



Pearson

Pearson Edexcel International Advanced Level Accounting

International Advanced Subsidiary WAC11

The Accounting System and Costing

Exemplar scripts with examiner commentaries

Section B Question 5

Introduction

Examiner commentaries on exemplar scripts Accounting WAC11, Section B, Question 5

This set of exemplar responses with examiner commentaries for Question 5 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 9 – A strong response to the costing, projected returns and evaluation

Student's answer to Question 5 (a)

5 (a) Explain the terms:

(i) fixed cost

(2)

Fixed costs are cost which do not change with the level of activity. An example is Rent.

(ii) semi-fixed cost.

(2)

Semifixed costs are costs which have a both fixed element and a variable element, which increases with production. An example is electricity.

Examiner's comments

The student was awarded 2 marks.

The term fixed cost was explained correctly, 2 marks were awarded. The student was describing the term semi-variable cost not semi-fixed therefore no marks were awarded for the second element.

Student's answer to Question 5 (b)

(b) Explain, with the use of appropriate accounting concepts and conventions, how the furniture and equipment depreciation will be charged to the total cost of the Sunshine Villa for the year.

(4)

Furniture and equipment are non-current assets which will bring benefit to Sunshine-villa for ~~many~~ many accounting periods. According, to accruals matching concept we should match the loss of the assets maybe due to obsolescence to the benefits gained ^{from it} each year. The cost of depreciation will be taken in the statements of profit and loss and other comprehensive income. Prudence concept states that we should provide for all probable losses thus we charge as a loss the cost losted from the asset due to usage.

Examiner's comments

The student was awarded 2 marks.

The student applied the accruals matching concept to the scenario correctly and was awarded 2 marks. Other references were not accepted by the examiners.

Student's answer to Question 5 (c)

(c) Calculate for the Sunshine Villa, for the year ended 30 April 2017, the:

(i) total costs

(10)

4 1/2 bank loan	→	5600
Electricity	$50 \cdot 12 =$	600
	$280 \cdot 20 =$	5600
water & gas	$200 \cdot 12 =$	2400
TV	$75 \cdot 12 =$	900
Insurance		800
Managements		1000
Booking	$20 \cdot 50 =$	1000
Repairs	$100 \cdot 12 =$	1200
	$100 \cdot 20 =$	2000
cleaning	$100 \cdot 20 =$	2000
Rep'n of villa (3000+1500)	=	4500
Cost		<u>24840</u>

(ii) profit or loss

(3)

24840

$$280 \cdot 128 = 31280 - 24840 = 6410$$

Profit =

(iii) return on capital employed.

(3)

$$\frac{\text{Profit} - \text{Interest}}{\text{opening Capital} + \text{Non Current Liabilities}} \times 100 = \frac{31280 - 5600}{200000 - 140000} \times 100$$
$$= \frac{25680}{60000} \times 100$$
$$= 42.8$$

12.828%

Examiner's comments

The student was awarded 9 marks for (i), 3 marks for (ii) and 2 marks for (iii).

The student's answer was substantially correct and in good format. The only errors were that the water and gas had been calculated as £240 not £2400 in (i). Therefore the 1 mark for water and gas could not be awarded. In (iii) the profit was not as calculated in (ii) and the interest had been deducted from the profit to obtain the return. Therefore that 1 mark could not be awarded.

Student's answer to Question 5 (d)

Before purchasing the Sunshine Villa a friend of John advised him of alternative investments for his savings. The friend advised that he could have deposited the money in a bank and obtained interest of 3% per annum.

(d) Evaluate John's decision to purchase the Sunshine Villa.

(6)

On one hand, it's a good advise since he would gain $(60000 \times 0.03 = 1800)$ without the long commitment of the loan, and without the stress of the repayment. On the other hand, I believe that he did correct to purchase the villa since it is profitable ~~there~~ ~~to~~ thus he gains more by having it. ~~to~~

Finally, in the long run when he has repaid the loan he would benefit even more from the Sunshine Villa. He has established his own business which may become even more profitable in the future and will give him an acceptable profit to live. To continue, he has made connection through his business, and this is very beneficial.

Examiner's comments

The student was awarded 5 marks.

