



Pearson

Pearson Edexcel International Advanced Level Accounting

International Advanced Subsidiary WAC11

The Accounting System and Costing

Exemplar scripts with examiner commentaries

Section B Question 4

Introduction

Examiner commentaries on exemplar scripts Accounting WAC11, Section B, Question 4

This set of exemplar responses with examiner commentaries for Question 4 is part of the set for Unit 1, The Accounting System and Costing. It has been produced to support teachers and students teaching and studying the International Advanced Level Accounting qualification.

This pack includes examiner commentaries on exemplar scripts which exemplify performances in this component from the June 2017 examination. Due to the nature of accounting questions, considerable data is required upon which questions are set. This document should therefore be used alongside other examination materials on the website.

Link to May/June 2017 WAC11 Examination Question Papers and Mark schemes are available on IAL Accounting web page [here](#)

There are other IAL Accounting teaching and learning materials on the website [here](#).

Script 7 – A strong all round response to all sections of question

Student's answer to Question 4 (a)

4 (a) Explain the importance of **liquidity** to a business.

(4)

liquidity is the ability of the business to convert its ~~current~~ current assets into cash in sufficient time to pay its short term debts. If the business can't convert its assets into cash in sufficient time there is a problem because it can't pay its debts to the trade payables so it can go bankrupt

(b) Calculate for Easi Spend. at 1 May 2016. the:

Examiner's comments

The student was awarded 4 marks.

Most students were aware that liquidity was the ability to pay short term debts, 1 mark.

This student identified that this meant converting current assets into cash, 1 mark. The student continued saying that the inability to meet short term debts to the trade payables, 1 mark and could result in bankruptcy, 1 mark.

Student's answer to Question 4 (b)

(i) current ratio

(2)

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{70000}{15000} = 4.667:1$$

(ii) liquid (acid test) ratio.

(2)

$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}} = \frac{30000}{15000} = 2:1$$

Examiner's comments

The student was awarded 4 marks

The calculations were correct and importantly the relationship was shown as :1.

Student's answer to Question 4 (c)

(c) Complete below the summarised financial statements for the year ended 30 April 2017.

(10)

Easi Spend
Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2017

	Workings	£	£
Revenue			135000
Opening inventory		40000	
Purchases		72000	(112000)
		<u>112000</u>	
Closing inventory		(28000)	(87000)
Cost of sales		<u>48000</u>	48 (87000)
Gross profit			48000
Expenses		33000	
Depreciation		4500	780 (37500)
			<u>(37500)</u>
Profit for the year			10500

Statement of Financial Position at 30 April 2017

	Workings	£	£
Assets			
Non-current assets	30000 - 4500	30000	25500
Inventory		28000	
Trade receivables		37000	
Bank	5000 + 123000 - 80000 - 33000	15000	77000
Total Assets			<u><u>102800</u></u>
Capital and liabilities			
Capital			85000
Trade payables	15000 + 72000 - 80000 = 7000		7000
Total equity and liabilities			<u><u>92000</u></u>

Examiner's comments

The student was awarded 9 marks.

The calculations were correct with the exception of the capital which was shown as £85 000. The student had not added the period's profit of £10 500 making the capital £95 500, this mark was therefore lost.

Student's answer to Question 4 (d)

(d) Calculate, for the year ended 30 April 2017, the:

(i) inventory turnover

(2)

$$\frac{\text{Cost of Sales}}{\text{Average Inventory}} = \frac{87000}{32500} = 2.677 \text{ times}$$

(ii) trade receivables collection period

(2)

$$\frac{\text{Trade Receivables}}{\text{Revenue}} \times 12 = \frac{37000}{135000} \times 12 = 3.2889 \text{ months}$$

(iii) trade payables payment period.

(2)

$$\frac{\text{Trade Payables}}{\text{purchases}} \times 12 = \frac{7000}{72000} \times 12 = 1.1667 \text{ months}$$

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{77000}{7000} \times 100 = 11:1$$

$$\frac{\text{Current Assets - Inventory}}{\text{Current Liabilities}} = \frac{52000}{7000} = 7.4:1$$

Examiner's comments

The student was awarded 6 marks.

The ratios were correctly calculated and the correct relationship in times and months were included. It should be noted that without that relationship shown the student would have lost 3 marks.

Student's answer to Question 4 (e)

(e) Evaluate the liquidity position of Easi Spend at 30 April 2017.

(6)

To start with, the liquidity position of the business has improved. Both the acid test ratio and the current ratio have improved significantly.

The current ratio has improved to 11:1.

The Business will have no problem at meeting its short term debts.

On the other hand, it takes a lot more time to receive the debts from the trade receivables than it takes the business to pay its creditors. The difference is approximately 2 months.

