answer	Mark
2(e)	Valid answers may include: Benefits • Used as a yardstick for comparison • Accounting ratios give an objective mathematical calculation • Comparison can take place with previous years and other businesses • Aid the improvement of decision making • Key question about the business can be answered e.g profitability, liquidity, efficient use of assets Against • The difficulty of comparing like with like, business to business • The future prospects of the business cannot be taken into account • Factors such as the quality of the workforce are not considered √√ x two benefits and √√ x two points against.	**(8)**

Question Number	Answer	Mark
3(a)(i)	Historic cost relates to recording assets in the books at their cost and not their market value. √√	**(2)**

Question Number	Answer	Mark
3(a)(ii)	• The non-current assets of equipment and leasehold are recorded at historic cost less depreciation • Inventory One example √√	**(2)**

Question Number	Answer	Mark
3(b)	Sidly Tennis Club Trial balance at 1 May 2011 Dr £ / Cr £ Equipment 12 200 Equipment – provision for depreciation 2 400 Inventory of balls 750 Subscriptions in arrears 500 Subscriptions in advance 1 400 Accrued sundry expenses 1 150 Bank 900 Accumulated fund 7 600 13 450 13 450 √ for each correct entry MAX 5 points(√OF for Accumulated Fund if a Cr entry √√Correct figure)	**(5)**

Question Number	Answer	Mark
3(c)	Journal Dr Cr £ £ (i) Disposal 1 200 √ For both Equipment 1 200 Provision for depreciation – equipment 360 √ Narratives Disposal 360 √ Figures Bank 900 √ For both Disposal 900 Disposal 60 √OF For both Income & expenditure 60 (ii) Wages 600 √ Suspense 600 √ (iii) Caterer 450 √ Suspense 450 √	**(9)**

Question Number	Answer	Mark
3(d)(i)	Subscriptions account £ £ Balance b/d 500 √ Balance b/d 1 400 √ Income & expenditure√ 6 000 Bank 4 700 √ Bad debts 200 √ Balance c/d 700 √ Balance c/d 900 √ 7 200 7 200 Balance b/d 900 Balance b/d 700	**(7)**

Question Number	Answer	Mark
3(d)(ii)	Income & expenditure account for the year ended 30 April 2012 £ £ £ Income Subscriptions 6 000 √OF Donations 4 800 √ Profit on the sale of equipment 60 √OF 10 860 Annual dinner Sales of tickets 2 900 Less Hire of hall 560 √ Catering (1950 +600 -450) 2 100 √√ Profit on the annual dinner 240 √OF Tennis balls Sales 1 550 less Opening inventory 750 Purchases 1 200 1950 Closing inventory 630 1 320 Profit on sale of tennis balls 230 √√(√OF) 11 330 Less Expenditure Loan interest 1 500 √ Bad debts 200 √ Depreciation – equipment (1 830 +960 -180) 2 610 √√(√OF) -lease 2 000 √√ Wages 5 200 +600 5 800 √√ Sundry expenses (3 800 +2 650 – 1 150) 5 300 √√ (√ each adjus't) (17 410) Deficit (6 080)	**(19)**

Question Number	Answer	Mark
3(e)	Valid answers may include: Benefits • The medium term future of the club has been secured by the leasehold • The records are professional with a full double entry system • The facilities of the club e.g the equipment are relatively new assisting the recruitment of new members Against • The club is making a significant loss overall • The club has a large overdraft which is increasing rapidly • The activities of the club are not yielding a surplus e.g annual dinner • Income includes a significant donation. This is probably a one off income • The club needs to raise its subscription or recruit new members to increase the income • Need to control expenses. √√ x two benefits and √√ x two points against.	**(8)**

Question Number	Answer	Mark
4(a)	• Division of labour – a number of people can work on the ledger at the same time • Segregation of duties • Ease of reference – similar accounts are placed together and can be referred to more easily • Balances from sections of the ledger e.g sales ledger, can be more easily obtained • Fraud prevented/ additional control • Specialisation √√ per valid point X 2	**(4)**