The student developed a number of positive and negative points concerning the purchase of the Sunshine Villa. These were based around the increased profitability rather than an investment in the bank and the additional commitment and long term nature of the loan required. The conclusion was weak but the examiners were of the opinion that the final sentence hinted at a conclusion and therefore placed this answer as lower Level 3.

Script 10 – A strong response to the costing, projected returns and evaluation

Student's answer to Question 5 (a)

5 (a) Explain the terms:

(i) fixed cost

(2)

fixed cost is the cost that don't
vary according to the output. i.e. insurance

(ii) semi-fixed cost.

(2)

semi-fixed cost is the cost that
remain fixed ~~until~~ until a certain ^{limit of} output
and starts to be vary according to the
output. i.e. electricity

Examiner's comments

The student was awarded 2 marks.

The term fixed cost was explained correctly, 2 marks were awarded. The student was describing the term semi-variable cost not semi-fixed therefore no marks were awarded for the second element.

Student's answer to Question 5 (b)

(b) Explain, with the use of appropriate accounting concepts and conventions, how the furniture and equipment depreciation will be charged to the total cost of the Sunshine Villa for the year.

(4)

~~Furniture and~~ equipment should be charge by reducing balance method since it use more in the first few year. Furniture should should straight line since it use evenly.

The should ~~change~~ depreciation because of consistency concept. It states that business will continue operation without evidences ~~of~~ contrary therefore they shouldn't record it as expense right a way. They should apporition it ~~to~~ ^{with} the benefit received ~~in~~ that period since the business will still operating in long run therefore it can be charge ~~to~~ over number of years.

Examiner's comments

The student was awarded 1 mark.

The student was awarded 1 mark for stating consistency concept. However, the question did require an application of the concept to the scenario which was not evident. Therefore only 1 mark was awarded for identification of the concept.

Student's answer to Question 5 (c)

(c) Calculate for the Sunshine Villa, for the year ended 30 April 2017, the:

(i) total costs

(10)

	5600	
interest	79600	
electricity	5600	
water and gas	2400	
cable TV	900	
insurance	800	
management and marketing	2000	
repair and maintenance	3200	
cleaning	2000	
depreciation	45000 4500	
total cost	41000 27000	

(ii) profit or loss

(3)

profit	31250	31250
total cost	(41600)	(27000)
loss profit	(9750)	<u>4250</u>

(iii) return on capital employed.

(3)

$$\begin{aligned}
 & \frac{4250 + 5600}{140000 + 60000} \times 100 = 4.925\% \\
 & \text{(Note: } 140000 + 60000 \text{ is written as } 200000 \text{ in the original image)}
 \end{aligned}$$

Examiner's comments

The student was awarded 10 marks for (i). 3 marks for (ii) and 3 marks for (iii).

All three elements of the answer were correct and full marks were awarded. To calculate the return on capital employed the interest to be paid for the year had been correctly added back to the profit for the year to obtain the profit before interest.

Student's answer to Question 5 (d)

Before purchasing the Sunshine Villa a friend of John advised him of alternative investments for his savings. The friend advised that he could have deposited the money in a bank and obtained interest of 3% per annum.

(d) Evaluate John's decision to purchase the Sunshine Villa.

(6)

John's made a good decision because by deposited the money in a bank he will earn less than profit that ~~the~~ he can get from purchasing sunshine villa of £ 2450 ($4250 - (3\% \times 6000)$), so it is better than he doesn't deposited his saving.

However,

It is more safe to put money in the bank and earn interest since there is no risk, but by purchasing ~~at~~ Sunshine Villa there is risk make.

In conclusion, it is good that John didn't deposit his saving in bank since he can use ~~get 236ix higher than the interest~~

his money to a higher ~~profit~~ earning and he can be a boss of himself by ~~to~~ operating Sunshine Villa.

Examiner's comments

The student was awarded 6 marks.

The examiners were of the opinion that the answer was a Level 3 response. The higher level of profit obtained from the purchase was compared to the risk of the investment. These points were well developed. A conclusion was clearly made with a rationale. The students answer was accepted as a Level 3 response with the higher mark of 6 marks awarded.