This worsens the liquidity of the business since we pay debts sooner than we receive money from trade receivables. Moreover,

the business has a big liquidity which means that it does not invest money in the business which in the future may cause bankruptcy due to lack of investment.

To conclude, the inventory turnover is acceptable although it could be bigger.

Examiner's comments

The student was awarded 4 marks.

The examiners considered the student's answer to be a Level 2 response. The student had calculated the closing liquidity ratios although this was not essential. From this the student deduced that the liquidity had improved and that on the face of it the business would have no difficulty meeting its short term debts. The issue of the disparity of the time taken to collect debts from trade receivables to that to pay trade payables was discussed by the student as a negative point that needs addressing. The answer did not proceed to a conclusion with rationale so the examiners placed this as a good Level 2 answer and awarded the top mark in that Level.

Script 8 – A strong response to the control account and evaluation

Student's answer to Question 4 (a)

4 (a) Explain the importance of **liquidity** to a business.

(4)

liquidity is the ability of the business to meet its short term debts. ~~The business should have enough cash in hand current assets that~~ If the business liquidity position is not good enough then it ~~would~~ will not be able to meet its short term dues and will eventually have to stop trading.

Examiner's comments

The student was awarded 2 marks.

The student was awarded 1 mark for stating the ability to meet its short term debts and 1 mark for the final comment that the business will eventually have to stop trading.

Student's answer to Question 4 (b)

(b) Calculate for Easi Spend, at 1 May 2016, the:

(i) current ratio

(2)

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{70000}{15000} = 4.7:1$$

(ii) liquid (acid test) ratio.

(2)

$$= \frac{\text{Current assets} - \text{inventory}}{\text{Current liability}} = \frac{70000 - 40000}{15000} = 2:1$$

Examiner's comments

The student was awarded 4 marks.

The ratios were correctly calculated together with the correct reference to a ratio :1.

Student's answer to Question 4 (c)

(c) Complete below the summarised financial statements for the year ended 30 April 2017.

(10)

Easi Spend

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2017

	Workings	£	£
Revenue			135000
Opening inventory		40000	
Purchases		72000	
		112000	
Closing inventory	$\frac{40000 + x}{2} = 32500$ $x = 25000$	(25000)	
Cost of sales			(87000)
Gross profit			48000
Expenses		33000	
Depreciation		4500	
			(31500)
Profit for the year			10500

Statement of Financial Position at 30 April 2017

	Workings	£	£
Assets			
Non-current assets	30000 - 4500		25500 22
Inventory		25000	
Trade receivables	25000 + 135000 - 123000	39000	
Bank	5000 + 123000 - 80000 - 33000	60000	
			122000
Capital and liabilities			
Capital	(85000 + 10500)		95500
Trade payables	15000 + 72000 - 80000		7000
			102500

Examiner's comments

The student was awarded 9 marks.

All elements of the year end statements were correct with the exception of the bank which was recorded as £60 000. The entries in the bank workings column were correct but the incorrect answer calculated, therefore that 1 mark was not awarded.

Student's answer to Question 4 (d)

(d) Calculate, for the year ended 30 April 2017, the:

(i) inventory turnover

(2)

$$\begin{aligned} \text{Inventory turnover} &= \frac{\text{Cost of sales}}{\text{Average inventory}} \\ &= \frac{87000}{32500} = 2.68 \text{ times} \end{aligned}$$

(ii) trade receivables collection period

(2)

$$\begin{aligned} \frac{\text{trade receivables} \times 365}{\text{Credit sales}} &= \frac{237000 \times 365}{135000} \\ &= 100 \text{ days} \end{aligned}$$

(iii) trade payables payment period.

(2)

$$\begin{aligned} \frac{\text{trade payable} \times 365}{\text{Credit purchases}} &= \frac{7000 \times 365 \text{ days}}{72000} = 25.5 \text{ days} \end{aligned}$$

Examiner's comments

The student was awarded 6 marks.

The calculations were correct with the correct relationship shown in times and days. Therefore the student was awarded 6 marks.

Student's answer to Question 4 (e)

(e) Evaluate the liquidity position of Easi Spend at 30 April 2017.

(6)

Potential argument for

~~The non current to an~~

~~the current net~~ The inventory level has reduced.

~~the~~ The amount of trade receivable has fallen significantly from 13000 to 7000.

There is a bank account surplus.

Potential argument against

The trade receivables are taking long on time to pay their debts.

~~and~~ The business needs to pay its creditors before they receive cash from debtors.

Examiner's comments

The student was awarded 3 marks.

The student raised some valid positive points including reduced inventory levels and positive bank balance. These were counter-balanced by valid negative points such as the time collected to collect debts from trade receivables. Although these valid points were made there was very limited development of those points. Also, there was no conclusion reached or rationale.

Therefore, the examiners considered this answer to be a Level 2 answer and due to the limited development of awarded a mark at the lower end of that scale.