Question Number	Answer	Mark
4(b)	Fahi account £ £ 1 March Balance b/d 1 500 √ 9 March Goods/Sales returns 160 √ 6 March Goods/sales 960 √ 10 March Bank 1 470 √ 26 March Goods/sales 300 √ 10 March Discount allowed 30 √ 31 March Balance c/d 1 100 √√(√OF) 2 760 2 760 1 April Balance b/d 1 100 (ii) Shirin account £ £ 1 March Balance b/d 500 13 March Bank/Cash 200 √ 13 March Bad debts 300 √ 500 500 (iii) Sales ledger control account £ £ 1 March Balance b/d 5 700 √√ 31 March Sales returns 160 √√ 31 March Sales 1 890 √√ 31 March Bank 1470+1940+200 3 610 √√ 31 March Discount allowed 90 √√ 31 March Bad debts 300 √√ 31 March Balance c/d 3 430 √√ (√OF if Cr) 7 590 7 590 1 April Balance b/d 3 430 √OF for each entry if on correct side with narrative	**(8)** **(2)** **(14)**

Question Number	Answer	Mark
4(c)	Valid answers may include: Benefits • The ledger can be sub divided for checking arithmetical accuracy • Checking device • Identifies errors Against • Those errors which do not affect the balancing of the trial balance are not revealed by control accounts √√ for one benefit and √√ for one point against. NO Marks for 'corrects errors'	**(4)**

Question Number	Answer	Mark
5(a)	The term prime cost refers to the materials, direct labour and direct expenses. √√ These items are generally the direct/variable costs of production. √√	**(4)**

Question Number	Answer	Mark
5(b)	Nalin Manufacturing Manufacturing account for the month of April 2012 Standard Deluxe Total £ £ £ Opening inventory of materials 6 000 √ Purchases of materials 22 000 √√ 28 000 Closing inventory of materials 6 400 √√√ Materials consumed 13 000 8 600 21 600 Production labour 19 600 29 400 49 000 √√ Royalties 2 500 2 000 4 500 √√ **PRIME COST** √ 35 100 40 000 75 100 Production overheads: Managers' salaries 3 200 4 800 8 000 √√ Rent & rates 3 200 2 400 5 600 √√ Equipment depreciation 4 000 2 000 6 000 √√ Canteen costs 2 200 3 300 5 500 √√ 12 600 12 500 25 100 Work in progress: 1 April 2012 7 300 7 550	**(24)**

	14 850 √ 30 April 2012 (5 300) (10 000) (15 300) √ 2 000 (2 450) (450) **COST OF MANUFACTURE** √ 49 700 50 050 99 750 √√ (√OF)	

Question Number	Answer	Mark
5(c)	Valid answers may include: Benefits • FIFO more widely accepted (e.g by Revenue) • Maintains inventory value nearer to market/replacement value Against • Inventory issued to production at below replacement value. √√ for one benefit and √√ for one point against.	**(4)**

Question Number	Answer	Mark
6(a)(i)	The accrual or matching concept differentiates between what has been paid and what has been used in the accounting period. √√	**(2)**

Question Number	Answer	Mark
6(a)(ii)	The cash book will record the actual payment £1 500 √√. The trial balance will record the balance on the account of two months rent £1 000 √√. The statement of comprehensive income will show the amount used in March only £500.(£6 000 per annum) √√	**(6)**

Question Number	Answer	Mark
6(b)	Trial balance at 31 March 2012 £ Dr £ Cr Capital *60 000Cr* +8 000 68 000 √ Non-current assets *45 000Dr* +8 000 53 000 √ Provision for depreciation on non-current assets *24 000Cr* 24 000 √ Inventory *28 000Dr* 28 000 √ Trade payables *20 000Cr*+76 000 -65 000+1 200 32 200 √√√ Trade receivables *23 000Dr*+76 000-70 000 29 000 √√ Cash/Bank *8 500Dr*+19 000+68 600 -62 400-1 500 -3 500 28 700 √√√√√ Rent accrued *500Cr* +1 500 1 000 √ Sales +95 000 95 000 √ Purchases +76 000 76 000 √ Discount allowed +1 400 1 400 √ Discount received + 2 600 2 600 √ Sundry expenses +4 700 4 700 √ 221 800 221 800	**(20)**

Question Number	Answer	Mark
6(c)	Valid answers may include: Benefits • The trial balance balancing is prima facie evidence of correctness • Seema can then start to prepare the financial statements. Against • Some errors will not be revealed by the trial balance balancing e.g commission • If there is a debit and a credit of equal value errors will not be revealed. √√ for one benefit and √√ for one point against.	**(4)**

Question Number	Answer	Mark
7(a)(i)	The concept of going concern assumes that the business has an indefinite life/foreseeable future. √√	**(2)**

Question Number	Answer	Mark
7(a)(ii)	The cost of purchasing a non-current asset will fall in a single year, but the depreciation placed into the statement of comprehensive income will relate only to the amount estimated to have been used in that period.√√	**(2)**

Question Number	Answer	Mark
7(b)	Vehicle A B C D Total £ £ £ £ £ 2009 1 200 √ 1 200 2010 1 200 √ 1 200 √ 1 000 √ 3 400 2011 1 200 √ 800 √ 2 000 √ 900 √ 4 900 Total 3 600 2 000 3 000 900	**(8)**

Question Number	Answer	Mark
7(c)	Vehicle account £ £ 1/1/2011 Balance b/d 24 000 √ 30/9/2011 Disposal / Sale of vehicle 8 000 √ 1/7/2011 Bank/creditor/ Cash/Purchase/Veh D 9 000 √ 31/12/2011 Balance c/d 25 000 33 000 33 000 1/1/2012 Balance b/d 25 000 √ Vehicle – provision for depreciation account £ £ 1/7/2011 Disposal / Sale of vehicle 2 000 √ 1/1/2011 Balance b/d 4 600 √OF 31/12/2011 Balance c/d 7 500 31/12/2011 Income state't √OF 4 900 9 500 9 500 1/1/2012 Balance b/d 7 500 √OF Disposal account £ £ 30/9/2011 Vehicle a/c 8 000 1/7/2011 Depreciation 2 000 31/12/2011 Exchange 400 √ 5 31/12/2011 Income state't /Loss on sale 600 √OF 8 000 8 000	**(10)**

Question Number	Answer	Mark
7(d)(i)	Capital expenditure is the **purchase of non-current assets** or the enhancement of non-current assets.√ Revenue expenditure is the day to day operating expenditure of the business.√	**(2)**

Question Number	Answer	Mark
7(d)(ii)	The vehicle tax is a day to day expenditure which will not add to the value of the non-current asset. Therefore it is **revenue expenditure** √√. A new engine will enhance the value of the non-current asset and therefore will be **capital expenditure** √√.	**(4)**

Question Number	Answer	Mark
7(e)	Valid answers may include: Benefits • Equal amounts charged in each year of ownership for benefit received Against • Vehicles will depreciate more in the early years of ownership • Total cost of ownership when maintenance is added will rise. √√ for one benefit and √√ for one point against.	**(4)**

ASSESSMENT GRID

	Spec	AO1	AO2	AO3	AO4	Total
Q1						
(a)	3	10	12	8		30
(b)	3	4				4
(c)	3	4	4	2		10
(d)	3				8	8
Q2						
(a)	5	4				4
(b)	5	6	8	8		22
(c)	5	4	4	4		12
(d)	5			6		6
(e)	5				8	8
Q3						
(a)	3	4				4
(b)	3	2	3			5
(c)	3	3	3	3		9
(d)	3	8	10	8		26
(e)	3				8	8
Q4						
(a)	1	4				4
(b)	1/2	8	12	4		24
(c)	2				4	4
Q5						
(a)	3/4	4				4
(b)	3/4	8	12	4		24
(c)	3/4				4	4
Q6						
(a)	1	4	4			8
(b)	2	6	10	4		20
(c)	2				4	4
Q7						
(a)	1	4				4
(b)	1	2	6			8
(c)	1	2	4	4		10
(d)	1	2	4			6 E
(e)	1				4	4 E
Actual %		33	34	19	14	100
Specification %		32	34	20	14	100

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